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**The National Child Benefit:  
Another Hiccup or Fundamental Structural Reform?**

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Another Hiccup or Fundamental Structural Reform?**

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*by  
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For an initiative touted as a major advance in Canadian social policy, the National Child Benefit has made scarcely a ripple in the public consciousness. The relatively few media stories have portrayed the reform at best as an incremental improvement and at worst as a slap in the face of welfare families. Social groups and children's advocates for the most part have panned the new child benefit as inadequate if not pernicious.

Certainly the new social policy's announcement in the 1997 federal Budget left budget-watchers puzzled. One reason was the Finance Department's ill-considered decision to phase in the Canada Child Tax Benefit over two years (1997 for working poor families, though it was still called the Child Tax Benefit/Working Income Supplement, and 1998 for other families) in an arcane fashion that few outside policy-making circles could fathom.

Confusion and suspicion were fuelled by new, more complicated terminology. The 'National Child Benefit System,' as it is formally titled, is a joint federal-provincial/territorial undertaking. The federal component is called the Canada Child Tax Benefit, not to be confused with its predecessor the Child Tax Benefit. The provincial/territorial components of the National Child Benefit are a broad variety of differing initiatives to assist low-income children and families.

Increased spending is being concentrated on poor families, as one would expect from an anti-poverty initiative. However, the Canada Child Tax Benefit also serves the majority of non-poor families in the same way as did its predecessor, the Child Tax Benefit. Small wonder that most reporters gave up and, if they bothered to mention the measure in their accounts of the Budget, simply characterized it as an incremental and unimpressive increase in federal child benefits.

On the face of it, the National Child Benefit might appear to offer only a modest contribution to the well-being of Canadian children – and only a minority of children at that. Ottawa's initial investment of \$850 million increased federal child benefit expenditures by only 16.7 percent (from \$5.1 billion to \$5.95 billion). Critics were quick to point out that such a sum pales in comparison with the recent \$6 billion cut to federal

social transfer payments to the provinces. When the new Canada Child Tax Benefit came into effect in July 1998, low-income families not on welfare – i.e., mainly the working poor and those receiving Employment Insurance – saw relatively small gains in their federal child benefits, especially small families (the large majority these days). Increases ranged from \$105 for families with one child (a 6.9 percent increase over the previous Child Tax Benefit/Working Income Supplement) to \$510 for two children (a 20.1 percent increase), \$840 for three children (23.1 percent more) and \$1,170 for four children (a 24.7 percent increase).

The aspect of the National Child Benefit especially upsetting to welfare rights groups is that social assistance families with children generally will not see an increase in their incomes. On the one hand, like other low-income families, welfare families receive an increase in federal child benefits. Indeed, welfare families' gains in *federal* child benefits exceed those of working poor families (because the latter used to receive the Working Income Supplement, over and above the basic Child Tax Benefit, whereas welfare families got only the Child Tax Benefit). Federal child benefits for welfare families with one child increased by \$605 or 59.3 percent as of July 1998, for two children by \$1,010 or 49.5 percent for two children, by \$1,340 or 24.7 percent for three children and by \$1,670 or 39.5 percent for four children.

On the other hand, under the terms of the federal-provincial/territorial National Child Benefit System agreement, the provincial and territorial governments can reduce welfare expenditures on children by the amount of the increase in federal child benefits. The proviso is that such savings are to be 'reinvested' in other programs and services for low-income families with children (such as income-tested child benefits, earnings supplements, child care, early childhood development, supplementary health care and training). Accordingly, all provinces and territories, except New Brunswick and Newfoundland, have reduced their basic social assistance benefits on behalf of children.

The overall effect on welfare families is meant to be neutral, so that welfare families will see no increase in their overall amount of their child benefits; the only difference is that their federal child benefits are going up and their provincial/territorial child benefits should be going down by an equal amount. No family on welfare is supposed to experience an increase and certainly not a decrease in their total income. However, two provinces did not follow this formula: New Brunswick and Newfoundland decided to pass through the increase in child benefits (at least in the first phase of the Canada Child Tax Benefit) arguing that their welfare benefits are substantially lower than other provinces.

Social groups' initial response to the 1997 Budget announcement was to castigate the National Child Benefit as too little and too targeted to the working poor. However, the 1998 federal Budget announced a second \$850 million installment on the National

Child Benefit, raising federal child benefit expenditures to \$6.8 billion. This second increase will be phased in between 1999 and 2000.

The forthcoming 1999 federal Budget will announce the details of how this second \$850 million increase in the Canada Child Benefit is to be implemented. Depending on the particular design chosen, we are looking at an increase in the maximum Canada Child Tax Benefit in the order of \$340 per child for the second phase. Assuming \$340 more per child, the Canada Child Tax Benefit for a working poor family with two children would increase from \$3,050 to \$3,730 – \$1,190 or 47 percent more than what they used to get from the Child Tax Benefit/Working Income Supplement (\$2,540). An increase of close to 50 percent is nothing to sniff at, though as we note later, it still cannot make a large dent in the poverty gap and will have little impact on the poverty rate.

Welfare families will receive the same amount from the second-phase Canada Child Tax Benefit as the working poor, but will enjoy a larger increase – \$1,690 or about 80 percent over their Child Tax Benefit – since they did not qualify for the Working Income Supplement under the old system. Again, though, welfare families' provincial/territorial social assistance benefits on behalf of their children will be reduced dollar for dollar (the money being redirected to other programs for low-income families with children), leaving them no farther ahead in terms of net income even after the second round of investment in the National Child Benefit. (Whether New Brunswick and Newfoundland decide to deduct the federal increase from their welfare child benefits or pass through the second phase of the Canada Child tax Benefit to welfare families remains to be seen.)

How families fare in terms of the provincial/territorial reinvestment will vary considerably from province to province and, to some extent, according to families' major source of income (i.e., welfare or other). In some provinces, working poor families will see an increase in income from new provincial income-tested child benefits and/or earnings supplements and/or will benefit from income-in-kind from the extension to them of supplementary health benefits. Some families will benefit from increased provincial investment in child care or early childhood services. The amount and distribution of these provincial reinvestments by family income source, family type and other characteristics will vary from jurisdiction to jurisdiction and will be an important issue for evaluation and for monitoring by social groups.

So the amount of increased income to the working poor from the National Child Benefit's first two phases will be welcome but not overwhelming. Welfare families likely will not experience an increase in their income, unless they live in the few provinces that have decided to pass through the federal increase (more precisely, the first phase; what they choose to do in the second phase has yet to be seen). The net impact of the National Child Benefit overall – i.e., not just the federal Canada Child Tax Benefit but

also the provincial/territorial reinvestments – will vary according to province/territory and various family characteristics and will not be known until after evaluators have investigated the changes. Little wonder that the reaction so far generally has been ho-hum. Little wonder – except that this reaction completely misses the point.

To understand the real implications of the National Child Benefit, the reform must be analysed in the context of the longer term development of the Canada's security system, and not simply as a stand alone, one-time program change. It has to be seen as a cornerstone *structural* change in the way we organize social security in Canada, marking a critical turning point in the evolution of our system. When the National Child benefit is understood in this broader context, we argue that it promises to become one of the key social reforms of the last few decades, one that could, over time, provide the basis for a substantial material improvement in the well-being of the low- and middle-income majority of Canadian families with children. At the same time, it will improve the fairness of the overall system and help tear down barriers currently preventing many families on social assistance from improving their incomes. Indeed, the National Child Benefit's importance extends beyond child poverty and income security policy to social policy more broadly and, no hyperbole intended, the future of federalism.

The authors have written extensively on the subject of child benefits and their various reforms over the years, including our comprehensive 1997 report *Child Benefit Reform in Canada: an evaluative framework and future directions* [Battle and Mendelson 1997]. Here, we focus on two fundamental issues: why we view the National Child Benefit as a major structural change to Canada's welfare state, and what it will take to nurture and grow the new-born initiative into a mature child benefit that will function as a *de facto* 'guaranteed income' for children.

### **A structural problem: the welfare wall**

Contrary to popular mythology, Canada's social security system was not constructed according to the carefully crafted designs of the architects of the modern universalist welfare state, most notably the great Leonard Marsh of McGill University (the Canadian counterpart to Britain's Lord Beveridge). Instead, it grew by fits and starts, mainly in the 1960s and 1970s rather than in the immediate postwar period, blending old and new conceptions of social welfare and their attendant contradictions and tensions – not unlike Canada itself. Pieces were added from time to time and, despite several high-profile and generally unsuccessful attempts at grand reform (most notably the comprehensive 1974 federal-provincial social security review lead by the then federal Minister of Health and Welfare, Marc Lalonde), did not always fit well together, in no small part because responsibility for social policy in this country is divided between the federal and provincial governments to an extent undreamed of in most federations.

Child benefits are one of the loose ends of Canada's messy approach to social policy. (By child benefits, we mean government programs that provide cash benefits, directly by means of cheques or indirectly by means of income tax reductions, to families with children.) Over the years, a two-tier federal-provincial system of child benefits emerged.

The federal government got into the child benefits game at the dawn of the modern welfare state during the First World War when it created the children's tax exemption in the second year of the new personal income tax system, 1918. World War Two brought Family Allowances, a cash payment to families at all income levels (paid to mothers, initially) on behalf of children. The late 1970s introduced the refundable child tax credit, a tax-delivered benefit for low- and middle-income families with children. The 1980s brought a series of significant changes under the Mulroney government, culminating in the 1993 income-tested Child Tax Benefit that is parent to the Liberals' 1998 Canada Child Tax Benefit. (Unchanged by the current reform is the equivalent-to-married non-refundable tax credit, providing income tax savings equal to those from the married credit for single-parent families.)

Meanwhile, a separate tier of child benefits arose in the form of provincial social assistance (i.e., welfare) systems, which provide income security benefits for children as well as adults. In addition to welfare-delivered child benefits, a few provinces have offered income-tested child benefits, and Quebec maintained a universal child benefit.

Prior to the National Child Benefit, welfare-delivered child benefits totalled an estimated \$2 billion (equal to about 40 percent of the budget for the federal Child Tax Benefit). Welfare benefits for children ranged in most provinces between about \$1,200 and \$1,800 per child per year for basic needs (excluding shelter costs), though a few provinces were below or above this range. This figure does not include other child-related welfare benefits such as special allowances (e.g., winter clothing allowances), in-kind benefits (such as supplementary health and dental care and prescription drugs) and housing subsidies.

Depending on their major source(s) of income, low-income families received significantly different amounts of child benefit. Welfare families got the federal Child Tax Benefit and provincial welfare benefits on behalf of their children. Except in a few provinces, other low-income families not on welfare received only federal child benefits: Working poor families got the basic Child Tax Benefit and up to \$500 per family from the Working Income Supplement, while Employment Insurance families received only the Child Tax Benefit (though they might qualify for the Working Income Supplement if they had sufficient employment earnings).

Welfare families got up to double or more the amount of child benefits as working poor families, the ratio varying according to the amount of each province's welfare-delivered child benefits. For example, before BC replaced its welfare program's child benefits with the pioneering BC Family Bonus (an income-tested child benefit paid to low- and modest-income families regardless of their work status), a welfare family with two children 7 and 11 got \$4,512 (\$2,040 from the federal Child Tax Benefit and \$2,472 from provincial welfare) – 1.8 times a working poor couple's \$2,540 in federal child benefits. Using a rough national average of \$1,500 per child in provincial child benefits, a welfare family with two children (one under and one over age 7) got \$5,253 in combined federal-provincial payments or almost twice as much (1.9 times) as a same-size working poor family's federal child benefits of \$2,753.

This marked differential in child benefits contributed to what the Caledon Institute of Social Policy called 'the welfare wall' in a study of the interaction of Ontario's welfare system and the tax system. The term was inspired by a graph illustrating the high marginal tax rates facing welfare recipients if they try to supplement their social assistance benefits with outside earnings - the major (though not sole) cause being the high welfare tax back which reduces benefits dollar for dollar of earnings above a relatively low level of exempt earnings [Battle and Torjman 1993].

Caledon later applied the concept of 'the welfare wall' to the child benefits system to illustrate its contribution to the barriers standing in the way of people on social assistance who want to get off. A parent moving from welfare to the workforce loses thousands of dollars in cash; usually loses in-kind child benefits provided by welfare; can incur significant employment-related expenses (e.g., clothing for work, transportation and child care); and has her (more than likely low) wages reduced by Canada/Quebec Pension Plan contributions, Employment Insurance premiums and federal (and, in some provinces, provincial) income taxes. Note that we are *not* saying that two-tier child benefits are the only or even necessarily always the most important part of the welfare wall. Other major barriers – notably the lack of affordable child care and decent jobs, and the loss of in-kind welfare benefits (supplementary health and dental care especially) – also make it hard for many families with children to get off welfare.

The issue of barriers to work was a compelling argument to governments – the provinces in particular, which under the new CHST no longer receive federal cost sharing for welfare – of the need for fundamental reform of federal-provincial child benefits. To the extent that a new child benefit system could reduce barriers and increase incentives to find work (and keep working) in the paid labour force, it might help reduce welfare caseloads and the attendant costs.

But there is an equity consideration as well. Though social groups typically characterize welfare recipients as 'the poorest of the poor,' this is not always the case, at

least not in economic terms (there is no question that the stigma that always has been attached to welfare often imposes harsh social and psychological costs). Some working poor families end up with a lower disposable income than those on welfare, though of course others (depending on the relative levels of welfare and wages) have somewhat more. More to the point, though, is the inherent unfairness of a child benefits system that pays some poor families half the amount of other poor families, the categorical test being whether they are on welfare (in which case they get more) or not (in which case they get substantially less).

### **One structural solution: an integrated child benefit**

All the major studies of the social security system that have most influenced Canada – the Beveridge Report, the Marsh Report, the Castonguay-Nepveu Report – have recognized that there is a fundamental problem in the relation between employment compensation and the income requirements to raise a family. Even with full employment and a good minimum wage, it is not realistic to expect low-income earners to earn enough to support a family, let alone a large family. Yet the basic social safety net program (i.e., what we call ‘welfare’) has to pay benefits sufficient to sustain a family. This means that low-income earners might be better off to go onto the safety net program, and hence could be deprived of their basic human right to raise a family in dignity, with full participation in community life, through their own effort.

The solution recommended by these studies was some form of child-related payment to all low-income families regardless of whether they are working or not. In practice, though, governments found it impossible to provide universal child benefits large enough to accomplish both fundamental goals of child benefits – helping to meet the basic costs of child-rearing for low- and modest-income families and assuring horizontal equity for all families vis-à-vis childless families and individuals with the same earnings – because of the large budget costs involved. In fact, to limit expenditures, Quebec’s influential Castonguay-Nepveu report recommended a mixed universal and income-tested system, with the income-tested tier being large enough to allow the child-related benefits in the welfare system to be completely replaced. But until the coming of the federal refundable child tax credit in 1979, the technical capability did not exist to deliver a large income-tested child benefit through any system other than welfare. In fact, Saskatchewan’s early experiment with its Family Income Supplement Plan may have floundered largely on the province’s incapacity to develop an acceptable income-testing mechanism.

Over the years, a hodge-podge of child benefits developed at both the federal and provincial levels. Some were direct spending programs (e.g., Family Allowances and welfare) and others were tax-delivered (such as the children’s tax exemption, non-



refundable child tax credit and refundable child tax credit). But the largest per family child benefits were embedded in welfare programs – because it was welfare programs that were charged with the responsibility of ensuring that children really did have the basics of food, clothing and shelter. A two-tier child benefits system favouring welfare families resulted; welfare families received both federal and provincial (welfare-delivered) child benefits, while working poor families typically got federal child benefits only. Low-income working families, as warned in all the major studies and proven by experience, thus found themselves in many cases worse off financially than if they were on welfare.

One response to this core dilemma of social security has been to tack on yet another social program, in this case meant to ‘close the gap’ between welfare and working poor families with children, by providing a special program providing child benefits only to families in the paid labour force. For example, the US Earned Income Tax Credit pays benefits only to the working poor. Perhaps in consequence, American working poor families with children now get substantially *more* than those on welfare. In (pale) imitation of the US Earned Income Tax Credit, Canada’s federal Working Income Supplement (part of the 1993 Child Tax Benefit) provided benefits for the working poor only, excluding those on welfare, to address the child benefits gap between welfare families and the working poor. But the Working Income Supplement was short-lived and we ended up taking a different route – the National Child Benefit.

The National Child Benefit is founded on the concept of an ‘integrated child benefit.’ An integrated child benefit provides a common level of child benefits equally to all low-income families in a stand-alone program separate from welfare or social insurance. Ideally, Ottawa and the provinces would combine all their various income benefits and tax expenditures on behalf of children into a single income-tested system or program. We distinguish between system and program because an integrated child benefit could be delivered either as one big-bang federal program or as separate federal and provincial programs that mesh together in a coordinated system. The latter, asymmetrical approach is being followed for the National Child Benefit, at least for the immediate future, as several jurisdictions (to date the Northwest Territories, BC, Saskatchewan and Quebec) are replacing their welfare child benefits with income-tested child benefits paid to all low-income (and in some cases modest-income) families.

The concept of an integrated child benefit calls for a common level of child benefit for purposes of fairness, income security and to avoid barriers to work. The principle of horizontal equity, normally associated with middle-income and upper-income families, also should apply to low-income families: The amount of child benefits to which a low income family is entitled should depend only upon the *amount* of income the family has, not upon the *source* of that income. Child benefits thus should be ‘portable,’ to borrow a term from pension terminology, providing a stable and assured source of income for eligible families regardless of where they live and work (or are not presently working,

in the case of many families receiving Employment Insurance or welfare) and whatever their pattern of movement in and out of the workforce. To avoid barriers to work, low-income families in the workforce should receive the same amount of child benefits as low-income families on Employment Insurance and social assistance.

The National Child Benefit promises – we emphasize ‘promises,’ since there is a long way to go yet – to make a major improvement in the architecture of Canada’s social security system. To do so, the Canada Child Tax Benefit must first, and quickly, be raised to the level where it will replace basic welfare benefits made on behalf of children. This amount has been estimated to be about \$2,500 per child as a rough national average. After it reaches that crucial level, all future increases to the Canada Child Tax Benefit would be result in improvements in net income for *all* low-income families, whether they are on welfare or are working – because there would no longer be any welfare child benefits for the provinces to decrease. We estimate that it would cost Ottawa in the order of another one billion dollars (i.e., over and above the \$1.7 billion increase already committed to the first and second phases) to raise the Canada Child Tax Benefit to the \$2,500 level. In total, a \$2,500 Canada Child Tax Benefit would cost some \$7.8 billion – a not unreasonable amount in the grand scheme of federal expenditures given that it would achieve a lasting legacy of structural reform to Canada’s social security system. Incidentally, Ottawa spent \$6.9 billion (in constant 1998 dollars) on child benefits in 1984, which just under \$1 billion off the cost of a Canada Child Benefit that would fully displace welfare child benefits!

After the \$2,500 target is achieved, the second stage gradually would increase the Canada Child Tax Benefit to pay the necessary costs of raising a child for low-income families. Our conservative, tentative estimate is a maximum benefit of about \$4,000 per child, although further study of current child-rearing costs is needed to determine the actual amount.

A \$4,000 Canada Child Tax Benefit finally would realize the dream of social reformers of the first part of this century to help fill the gap between wages and family income needs, since many Canadian parents could not then – and still cannot – earn a living wage to properly support their children. It would begin the vital task of structurally reforming the welfare system and would provide a sound basis for the future development of our income security system. At \$4,000, a mature Canada Child Tax Benefit also would make a very substantial dent in the extent of poverty among families with children in Canada.

Our vision of a fully developed child benefit certainly would require a substantial commitment of funds. We have not formally costed out any options. It is unlikely, however, that the cost would exceed more than another \$3 to \$5 billion, depending upon the option chosen (especially the extent to which child benefits are restored for non-poor

families). The total cost of such a mature child benefit would range between \$11 and \$13 billion in today's dollars. This is a large amount but, if a government has the will to do so, it is not outlandish: Ottawa currently spends \$23 billion on cash benefits for low- and middle-income seniors (\$4.8 billion on the Guaranteed Income Supplement and \$386 million on the Spouse's Allowance programs for low-income seniors as well as \$17.7 billion on the now income-tested Old Age Security program which serves lower- and middle-income seniors).

To put the amount in yet another perspective, the Ontario government spent somewhere in the neighbourhood of \$6 billion annually just for that province alone in income tax cuts (benefitting mainly the wealthy), the equivalent to roughly \$15 billion nationally. Certainly if one were looking for a large income tax cut that would be progressive in its impact, do a great deal of social good, help tie the country more firmly together and be helpful to the vast majority of Canadian families, it would be hard to do better than an increase in the Canada Child Tax Benefit to the neighbourhood of \$4,000.

We should see the Canada Child Tax Benefit as building a platform that can be raised in future to build an adequate child benefit system that fully meets the essential needs of children in lower-income families. In so doing, a mature National Child Benefit would constitute a major missing pillar of the welfare state – the rationale for which is no different and no less pressing today than over half a century ago.

None of this is to say that the National Child Benefit is a panacea for the ills of the nation, or even for the poverty of far too many families in Canada. No child benefit alone – however well designed and funded – could or should be expected to meet all the diverse needs of lower-income families. That is why we titled this section “one structural solution”.

A child benefit cannot be expected to solve the problem of adult poverty. Governments also must strengthen other social and employment supports and services for parents and families, such as training and employment development services; child care, family support and early childhood development services; adequate minimum wages, Employment Insurance and welfare benefits for adults (or, hopefully, a replacement for adult welfare); higher thresholds for tax payments so that poor people do not have to pay income tax; and geared-to-income relief from regressive payroll taxes.

But a strong child benefit would enable such other programs to operate more effectively, since families would have better and to some extent more stable incomes and thus would be less vulnerable to the often unhealthy stress created by the daily struggle to make ends meet. Research shows that stress is a significant factor in low-income Canadians' above-average susceptibility to a wide range of physical and mental illnesses and social problems.

By ‘removing children from welfare,’ an unfortunate turn of phrase that may have clouded more than clarified matters, the National Child Benefit could advance the long-needed task of dismantling the welfare system as we have known it and replacing it with something better. Obviously children will not be ‘removed from welfare’ literally, unless (as governments hope) the National Child Benefit helps their parents move from welfare to work. However, replacing needs-tested welfare child benefits with income-tested child benefits substantially will reduce welfare caseloads (children make up more than one-third of all welfare recipients) and costs and thus take a big step forward to returning welfare to the residual, emergency, last-resort program it originally was intended and designed to be.

### **The vexing issue of differential child benefits**

No discussion of the emerging National Child Benefit, for or against, can fail to deal with its harshest criticism from welfare rights groups and other social advocates. The critics contend that the reform discriminates against welfare families because they will see no net increase in their child benefits, whereas the working poor and other low-income families not on welfare (e.g., those on Employment Insurance) will enjoy an improvement.

Some critics have gone to far as to claim that the Canada Child Tax Benefit will be restricted to the working poor and will not go to welfare families. This allegation is false and stems from confusion between receipt of benefits and the impact of reform. The Canada Child Tax Benefit goes to all low-income families (including those on welfare) as well as modest-income, middle-income and upper-middle-income families. Overall, eight in ten families with children receive some benefits. Indeed, because the Canada Child Tax Benefit continues its predecessors’ (the Child Tax Benefit and refundable child tax credit) practice of basing benefits on net rather than gross family income, non-poor families receive substantially more benefits than their income otherwise would indicate and the program provides partial benefits high up the income scale [Battle and Mendelson 1997: 74-77].

As discussed above, families on welfare will receive the Canada Child Tax Benefit, but it will not increase their *net* child benefits. The federal and provincial governments justify this differential treatment as necessary to provide non-welfare families equivalent child benefits to those on welfare, so as to achieve the first objective of an integrated child benefit – ending the distinction between welfare children and other low-income children by treating welfare families the same for child benefit purposes as working poor and other low-income families through delivering their child benefits outside of welfare. In other words, an integrated child benefit must treat all low-income

families with children equally.

The criticisms from social advocates probably could have been avoided, and instead been converted to universal plaudits, if governments had instead undertaken a ‘big bang’ reform and replaced welfare child benefits with an income-tested system paying larger benefits to *all* low-income families, including those on social assistance, all at once. In this case, the National Child Benefit would have been seen as replacing provincial payments with federal payments for all children equally. Rightly or wrongly, the decision was made instead to phase in increased payments under the National Child Benefit over several years. The reasons for the multi-year phase-in were both financial and political.

On the financial side, cost considerations were a serious restraint. It is federal money that is driving the National Child Benefit, and the \$1.7 billion investment committed so far is no small change in the deficit-chilled atmosphere of Ottawa – which likely will thaw slower than hoped due to the cold winds swirling around the global economy.

The political factor involves the agreement (political, not legal) that underlies the National Child Benefit System. The provinces will redirect savings from welfare child benefits (resulting from increases in the federal Canada Child Tax Benefit) to other programs and services for low-income families with children. Trust between the two orders of government is a scarce commodity in the 1990s. By delivering its additional funding in installments (two so far, with a third required to complete the first stage of development and fully displace welfare child benefits), Ottawa not only sees itself as acting prudently in financial terms. Ottawa also wants proof that the provinces will fulfill their part of the bargain. The phased increases and reinvestment agreement constitute a sort of soft form of conditional federalism.

Given these financial and political realities, the result has been the current phased approach to the National Child Benefit. One of the consequences of this approach has been to open the governments to criticism for not ‘passing on’ the benefit to welfare recipients. Even then, some of these criticisms have not been fully valid.

First, is there any assurance that ‘passing through’ the increased federal benefit will in the long run really mean an increase for welfare recipients? Even if welfare families were allowed the full increase in federal child benefits with no immediate reduction in their welfare payments (as has been done in New Brunswick and Newfoundland), it is not at all certain that they will keep the money in the longer run. What is to stop the provinces from adjusting their welfare benefit structure over the next several years? Over time, provinces could capture some of the extra federal money through stealth by delaying or foregoing increases to welfare rates or, as is increasingly

the way these days, by reducing rates or making other belt-tightening changes to the welfare system (e.g., cutting special benefits and reclassifying recipients). Indeed, it is probably naive to think that governments will simply ignore the existence of federal money being paid to recipients when decisions are made about rate levels.

Second, it is not correct to portray the provinces as taking money away from children. So long as the provinces genuinely reinvest their savings from welfare expenditures on children into programs for all low-income families with children, the same amount of money will go into programs for poor families with children - regardless of whether the increased benefit is passed on to welfare recipients. The difference is how the extra money is spent: The new money can finance improved (non-welfare) income programs and services for low-income families with children if the child benefit increase is not passed through to welfare recipients and is instead fully reinvested in true incremental spending by provinces. Or the money would increase welfare benefits if the child benefit were passed through to welfare recipients. While some social groups still would prefer the latter, the point is that the former is *not* a reduction in spending on children.

Admittedly, the 'reinvestment agreement' by which the provincial governments are supposed to reallocate welfare savings to other programs for low-income families with children cannot prevent provinces from using the extra money to offset what they would have spent anyway. BC, for example, financed its pioneering Family Bonus a year before the National Child Benefit System came along and has chosen to use the increased federal benefits from the Canada Child Tax Benefit to recoup some of its costs. The boundaries of what constitutes acceptable provincial reinvestment are deliberately vague and loose. However, given a sound evaluative framework, publicly accessible and adequate data, and a substantive monitoring role for social groups, there is a better chance of preventing erosion in expenditures on reinvestments in programs for low-income families with children than on welfare. At least the provinces have agreed to keep their welfare savings within the expenditure envelope for low-income families with children.

Furthermore, although the National Child Benefit will not increase child benefits for welfare families during this stage, income is not the only measure of gain. We would argue that welfare families still stand to gain in other ways.

The loss of welfare child benefits is not the only barrier to employment but it can be a significant one, amounting to thousands of dollars in lost income. Parents on welfare who are able to find a job at least can count on continuing to receive the Canada Child Tax Benefit and provincial child benefits (in provinces that provide them). If they lose their job and have to apply for Employment Insurance or (in the increasingly likely event that they do not qualify for EI) welfare, at least their child benefits will remain unchanged and secure.

The Canada Child Tax Benefit and the new income-tested provincial child benefits carry none of the cardboard suitcase baggage of stigmatizing welfare. Income-tested social programs are delivered anonymously and impersonally, eligibility being determined on the basis of income as reported on the income tax return rather than assessed through the intrusive needs test used by welfare. The Canada Child Tax Benefit is a broad based social program serving the large majority (85 percent) of Canadian families with children, including middle-income and some upper-income families. Welfare families will be included in a program that crosses class lines, not excluded and marginalized.

In fact, the inclusiveness of the Canada Child Tax Benefit – treating all low-income families alike and not pigeon-holing some as the ‘deserving poor’ while others are by implication labelled the ‘undeserving poor’ – is one of the reform’s greatest advantages. If Canada had continued with the Working Income Supplement and enriched it as originally planned, the result likely have been to attract much of any future fiscal dividend for that working poor-targeted program, as has happened in the US, leaving families relying on welfare out of luck. The alternative to the National Child Benefit was not just the same Canada Child Tax Benefit though with benefits passed through to those on welfare: Rather, the alternative much more likely would have been expansion of the Working Income Supplement, which would have even more thoroughly excluded those on welfare.

Welfare families stand to fare better as a result of receiving their child benefits from income-tested as opposed to needs-tested programs. Income-tested benefits have proven to be the safest of all income security programs in Canada even during this cuts-happy era. In fact, income-tested child benefits have been increased for low-income families. Needs-tested welfare benefits have fallen in value for almost all recipients in recent years. Social insurances have been pared (especially Unemployment Insurance/Employment Insurance). Universal programs – supposedly the safest of all – are the dodo birds of Canadian social policy in the case of child and elderly benefits. The odds of increases to the income-tested National Child Benefit are very good; the odds of increases to welfare are poor or non-existent.

In short, advocates for the poor have been arguing for better rates for people on welfare. This strategy has not enjoyed resounding success! Perhaps a new strategy, arguing for an increase in the Canada Child Tax Benefit that goes to the majority of Canadian families, might turn out to be more productive.

Some critics say that the National Child Benefit will force welfare recipients into the low-paid workforce, displacing existing workers from their jobs. The provinces do not need the National Child Benefit if they want to reclassify single parents as employable or

squeeze recipients off welfare; this was done long before the new child benefit came along. Moreover, in the brave new world of the Canada Health and Social Transfer, provinces even can deny welfare to certain groups if they wish (and seem to be doing so in some cases)

Of course, all of this argument is premised on the provinces actually doing what they have said they would do, including ensuring that no welfare families lose net income as a result of the change. Hopefully, no province will be so unscrupulous as to take advantage of this restructuring of the social security system to scrape a few more dollars out of the pockets of welfare recipients, in contravention of the federal-provincial National Child Benefit agreement and common decency.

The wary attitude of social advocates toward the National Child Benefit and their anger at governments' decision to equalize child benefits rather than raise them for all poor families is understandable during this era of social program erosion through both stealth and in-your-face cuts. Welfare bashing is all too alive and well, as witnessed by its prominent place on the current Ontario government's election platform and subsequent legislative agenda. But social groups may change their mind over time – if the National Child Benefit matures as it should. We turn next to this crucial issue.

### **The future of the National Child Benefit**

Throughout this paper, we have used the term “this first stage” of the National Child Benefit. So far, the federal and provincial/territorial governments have committed only to this first stage, which aims to replace welfare child benefits with income-tested child benefits. In turn, this first stage involves several phases – the first (1997 and 1998) and second (1999 and 2000) phases being the two \$850 million increments to federal funding and associated provincial reinvestment in other programs and services for low-income families with children. It will take a third phase to attain the \$2,500 maximum Canada Child Tax Benefit required to displace welfare child benefits, hopefully by 2001 at the latest: We urge the federal Finance Minister to advance the timetable by enriching the second \$850 million by another \$1 billion so that the \$2,500 target could be achieved by 2000. The latter would be a useful date politically in light of the famous, well intentioned though unattainable 1989 Commons Resolution “to work towards eliminating child poverty by the year 2000.”

But, as noted above, our vision of a mature National Child Benefit involves a second stage in which the system grows in three important ways. First, the maximum benefit should be raised until it reaches the target of \$4,000, a conservative estimate of the essential child-rearing costs for low-income families (note that this does not include child care expenses). The \$4,000 figure is by no means etched in stone: We have



recommended that governments undertake a study of child-rearing costs by family income level and type to provide up-to-date and complete information.

Reducing the depth of poverty is one of the stated objectives of the National Child Benefit. Current benefits from the first phase of the Canada Child Tax Benefit – a maximum of \$1,625 for one child and \$1,425 for the second and each additional child (plus an additional \$213 for each child under 7 for whom the child care expense deduction is not claimed) – cannot make a large dent in the depth of poverty, which at last count (1996) averaged \$9,634 for two-parent families and \$9,255 for single-parent families (using Statistics Canada's low income cut-offs) [Statistics Canada 1997:37]. Even achieving the \$2,500 target for the first stage would not be sufficient to fully bridge the poverty gap, though it would be an important step forward. But a \$4,000 per child maximum child benefit would pack a real punch, raising some low-income families above the poverty line and the rest much closer to it.

Second, Canada Child Tax Benefit increases gradually should be extended up the income range to help modest-income first and then middle-income families, which have suffered substantial losses in child benefits due to programmatic changes in the 1980s and the corrosive impact of more than a decade of partial deindexation of both benefits and the income threshold for maximum benefits [Battle and Mendelson 1997:9-11]. It is crucial that the Canada Child Tax Benefit remain a broadly based program serving the large majority of families with children. The long-overdue task of restoring child benefits for non-poor families will bolster the traditional horizontal equity objective of this social policy, which has suffered at the hands of cost-cutters.

Third, the child benefits system must be re-indexed – the sooner the better. Partial deindexation of the child benefits system, a public policy virus injected into the income tax system and federal child benefits by the Mulroney Conservatives in 1986, also infects the new Canada Child Tax Benefit. Provincial child benefits (whether needs-tested or income-tested) are not indexed at all. Partial deindexation gradually reduces the value of child benefits over time, lowers the income threshold for maximum benefits further below the poverty line each year, and reduces the income level where families no longer qualify for partial benefits (the 'disappearing point'). The result is annual compression of the entire child benefits system down the income spectrum, thereby narrowing the broad base that is so important a feature for both low-income and middle-income families. Partial deindexation has eaten into child benefit increases for low-income families and resulted in a steady decline in child benefits for non-poor families since they have received no offsetting increase in benefits. The increased benefits from the Canada Child Tax Benefit so far have been concentrated on families with net family income below \$25,921.

A \$4,000 per child maximum Canada Child Tax Benefit would not eliminate child

poverty in one fell swoop. But it would significantly reduce the depth of poverty and would lower the incidence of poverty. It would provide a powerful income supplement for poor and modest-income families that could reduce the stress of poverty and its resulting pathologies. And it would help fill the gap between below-average wages and families' income needs.

## **Conclusion**

After years of overt and covert cuts to major social programs that embittered relations between the federal and provincial governments, the National Child Benefit has arisen in the ashes of the Canada Assistance Plan and the rocky soil of the Canada Health and Social Transfer. In an era when Ottawa appears to have retreated from providing leadership in social policy, it took a common front from the provinces to move the integrated child benefit from concept to reality. The National Child Benefit is the first truly national social policy – in the deeper sense of a joint federal-provincial/territorial endeavour – since the coming of medicare and the Canada Pension Plan in the 1960s.

It is far too early to judge the National Child Benefit an unalloyed success in terms of anti-poverty policy, welfare reform, social policy innovation and rejuvenation of Canada's worn social union. But it has the potential to create for all poor children what we already have achieved (however inadequately) for all poor seniors – a *de facto* guaranteed income that significantly reduces the risk and depth of poverty. A mature National Child Benefit would provide the necessary platform on which to mount effective social services, employment programs, community supports and the many other weapons needed to wage a real war on child (i.e., family) poverty.

Careful design, sustained joint effort by both levels of government, and rigorous evaluation with a role for monitoring by nongovernmental groups are important ingredients to successfully grow the National Child Benefit. But the most important requirement of all is cold hard federal cash to transform a good idea into a mature pillar of a strong social security system for the next century.

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