Child Benefits: Kids Are Still Hungry

A Report by the
National Council of Welfare

Autumn 1998

Canada

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O-O-O-P-S

During the preparation of this report, the computer software that we use with our mailing lists crashed, and we had to fall back on the lists that we used for our report on banking in August.

We expect to have the problem corrected soon. Please accept our apologies if the mailing label on your report is out of date.

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INTRODUCTION

On July 1, 1998, the federal government formally launched the Canada Child Tax Benefit for families of low and middle incomes. The initiative was the first major new social program in years that was done with the co-operation and support of provincial and territorial governments, and it has been touted as a model that the two levels of government might choose to follow on other social issues in years to come.

The Canada Child Tax Benefit was possible in the first instance only because of major new financial commitments by the federal government. The initial commitment of $850 million a year was announced in the 1997 budget - after years of cuts in social programs and a year before it was clear that Ottawa was headed for its first budget surplus in 28 years. The 1998 budget announced a further $425 million a year for family benefits as of July 1999 and yet another $425 million a year as of July 2000.

The total commitment during the federal government's current mandate adds up to $1.7 billion a year in additional benefits as of July 2000.

The National Council of Welfare applauds the federal government for boosting its financial support for families with children and gives full marks to both levels of government for their joint efforts in an area of obvious interest to all Canadians.

At the same time, the Council believes that the Canada Child Tax Benefit and the arrangements that go with it are unduly cumbersome and have the effect of denying additional income to roughly half a million poor families with children who are on welfare. Families headed by single-parent mothers face the highest risk of poverty of any family type year after year, yet most of these families are effectively cut off from the extra money provided by the federal government.

This report is a sequel to a 1997 report entitled Child Benefits: A Small Step Forward. It puts forward a better way of using federal money for families with children that would not discriminate against single-parent families.

The continuing plight of poor children was the reason we chose the subtitle, Kids Are Still Hungry, for this report. We find it totally unacceptable that a country as prosperous as Canada cannot guarantee all its children the basic necessities of life.

Members of the House of Commons voted unanimously in 1989 to eliminate child poverty by the year 2000. Unfortunately, Canada went into another recession in 1990, and child poverty rates started inching their way to record highs in the years that followed.

It has always been clear to us that child poverty will not disappear on its own. Now more than ever, it is clear that eliminating child poverty requires a major and continuing commitment by governments to put children first. That means putting children and their families ahead of paying down the national debt, ahead of tax breaks for well-to-do individuals and corporations and ahead of other major new spending programs.

The Canada Child Tax Benefit and companion efforts by provincial and territorial governments will help ease the sting of poverty for some children, but much more needs to be done, and the quicker the better.

I. A NEW SYSTEM OF FAMILY BENEFITS

The system of federal benefits for families with children has changed radically in recent years. Successive federal governments have moved to "target" their financial support to families at the lower end of the income spectrum. Along the way, Canada became one of the few developed nations that no longer provides benefits to all families with children to help defray the cost of raising children.

The latest revisions to federal family benefits took place on July 1, 1998, with the start of the new Canada Child Tax Benefit for families of low and middle income. The benefit was accompanied by a series of changes in provincial and territorial programs that were intended to help low-wage families with children.

Under the Canada Child Tax Benefit and related arrangements with the provinces and territories, families on welfare are no better off - and presumably no worse off - than they were under the previous arrangements for child benefits. Low-wage families are better off, but some of the increases in benefits are very modest.

TABLE 1

CANADA CHILD TAX BENEFIT AS OF JULY 1, 1998

Number of Children in Family	Basic Benefit	Supplement	Total Benefit
One Child	$1,020	$605	$1,625
Two Children	$2,040	$1,010	$3,050
Three Children	$3,135	$1,340	$4,475
Four Children	$4,230	$1,670	$5,900

Table 1 shows the benefits paid by the federal government to families with one, two, three or four children under the age of 18. A family with one child, for example, gets a basic benefit of $1,020 and a supplement of $605 for a total benefit of $1,625 a year. A low-wage family gets to keep the entire $1,625 a year in benefits. A welfare family also gets $1,625, but the federal government permits provincial and territorial governments to "claw back" the supplement by reducing the family's welfare entitlement or other provincial or territorial benefits by $605. Provinces and territories are free to spend the money they claw back on other programs for children.

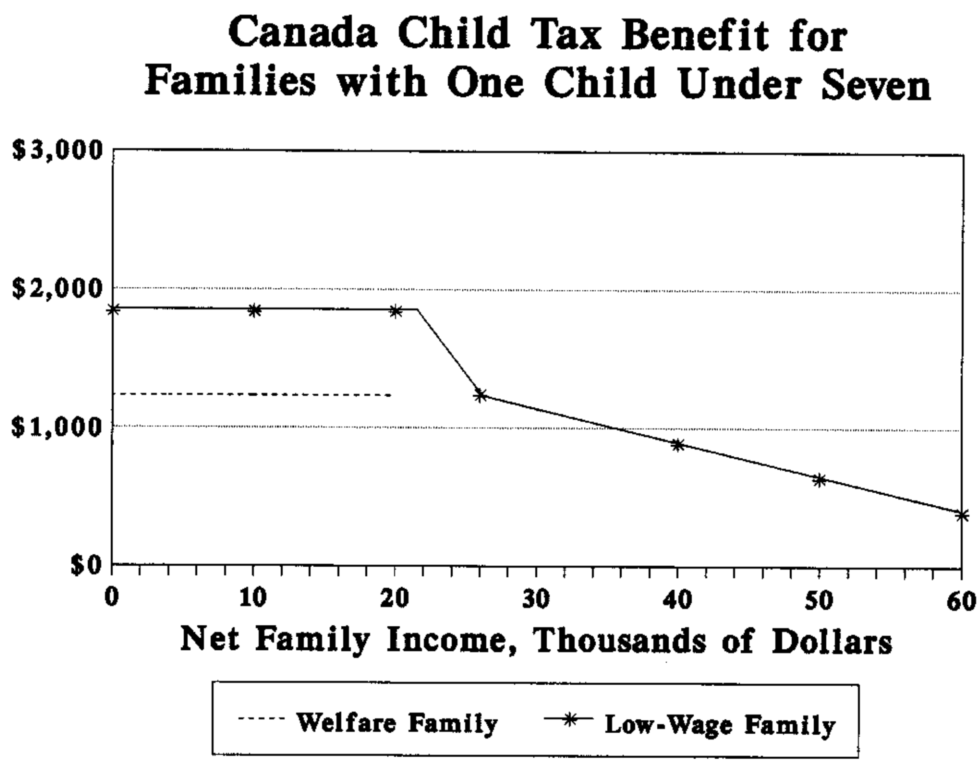
The net result of the new arrangements is that welfare families do not get to keep any of the increase in federal child benefits, while low-wage families are better off than they were under the previous system of benefits.

In addition to the basic amounts shown in Table 1, families which do not claim the child care expenses deduction on their federal income tax forms get an additional $213 for each child under seven.

The federal government agreed to vary the basic benefit for families in Alberta at the request of the provincial government. The basic benefit varies with the age of the children: $935 a year for a child under age seven, $1,004 for a child seven through 11, $1,133 for a child 12 through 15, and $1,205 for a child 16 or 17. The supplement is the same as in other jurisdictions.

The benefits shown in Table 1 and the additional payment of $213 a year in lieu of a tax break for child care expenses are maximum benefits that are directed to low-income families. Many middle-income families also receive the Canada Child Tax Benefit, but their entitlements fall and eventually disappear as their net family incomes rise.

Graph A on the next page shows the way the new system works at different income levels using the example of a family with one child under seven. The line marked with stars represents a low-wage family, and the dotted line on the left-hand side of the graph represents a family on welfare.



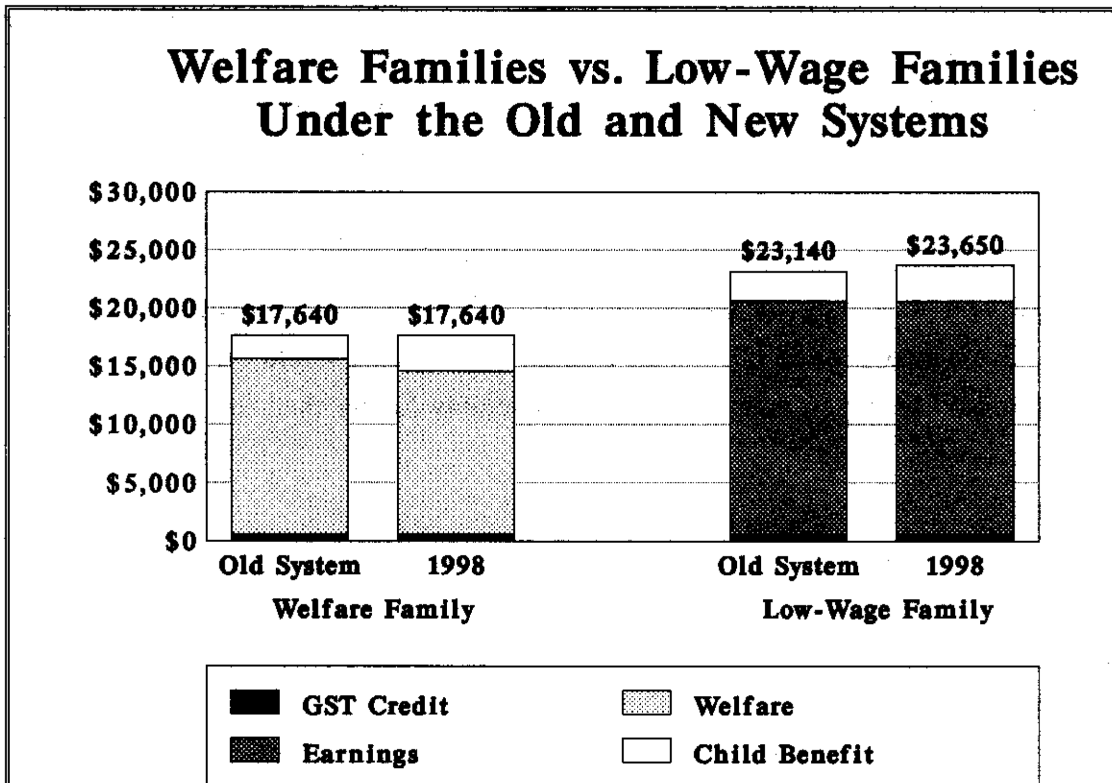
Graph A

The maximum benefit for the low-wage family is a basic benefit of $1,020, a supplement of $605 and an additional $213 for a total of $1,838. When the family's net income exceeds $20,921, the supplement of $605 is reduced by 12.1 percent of additional income until it disappears entirely at net family income of $25,921. Families with incomes above $25,921 have their basic benefit of $1,020 and the additional $213 reduced by 2.5 percent of income until the entire child benefit disappears at net family income of $75,241.

The welfare family does not fare so well. It gets the same benefit of $1,838 from the federal government, but the supplement of $605 is clawed back by the provincial or territorial government, and the family winds up with only $1,233.

The reason the dotted line for welfare families stops abruptly in the graph at about $20,000 in net family income is that most provincial and territorial welfare programs provide very low levels of income. In 1996, for example, basic welfare assistance for a single parent with one child ranged from $8,673 in New Brunswick to $12,540 in Yukon. The Northwest Territories paid $19,074, but that figure is not directly comparable with the others because it is based on the maximum rent that was actually paid in Yellowknife in 1996. Unlike other jurisdictions, the N.W.T. bases its welfare entitlements on the rents actually paid.

Graph B shows the shift in incomes for welfare families and low-wage families - this time using the example of a family of two adults and two children under 18.



Graph B

The two bars on the left side of the graph show a family of two adults and two children where welfare is the main source of family income. The tiny black portions at the bottom of each bar represent the federal GST credit. The white portions at the top of each bar represent federal child benefits, either the previous arrangements or the Canada Child Tax Benefit. In the middle of each bar is the main source of family income - in this case, provincial or territorial welfare. The amount of welfare shown in the graph is $15,000 a year or a bit more than the amount of assistance provided by the most generous provincial welfare system for a family of two adults and two children.

With the switch from the old to the new system, the money from federal child benefits goes up, and the money from provincial or territorial welfare goes down by the same amount. Total family income stays the same - at $17,640 a year for the welfare family in the graph.

The scenario is different for the low-wage family shown in the two bars on the right side of the graph. In the switch from the old to the new system, the family's GST credit and earnings stay the same, but the federal child benefit goes up to $3,050, and total family income rises to $23,650.

The two bars for the low-wage family presume $20,000 a year in earned income before income taxes and deductions for Canada or Quebec Pension Plan premiums and unemployment insurance. Gross income of $20,000 is the amount an individual would earn with a full-time, full-year job that paid $9.62 an hour. That is considerably higher than the minimum wage in all jurisdictions.

II. FLAWS IN THE CANADA CHILD TAX BENEFIT

The 1997 federal budget speech described the Canada Child Tax Benefit as a platform for efforts by different levels of government to assist families of low and moderate income. The National Council of Welfare agrees that federal family benefits should be part of a comprehensive strategy to help families with children. However, we believe that the mechanics of the Canada Child Tax Benefit cripple the program.

Our prime concern is that the program discriminates against families whose main source of income is welfare. Single-parent families are particularly disadvantaged because of the high percentage of these families on welfare. And because 90 percent of poor single-parent families are headed by mothers rather than fathers, the Canada Child Tax Benefit winds up discriminating against women.

Single-parent mothers and their children are the family type most in need of help from governments. Yet they are the family type that gets little or no additional support from the Canada Child Tax Benefit.

This chapter also highlights two other major flaws in the Canada Child Tax Benefit: the lack of support for families which are in the process of moving from welfare to work, and the lack of indexation to protect families against increases in the cost of living. It also expresses concern about the rhetoric governments use in support of the Canada Child Tax Benefit.

We believe that all the major flaws in the current arrangement could be corrected by governments in short order and that a new and better system of supports for families with children could be put into effect as early as July 1, 1999.

Discrimination Against Welfare Families

The National Council of Welfare has been trying without success ever since the initial announcement in the 1997 budget speech to obtain detailed information about the impact of the new Canada Child Tax Benefit on families across the country. We have yet to see any official government estimates of the impact, despite our repeated requests.

To fill the void, the Council was forced to do its own estimates. We did this by comparing the latest available poverty statistics for 1996 from Statistics Canada with data from provincial welfare programs for March 1997 that were compiled by Human Resources Development Canada. The Council brought the welfare statistics into the public domain for the first time in a report entitled Profiles of Welfare: Myths and Realities. Although the welfare data are for one month only, it is clear that most of the families with children were on welfare for relatively long periods of time. As of March 1997, 73 percent of all the single-parent families and 68 percent of all the couples with dependents had been on welfare for 12 months or longer.

Table 2 summarizes our findings. Because the data used in the calculations were taken from two different sources and cover two different time frames, the findings should be considered as approximate rather than exact. Even with the limitations in the data and the methodology, however, the numbers in the table give a reasonable overview of the impact of the Canada Child Tax Benefit.

TABLE 2

POSSIBLE IMPACT OF THE CANADA CHILD TAX BENEFIT ON POOR FAMILIES WITH CHILDREN

	All Poor Families	Net CCTB Beneficiaries	% of Poor Families
Single-Parent Families	412,000	70,000	17%
Two-Parent Families	372,000	219,000	59%
Other Families	14,000	1,000	9%
Total	798,000	290,000	36%

There were 798,000 families with children under 18 living below the poverty line in 1996, as shown in Column 1 of the table. A total of 412,000 poor families were headed by single parents: 380,000 by single-parent mothers and 31,000 by single-parent fathers. A total of 372,000 poor families were two-parent families, and the other 14,000 poor families were other types of families with children. Many of these 14,000 families were made up of children living with grandparents or other relatives.

Column 2 shows "net CCTB beneficiaries" or all poor families minus the families on welfare who would be clawed back by provincial and territorial governments. For the purposes of the table, we assumed that all welfare families in Newfoundland and New Brunswick would be net beneficiaries of the Canada Child Tax Benefit. For the time being, both provinces have decided not to claw back benefits from welfare families.

Column 3 shows the percentage of poor families by family type who would be net beneficiaries.

Only 70,000 or 17 percent of all the poor single-parent families in 1996 would have been net beneficiaries of the Canada Child Tax Benefit. Of all poor two-parent families with children in 1996, only 59 percent would have been net beneficiaries. Overall, only 36 percent of all poor families with children would get to keep the additional money provided by the federal government. The rest of the families would see the increases clawed back by provincial and territorial governments.

Officials of Human Resources Development Canada say that the methodology used by the National Council of Welfare overestimates the number of families which have their benefits clawed back and underestimates the number of families which are net beneficiaries of the Canada Child Tax Benefit.

However, federal, provincial and territorial officials have yet to publish any data of their own that would show the number of families being clawed back and the number of net beneficiaries of the new arrangements. The first official reports are tentatively scheduled for publication in February 1999, but it is not yet known whether the information will be complete enough or detailed enough to allow a reasonable assessment of the impact of the Canada Child Tax

Benefit. Data on the impact of the previous system of federal child benefits provided by Human Resources Development Canada to social policy groups in June 1997 turned out to be largely useless because of the lack of detail.

The impact of the Canada Child Tax Benefit may not be quite as bad this year as the figures in Table 2, because welfare caseloads were down slightly between March 1997 and March 1998. That could translate into a slight increase in the number of net CCTB beneficiaries.

While the figures on net beneficiaries will go up or down slightly with changes in welfare caseloads and poverty rates, the overall pattern will not change substantially. The Canada Child Tax Benefit was not designed to direct additional help to families which are on welfare. The inevitable result of the policy is that many poor families and most poor single-parent families simply will not get to keep any of the additional $1.7 billion a year committed by the federal government.

The extreme targeting that was built into the Canada Child Tax Benefit is completely unacceptable to the National Council of Welfare. Here is a program where substantial sums of new federal money are being spent, but the additional money benefits barely one-third of the poor families with children and bypasses the other two-thirds. Many of the families being bypassed are single-parent families in desperate circumstances.

As well, the clawback strategy probably violates the United Nations Convention on the Elimination of All Forms of Discrimination Against Women. Article 13 of the Convention requires governments to "take all appropriate measures to eliminate discrimination against women in other areas of economic and social life" and refers specifically to equal rights to family benefits.

Table 3 on the next page compares the poverty statistics for families headed by single-parent mothers under age 65 with children under 18 with the poverty statistics for poor couples under 65 with children under 18.

TABLE 3

POVERTY STATISTICS FOR SINGLE-PARENT MOTHERS AND COUPLES UNDER 65 WITH CHILDREN UNDER 18, 1996

	Single-Parent Mothers Under 65	Couples Under 65 With Children
Poverty Rate	61.4%	11.9%
Number of Poor Families	379,000	370,000
Average Depth of Poverty	-$9,604	-$8,866
Poverty Gap in Dollars	-$3.6 billion	-$3.3 billion
Average Family Income	$14,390	$19,793

The poverty rate of families headed by single-parent mothers is the highest rate for any family type year in and year out and is consistently many times higher than the poverty rate for couples with children. In 1996, the poverty rate for single-parent mothers under 65 with children under 18 was 61.4 percent or more than five times the rate of 11.9 percent for couples under 65 with children under 18. The number of poor families headed by single-parent mothers under 65 was 379,000, slightly more than the number of poor husband-wife families with children.

The average depth of poverty for single-parent mothers, or the difference between average income and the poverty line, is always among the highest of all family types. Single-parent mothers were $9,604 below the poverty line on average in 1996. The poverty gap, or the depth of poverty for all poor families collectively which were headed by single-parent mothers under 65, was $3.6 billion.

Average family income for poor single-parent mothers was a mere $14,390 in 1996, well below the average of $19,793 for poor couples with children.

One of the main reasons for the differences in Table 3 is the fact that most single-parent families have only one wage-earner or one potential wage-earner. Many poor couples with children have two wage-earners or two potential wage-earners. That increases the odds that at least one person in the family will have a paying job and also increases the chances that total family earnings will be more than a pittance.

Even when single parents escape from poverty, their average incomes are well below the average incomes of couples because many couples have two earners instead of one. In 1996, the average family income of single-parent mothers who were not poor, was $39,398. The average family income of non-poor couples with children was $69,922.

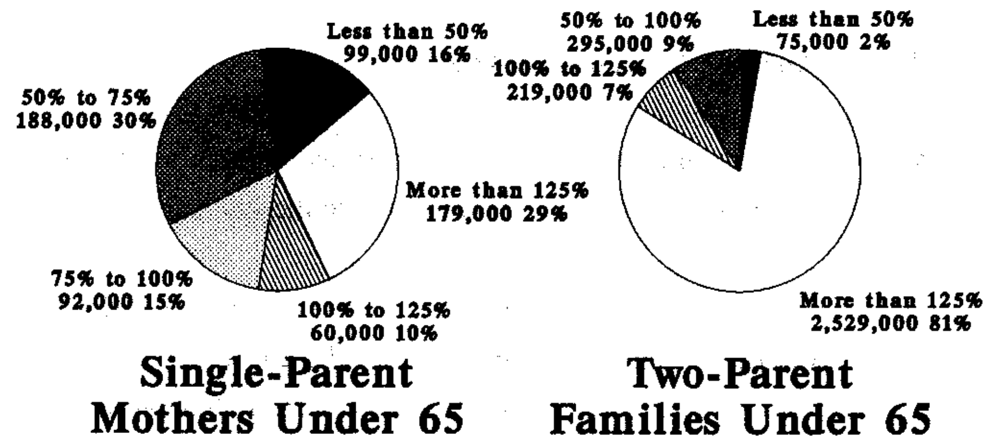
If all this were not sufficient cause for alarm, the number of single parents in Canada has grown significantly over the past generation because of rising rates of family breakups. The number of poor two-parent families has changed little since 1980, but the number of poor families headed by single-parent mothers under 65 has nearly doubled, from 209,000 poor families in 1980 to 379,000 poor families in 1996.

Finally, and perhaps most disheartening of all, is the fact that the percentage of single-parent mothers living on incomes of less than 50 percent of the poverty line is among the highest of any family type.

Graph C on the next page gives the details. The pie on the left shows the income distribution of all single-parent mothers under 65 with children under 18 in 1996 in slices that correspond to percentages of the poverty line. The pie on the right shows the income distribution of couples under 65 with children under 18.

An estimated 99,000 single-parent mothers had incomes of less than half of the poverty line in 1996, and another 188,000 single-parent mothers had incomes of between 50 percent and 75 percent of the poverty line. At the other end of the income scale, only 179,000 single-parent mothers had incomes of more than 125 percent of the poverty line.

Income Distributions in 1996 As Percentages of the Poverty Line



Graph C

The pie for couples with children is radically different. Only 75,000 families or two percent of all couples under 65 with children had incomes of less than half the poverty line, while 2.5 million couples or 81 percent of the total had incomes of more than 125 percent of the poverty line.

The facts of the matter are overwhelming. Single-parent mothers and their children are the family type that is most in need of help from governments. Yet single-parent families on welfare get little or no additional income from the Canada Child Tax Benefit in most parts of Canada under the new system put in place by the federal, provincial and territorial governments.

The concerns of the National Council of Welfare about the treatment of single-parent mothers and their children under the Canada Child Tax Benefit are shared by most other social policy and anti-poverty groups in Canada. One notable example was a recent report for Status of Women Canada by Christa Freiler and Judy Cerny of the Child Poverty Action Group in Toronto entitled Benefiting Canada's Children: Perspectives on Gender and Social Responsibility. The report recommends that single-parent mothers with young children on welfare should keep all the increases in benefits arising from the federal budget announcements of 1997 and 1998.

No Relief for Welfare Families with Earned Income

Almost as bad as the discrimination against single-parent mothers is the lack of support for families on welfare which are trying to make the transition to the job market.

One of the stated goals of the Canada Child Tax Benefit is to reduce disincentives to work that are built into the welfare system. However, parents who are trying to work their way off welfare have no guarantee that they can keep any of the increases in federal benefits.

The National Council of Welfare has made representations to both federal and provincial officials to exempt welfare families with earned income from any clawback of the Canada Child Tax Benefit. Our representations have not been taken seriously.

Working yourself off welfare is a daunting challenge for anyone because of the many disincentives in the welfare system. Welfare recipients who earn more than a token amount of money every month lose a dollar of welfare income for every dollar of earned income in many provincial and territorial welfare systems.

The National Council of Welfare has called repeatedly on provincial and territorial governments to eliminate the worst of their high welfare "tax-backs." The Council supports higher minimum wages as a way of increasing incentives to work and has urged provinces and territories to provide subsidized child care, supplementary medical benefits, dental care and prescription drugs to all low-income people, not just people on welfare. Families with children would find it easier to work their way off welfare if they knew they would not lose these benefits once the parents entered the workforce full time.

The Canada Child Tax Benefit could have increased the incentives to work for welfare families by guaranteeing that there be no clawback of family benefits for parents who are regular participants in the work force. The lack of guarantees is a major blunder. In effect, the new system penalizes welfare families which have already made substantial progress is working their way off welfare. It also flies in the face of other current efforts by provincial and territorial governments to increase incentives and reduce disincentives to work.

No Protection Against Inflation

The other major shortcoming of the Canada Child Tax Benefit is the lack of indexation or protection against increases in the cost of living. With indexation, benefits to families with children would increase each year in line with increases in the Consumer Price Index of Statistics Canada. Without indexation, the purchasing power of the Canada Child Tax Benefit will decline year after year.

Indexation may sound like a trivial matter in times when inflation is low, but even a little inflation is a big problem when it is compounded from year to year. With inflation of only two percent a year, the real value of the Canada Child Tax Benefit would decline by more than 18 percent in just ten years. The purchasing power of a benefit of $1,625 a year in 1998 for a family with one child would fall to $1,328 by 2008.

The National Council of Welfare believes that two types of full indexation should be part of the Canada Child Tax Benefit. The first type would increase the value of the benefit every year in line with the Consumer Price Index. The second type would increase the income thresholds for maximum benefits. Without full indexation of the thresholds, parents who earn a bit more money each year but simply keep pace with inflation would see their Canada Child Tax Benefit payments dwindle.

The cost of full indexation of the Canada Child Tax Benefit and its threshold is not excessive as long as inflation remains under control. At an inflation rate of three percent a year, the cost of full indexation would be in the order of $250 million a year.

One of the benefits of indexation that is sometimes overlooked is that it works automatically. Once the legislation covering the Canada Child Tax Benefit is amended to provide for full indexation, the increases would come into effect automatically each year. Members of the federal cabinet or Parliament as a whole would not have to decide year after year whether to increase the Canada Child Tax Benefit and, if so, by how much. All that would be done under the terms of the legislation.

Cynics might argue that politicians would rather announce increases in benefits from time to time to ingratiate themselves with voters. The cynical alternative to full indexation would be to let the Canada Child Tax Benefit stagnate at current levels for years on end and then announce a sizable increase in benefits.

The National Council of Welfare has a more favourable view of our political leaders. The federal government has long provided full indexation of the Old Age Security pension and the Guaranteed Income Supplement for seniors. We believe that families with children should also enjoy the benefit of full indexation, and we urge the federal government to provide it beginning on July 1, 1999. The money for full indexation should come from the next allocation of $425 million that was announced in the 1998 budget.

Too Much Rhetoric

One other concern associated with the Canada Child Tax Benefit is the excessive rhetoric used by some of the program's strongest supporters. They argue that one of the immediate aims of the program is to provide "fair" treatment for low-wage families with children, and they maintain that one of the long-term aims of the program is to "get kids off welfare." Both those arguments are misleading in our view.

Statements about "fairness" for low-wage families are often framed in a way that presumes that governments should pay the same amount of money in child benefits for each child in a low-wage family as they pay in welfare plus child benefits for each child in a welfare family.

The National Council of Welfare agrees that governments should be doing more to help poor families which are not on welfare, but it believes that the help could take the form of an earned income supplement, higher minimum wages, more generous day care subsidies, more generous parental leave, or all of these.

Fairness does not require that the dollar value of the Canada Child Tax Benefit or the value of federal and provincial child benefits combined be equal to the amount of cash income provided through the welfare system on behalf of the children in welfare families. Welfare is the social safety net of last resort, and families with children go on welfare when they have exhausted all other sources of income. Poor families which are not on welfare have other sources of income, and they are often in better financial shape than families on welfare.

The other rhetoric we find misleading concerns taking children off the welfare rolls. People who use this argument maintain that the Canada Child Tax Benefit and related provincial benefits should be increased until they reach the amount that a typical welfare system provides for a child in a welfare family. At that point, the argument goes, the children would be off welfare.

What the argument conveniently and deliberately ignores is that children cannot really be off welfare if their parents are still on welfare. Since children do not have independent sources of income, welfare entitlements are based on the needs of entire families. The needs of a family for welfare would obviously be smaller if its non-welfare benefits were larger, but the family would be on welfare nonetheless.

Proponents of taking children off welfare presume that the best way to help low-income children is to increase federal and provincial cash benefits to a maximum of roughly $4,000 a child. The National Council of Welfare does not quibble with the need for more assistance to poor families, but it believes that much more thought should be given to the way additional assistance is provided. Some of the assistance could come as different kinds of cash payments or income supplements and some could come in programs for low-income families with children.

Putting all the support in federal, provincial and territorial family benefits is not the best option. Fighting child and family poverty is a complex proposition, and it is difficult to see why the federal government would want to limit the fight to one option alone.

III. FLAWS IN THE REINVESTMENT STRATEGY

The reinvestment strategy associated with the Canada Child Tax Benefit was a novel approach to developing social policy in Canada, and the first round of the strategy has produced some initiatives that are worthy of being pursued by all governments.

At the same time, the National Council of Welfare remains concerned about the lack of accountability for the billions of dollars of new money committed by the federal government over the next several years and the patchwork nature of the programs mounted by provincial and territorial governments. We would much prefer to see more straight-forward financial arrangements and more consistency in programs from one jurisdiction to another.

We would also like to see more sizable financial commitments from more provincial and territorial governments. The federal government found an additional $850 million a year for child benefits in its initial announcement on the Canada Child Tax Benefit. The provinces and territories collectively have announced $100 million to $200 million a year in new spending that could be linked to the Canada Child Tax Benefit. The estimates do not include major commitments in Quebec and British Columbia that were announced well before the Canada Child Tax Benefit.

The new spending announcements vary greatly from province to province, from substantial new commitments to no new commitments at all. Saskatchewan has made a sizable commitment of $37.5 million a year to new programs for children. On the other hand, Ontario announced additional spending of $40 million a year - about the same amount as Saskatchewan for a province with a population ten times larger than Saskatchewan.

Current arrangements under the clawback and reinvestment strategy would see perhaps $228 million in federal money diverted to new or expanded provincial and territorial programs during the nine months from July 1, 1998, to the end of the fiscal year on March 30, 1999. Another $20 million to $23 million would be reinvested by First Nations.

Here is an overview of provincial and territorial reinvestment plans as taken from joint and individual government announcements in recent months. The amounts to be reinvested are estimates of the amounts that will be clawed back from families on welfare from the start of the Canada Child Tax Benefit on July 1, 1998, through the end of the fiscal year.

Newfoundland has decided not to claw back the increase in federal benefits from welfare families during the first year of the program. The amount of federal money that could have been clawed back between July 1, 1998, and March 30, 1999, is estimated at $7.7 million. Minister of Human Resources Julie Bettney told the House of Assembly on May 25, 1998, that the decision not to claw back child benefits was taken after much soul-searching in caucus and cabinet: "To a person, we all knew the individual cases of parents and often single parents on social assistance who struggle every single day just to provide the very basic necessities for their children. They are people who either because of lack of work, lack of necessary skills and abilities or in some cases the sheer combination of life circumstances, are unable to support themselves at this point. But they so desperately want something better for their children." The Minister said that allowing welfare families to keep the increase in federal child benefits is tantamount to an increase of 13 or 14 percent in the basic welfare rate and represented the single largest increase welfare recipients had received in a quarter century. Meanwhile, Newfoundland will spend $10.2 million of provincial money on licensed child care services, early intervention programs for families with children, regional networks for youth at risk and additional help for families on welfare trying to make the jump to the paid labour force.

Prince Edward Island will reinvest $1.2 million in federal money in additional child care subsidies and subsidies to defray the cost of prescription drugs for families with children and incomes of less than $20,000.

Nova Scotia will spend most of its reinvestment money of $9.7 million on a provincial child benefit that will go to both low-wage and welfare families with incomes under $16,000 a year - a policy that effectively takes some of the sting out of the clawback of federal child benefits. The maximum benefits are $250 a year for the first child in a family, $168 for the second child and $136 for each additional child. The program is administered by Revenue Canada. Nova Scotia plans to reinvest the rest of the federal money clawed back in child care and prevention and early intervention programs.

New Brunswick will not claw back an estimated $8.9 million in federal benefits during the first year of the program, and it will spend $2.1 million of its own money to improve child care programs. The province already invested $25 million of its own money in a new provincial Child Tax Benefit and Working Income Supplement. The provincial Child Tax Benefit of $250 a year per child goes to families with net incomes under $20,000 and is being administered by Revenue Canada. The maximum Working Income Supplement is $250 a family for low-income families with earnings and is paid directly by the province.

Quebec is not formally participating in the discussions on the Canada Child Tax Benefit, but the province has made huge investments in family programs on its own initiative. Quebec has long had its own provincial child benefits. It is in the early years of a program to expand subsidized child care to all parents involved in work or training at a cost to parents of only $5 a day. Quebec was also a leader in the field of work income supplements with the Parental Wage Assistance Program (commonly known by its French acronym APPORT). The program pays parents with gross earnings of less than $22,000 benefits of up to $3,784 a year depending on family size and circumstances.

Ontario plans to spend $100 million of its first $117 million in reinvestment money on a child care supplement of up to $1,020 a child for low-income working families with children under seven. The rest of the $117 million will be used for a variety of other programs, including increased funding for Children's Aid Societies and the Healthy Babies, Healthy Children program for high-risk babies. The increase in funding for the Children's Aid Societies came after years of hefty cuts in support for child protection.

Manitoba is splitting its reinvestment of $10 million among a variety of programs, including child care, early intervention programs, children's nutrition programs, training and job placement programs and early literacy programs. The province is also investing $5 million of its own money.

Saskatchewan has a provincial child benefit that is delivered as an integrated payment with the Canada Child Tax Benefit and a Saskatchewan Employment Supplement for low-income families which have income from employment or child support payments. The maximum Saskatchewan Child Benefit is $75 a month for a family with one child, $167 for two children,

$265 for three children and $363 for four children. The maximum Saskatchewan Employment Supplement is $175 a month for a family with one child, $210 for two children, $245 for three children and $280 for four children. The province is also paying supplementary health benefits to low-income working families, including drug, dental, optical and other coverage. Federal reinvestment funds of $11 million in the first nine months will be bolstered by $37.5 million a year in provincial funds.

Alberta's main reinvestment choice is a Child Health Benefit for children in low-income families that provides dental, optical and ambulance services and prescription and over-the-counter drugs. The subsidies range from 50 to 100 percent of the cost, depending on the family's income. The federal money being reinvested is $13.7 million. The province invested $75 million in a Family Employment Tax Credit introduced in 1997. The maximum credit in 1998 is $500 for a family with one child or $1,000 for a family with two or more children. The program is administered by Revenue Canada.

British Columbia started a Family Bonus plan with its own money in July 1996 and added an Earned Income Benefit in July 1998. The maximum Family Bonus is $52.58 a month for a family with one child, $121.83 for two children, $197.33 for three children and $272.83 for four children. The maximum Earned Income Benefit is $50.41 a month for a family with one child, $84.16 for a family with two children, $111.66 for three children and another $27.50 a month for each additional child. Both provincial programs are delivered in one cheque with the Canada Child Tax Benefit. The federal reinvestment of $63.8 million in the first nine months has been dwarfed by the millions of dollars in provincial funds spent on the new or expanded programs that were introduced in 1996. In addition to the Family Bonus and Earned Income Benefit, the province expanded support for child care and started a new program called Healthy Kids that provides children with basic dental and eye care.

The Northwest Territories has a territorial child benefit of up to $330 a year for each child in a low-income family that is delivered by Revenue Canada with the Canada Child Tax Benefit. Low-income families with earned income receive a Territorial Workers' Supplement of up to $275 a year for the first child in a family and $75 a year for a second child. The net effect of the territorial initiatives will be to lessen the extent of the clawback of federal benefits for welfare families. The territorial government is adding $2 million of its own to complement $1.6 million in reinvestment funds.

Yukon is providing low-income families with subsidies for prescription drugs and eye care for children from reinvestment funds of $221,000.

In addition to the above, an estimated $27 million to $30 million a year will be clawed back and reinvested on behalf of children living on Indian reserves. Indian and Northern Affairs Canada is working with First Nations to develop reinvestment plans to meet community priorities.

One of the main concerns of the National Council of Welfare is the loss of control and accountability over the reinvestment money that came originally from the federal treasury. The provinces and territories have agreed to recycle the federal money on programs for families with children, but there are no detailed guidelines on the use of the money and no written agreement between the two levels of government.

Overall, the net effect is to convert an estimated $228 million of federal money into $228 million of provincial or territorial money in the first nine months of the Canada Child Tax Benefit. Any credit for the way that money is ultimately spent will naturally accrue to provincial and territorial governments.

The appeal to provinces and territories is obvious: more money from Ottawa with almost no strings attached. It is difficult to see any appeal at all from the point of view of the federal government.

The lack of accountability would get worse year after year if the system is not changed. As the federal government increases its spending on child benefits, provincial and territorial governments would increase the amounts clawed back and reinvested.

Accountability is also a problem in the additional money being earmarked by provincial and territorial governments for new or expanded programs for families with children. How much of the provincial and territorial money is actually new money and how much offsets cuts in other provincial or territorial programs? How much of the provincial or territorial money would have been spent in the absence of the Canada Child Tax Benefit? Questions such as these are difficult, if not impossible, to answer.

Another major shortcoming in the clawback and reinvestment strategy is the patchwork of programs being started or enhanced with the recycled federal money. There are no national standards to speak of in the way the money is being spent, and there is no consistency in programs from one jurisdiction to another. Some of the provincial and territorial programs look quite promising, while others do not.

In our 1997 report on family benefits, the National Council of Welfare urged provinces and territories not to claw back the increase in federal benefits from welfare families. We are pleased to see that Newfoundland and New Brunswick agreed with our position, and we hope that other governments will change their minds in the future.

We see two possibilities that are much more direct and much more sustainable in the long term than the clawback and reinvestment strategy.

The first possibility is a variation of the status quo that would clarify the roles and responsibilities of the two levels of government in a way that is consistent with the governments' own stated objectives. Under this option, federal money would continue to go into the Canada Child Tax Benefit. Provincial and territorial money would go into companion programs for families with children that the governments consider to be in the best interest of their constituents. The only difference would be that provincial and territorial governments would finance these programs with their own money.

We have reservations about the federal government getting heavily involved in small-scale, local and targeted programs such as early intervention programs for high-risk families with children. They are much more appropriate as provincial or territorial initiatives funded with provincial and territorial money.

We also do not think it is appropriate for provincial and territorial governments to start their own provincial tax benefits to complement the Canada Child Tax Benefit using recycled federal money. Provinces and territories which want to have their own tax benefits should do so with their own money, just as British Columbia did long before the clawback and reinvestment strategy.

The second alternative to the current reinvestment strategy would be for the two levels of government to take the most promising of the new initiatives at the provincial and territorial level and to work together to develop them as new cost-shared national social programs.

For example, several provinces have started paying earned income supplements to low-wage families with children. If the programs turn out to be successful in helping families escape from welfare and in raising family incomes, it would be worthwhile trying to expand them to all parts of the country.

A new federal-provincial agreement on earned income supplements would be far superior to the current patchwork approach in our view. Ideally, a new agreement would include financial contributions from both levels of government, national standards to ensure some consistency from one part of the country to another, and a degree of flexibility to accommodate special concerns or special circumstances of individual provinces or territories. Past research by the National Council of Welfare suggests that earned income supplements work best if they are designed to dovetail with the different welfare systems of each individual province and territory.

The same arguments could apply in the case of child care. Rather than patching up a system that is already quite threadbare, would it not be better for the two levels of governments to start working on a new and much improved child care system for Canada?

A formal agreement for any new national program would have a better chance of survival than the informal arrangements in the clawback and reinvestment strategy. The main problem with informal agreements is that they are unlikely to last through many changes in government.

We have no doubt that the governments that negotiated the arrangements for the Canada Child Tax Benefit and the reinvestment and clawback strategy came to the table with honourable intentions. All it would take to unravel the arrangements, however, would be for a change of government in one large province and a decision by the new provincial government not to be bound by the commitments of its predecessor.

CONCLUSION AND RECOMMENDATIONS

The federal government's view of family benefits has narrowed considerably over the course of the last decade. Starting in 1989, Canada moved from a universal system of family benefits which provided a modest degree of income support to all families with children to a system which has taken targeting to extremes. Sadly, the 1989 hope of ending child poverty by the year 2000 started slipping further away as the economy headed into another recession.

Canada had a universal program of Family Allowances for more than 40 years that paid monthly benefits to virtually all families with children under 18. Family Allowances were in part an acknowledgement by the federal government that all children are important to our future as a nation and that all parents have additional child-rearing costs that people without children do not have.

Then came the clawback of Family Allowances that was introduced in 1989 and effectively ended universality for federal family benefits. The message from the federal government of the day was that well-to-do parents did not need federal assistance. The hypothetical example chosen to "sell" the new approach was the wealthy banker earning $500,000 a year, who obviously did not need a Family Allowance cheque of $32.74 a month to make ends meet. In reality, Family Allowances started to get clawed back when net family income topped $50,000 - well below the average family income of $55,705 in 1989 for couples under 65 with children.

Still more targeting took place in 1993, when Family Allowances and the income tax exemption for parents with children under 18 ended and the money that was saved was rolled into a new and expanded Child Tax Benefit for low-income and middle-income families. The threshold of the Child Tax Benefit was $25,921 or well below half the average income of couples under 65 with children. Benefits for a family with two children disappeared once their net family income topped $66,721. The new Child Tax Benefit included a working income supplement for low-income parents who had earned income as opposed to income from government programs.

The rationale used by the federal government for the new system of family benefits was that benefits had to be limited to people in need because of severe and chronic concerns about the federal deficit. The unspoken message was that only low-income parents and lower-middle-income parents were worthy of federal support.

The new Canada Child Tax Benefit picked up the same themes played by the previous federal government and underlined the distinction between families on welfare and all other families with children. But it went one step further in the sense that it actually encouraged provincial and territorial governments to claw back the increase in federal benefits from welfare families and use it for other programs for families with children.

In just one decade, we have gone from a country where all children were considered worthy of federal government support to a country where the children who matter most come from low-income families with parents in the paid labour force. The rhetoric about children as our future has become increasingly hollow.

The rhetoric about ending child poverty by the year 2000 has also become increasingly hollow. The poverty gap - or the amount it would take to bring all families with children up to the poverty line - was $7.4 billion in 1996. That is a large, but not outrageous sum of money. It is less than one percent of the gross domestic product of $820 billion, the value of the goods and services produced in Canada in 1996.

The National Council of Welfare does not believe that governments should be expected to pay for eliminating the entire poverty gap out of the public purse. Part of the solution to poverty lies in better wages for parents that would arise from job creation, higher minimum wages and better labour standards.

The National Council of Welfare urges the federal government to rethink its options for supporting families with children and to redouble its commitment to fighting child poverty in all its forms. In the shorter term, we want the government to abandon the clawback and reinvestment strategy and ensure that the full Canada Child Tax Benefit goes to all low-income families with children, regardless of their sources of income. We also want the government to provide for full indexation of the Canada Child Tax Benefit. In the longer term, we want the federal, provincial and territorial governments to develop new forms of partnerships that are more straight-forward than the convoluted clawback and reinvestment strategy associated with the Canada Child Tax Benefit.

The National Council of Welfare is pleased to see a continuing and growing financial commitment from the federal government to families with children, and we are pleased by the spirit of co-operation that has characterized federal, provincial and territorial meetings on children's issues in recent months.

We want the co-operation to continue, but we believe that the current arrangements for reinvesting recycled federal money must be abandoned. The governments themselves have recognized that their partnerships will evolve as the Canada Child Tax Benefit is implemented, and we believe this should happen sooner rather than later.

One possibility is for the two levels of government to divide up the workload on new programs for families with children and for each level to use its own money on its own programs. Another possibility is to build on the successful experiments of recent months and develop new national cost-shared social programs for families with children based on the results of those experiments. In the case of new cost-shared programs, we believe there should be strong national standards to ensure the quality and stability of programs and also to make sure that all people have reasonable access to similar benefits no matter where they happen to live in Canada.

Recommendation #1: Provincial and territorial clawbacks associated with the Canada Child Tax Benefit for families on welfare must end no later than July 1, 1999. All low-income families, both welfare families and low-wage families, must receive and get to keep the full Canada Child Tax Benefit.

This recommendation is a much stronger version of a recommendation we made in our 1997 report Child Benefits: A Small Step Forward. Given the evidence that is now available about the limited scope of the Canada Child Tax Benefit among poor families and the way it discriminates against poor families on welfare, it would be unconscionable in our view to allow current arrangements to continue.

As it stands, perhaps as few as 36 percent of the poor families with children get to keep the increase in federal support under the Canada Child Tax Benefit. The other 64 percent are poor families on welfare who see the increase in federal support clawed back by provincial and territorial governments.

July 1, 1999, would be a convenient date for the changes because it is the date when the next round of increases in the Canada Child Tax Benefit would come into effect.

Recommendation #2: The Canada Child Tax Benefit must be fully indexed to increases in the cost of living as of July 1, 1999. Full indexing means that benefits must rise each year in line with increases in the Consumer Price Index. It also means that the thresholds for maximum benefits must increase each year.

Federal benefits for seniors, including the Old Age Security pension and Guaranteed Income Supplement, have long been fully indexed to the Consumer Price Index.

Recommendation #3: After the Canada Child Tax Benefit is fully indexed, the federal government must ensure that all poor families, both welfare families and low-wage families, benefit from the rest of the $850 million a year in additional funds announced in the 1998 budget speech.

Recommendation #4: The federal government must set up an appeals mechanism so that parents who believe they are not getting their proper Canada Child Tax Benefit payments can have their payments corrected speedily.

Recommendation #5: Provincial and territorial governments must set up appeals mechanisms covering programs for families within their jurisdictions.

As government programs get more and more complicated and the administration of government programs gets more and more distant from the individuals affected, the right to appeal becomes increasingly important. Under the Canada Assistance Plan, welfare recipients had a right to appeal the decisions of provincial and territorial welfare officials, and their right was guaranteed by federal law. The guarantee was lost when CAP was replaced by the Canada Health and Social Transfer in 1996.

Recommendation #6: Both levels of government must reaffirm their obligations to ensure a decent standard of living for poor Canadians, regardless of their family status, their sources of income or the reasons they are in need.

Recommendation #7: The federal government must make it a priority to eliminate child poverty as quickly as possible, as it originally promised in 1989.

The House of Commons resolution to end child poverty by the year 2000 was an ambitious, but a realistic goal when it was passed in 1989. We believe that ending child poverty is still an ambitious and realistic goal, despite the setbacks of recent years.

Recommendation #8: The federal, provincial and territorial governments all must stop cutting social programs for low-income Canadians.

If the federal government is truly committed to improving the lot of poor families with children, it must stop making cuts in the social programs that it supports directly or indirectly. Similarly, it is only fair that provincial and territorial governments stop cutting their social programs. Cuts in welfare rates by many governments in recent years have had a particularly devastating effect.

Recommendation #9: Both levels of government must open up their discussions on child benefits and other issues of social policy to ordinary Canadians.

Recommendation #10: Both levels of governments must make a full and complete disclosure of the impact of the Canada Child Tax Benefit and all their other programs.

One of the most disturbing and unnecessary features of negotiations between the two levels of government on child benefits was the extreme secrecy that characterized the early months of the process. Extreme secrecy has also characterized the early months of discussions on the proposed "national children's agenda." People outside government have only the vaguest of ideas of the purpose and scope of the agenda.

We believe that governments have an obligation to provide their citizens with a full and factual assessment of the impact of the policies they espouse. This has clearly not happened in the case of the Canada Child Tax Benefit. We have yet to see any estimates other than our own of the impact of the program on poor families with children despite repeated prodding by social policy groups. Bluntly put, it is unfair to expect ordinary people to commission their own research to find out what impact their own tax dollars are having.

The two levels of government have pledged themselves to openness and accountability to the people of Canada in their continuing work on the Canada Child Tax Benefit. The National Council of Welfare expects them to honour those commitments.

Finally, we remind governments of the ultimate reality of child poverty that is captured in the subtitle of this report: Kids Are Still Hungry. Making sure that children are not deprived of the necessities of life requires governments at all levels to have good programs and policies for families with children, ample supports for families at the lower end of the income spectrum, and a continuing commitment to putting children first.

A generation ago, the federal, provincial and territorial governments committed themselves to fighting poverty among seniors, and they backed up their words with billions of dollars a year in income supports and programs for older Canadians. The result was a dramatic reduction year after year in the poverty rates for seniors.

Members of the National Council of Welfare will not be satisfied until governments make similar commitments to children and until we see those commitments leading to dramatic reductions in child poverty.

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NATIONAL COUNCIL OF WELFARE

The National Council of Welfare was established by the Government Organization Act, 1969, as a citizens' advisory body to the federal government. It advises the Minister of Human Resources Development on matters of concern to low-income Canadians.

The Council consists of members drawn from across Canada and appointed by the Governor-in-Council. All are private citizens and serve in their personal capacities rather than as representatives of organizations or agencies. The membership of the Council has included past and present welfare recipients, public housing tenants and other low-income people, as well as educators, social workers and people involved in voluntary or charitable organizations.

Reports by the National Council of Welfare deal with a wide range of issues on poverty and social policy in Canada, including: income security programs, welfare reform, medicare, poverty lines and poverty statistics, the retirement income system, taxation, labour market issues, social services and legal aid.

On peut se procurer des exemplaires en français de toutes les publications du Conseil national du bien-être social, en s'adressant au Conseil national du bien-être social, 2e étage, 1010 rue Somerset ouest, Ottawa K1A 0J9.