

TWO CASUALTIES OF THE CHILD TAX BENEFIT: TRUTH AND THE POOR

Richard Shillington

If public policy is to be debated sensibly, governments should describe the basic facts of what their policies will do as truthfully as possible. The Child Tax Benefit is a good example of how not to go about such impact studies. Since 1985, reforms of our arrangements for getting money into the hands of low-income families have always been cast in the best possible light by the federal governments of the day. That the various changes have caused many families to experience a reduction in the real value of their welfare receipts has never been mentioned by official sources. We should raise the standard of what we demand from governments so that misleading marketing of this sort will no longer be tolerated by the public.

Pour que les politiques publiques fassent l'objet d'un débat rationnel, il faudrait que les gouvernements décrivent le plus fidèlement possible les faits et données sur lesquels ils se basent. À cet égard, la Prestation fiscale pour enfants est un exemple à ne pas suivre. Depuis 1985, les gouvernements qui se sont succédé à Ottawa ont toujours présenté sous leur jour le plus favorable les réformes apportées au mode de versement des allocations aux familles à faible revenu. Les sources officielles n'ont jamais révélé que tous ces changements ont réduit la valeur réelle des prestations accordées à ces familles. Il y aurait donc lieu de rehausser les normes exigées des gouvernements, de façon que ceux-ci cessent d'induire le public en erreur.

The seed for this article was sown by a 1999 op-ed piece by this magazine's current editor, William Watson. Writing about tax increases, Mr. Watson argued that Canada is not "tough on kids," noting that the Child Tax Benefit (CTB) "... is more generous to those who do get it than anything in our history." In a similar vein, in his 1995 book *The Canadian Revolution: From Deference to Defiance*, Peter C. Newman pointed out that "While baby bonus payments were terminated in 1989, they were replaced by a relatively generous program of child tax credits for the poor."

How could Messrs. Watson and Newman, two well-informed observers of public policy, been unaware that in fact the CTB has meant reduced support for most poor children? Perhaps because they were never told otherwise. Every CTB impact statement concentrated on winners—those whose support was increased. No mention was made of losers—those worse off. The impression was left then that there were no losers. That simply is not the case.

This paper is about two Child Tax Benefit casualties. The first are those poor families whose support level has

declined under the CTB. The second is truth—in this case the quite simple truth that such families exist. That it, too, is a casualty is reflected in the misconceptions of Messrs. Watson and Newman. Reportedly the first casualty of war, truth evidently fares no better in battles over policy.

The two gentlemen's statements reflect a widespread impression that the CTB has increased support for "the poor." This is only partially true. While the CTB has raised support for the working poor, support for kids on welfare has declined. After adjusting for inflation, since 1985 the CTB has lowered support for 90 per cent of children. This is for children in general, but what is even more surprising for an anti-poverty program is that support is lower for the majority of poor children!

It is not my purpose here to debate the strengths and weaknesses of the CTB. For the record, I view the CTB as a partial step forward (to the extent it has increased support for at least some low-income children) but only a partial step because by excluding welfare children it excluded most poor children and indeed the neediest. The most recent CTB changes were intended to reduce the "welfare wall" (the

strong disincentives to work because of the financial and other supports that are lost when welfare families accept employment). Yet the welfare wall could have been eliminated without excluding welfare families from increased support, which is what the CTB did. Indeed, the CTB did not tear down the wall so much as relocate it in front of the many more families who have incomes between \$20,000 and \$30,000.

But my central purpose here is to evaluate, not the CTB itself, but the several CTB impact statements that have led to the common misconception that low-income families are all assisted by the CTB initiatives, that “there are no losers.” Far from being unaffected by the CTB, welfare families have seen their support levels continue to decline. They are the hidden casualties of the CTB initiative.

Intelligent policy debate requires at least some factual information on which participants can agree. The impact analyses which have accompanied the various policy changes would ideally inform the public debate. Yet, given the very political context in which they are presented, they are also intended to influence public opinion. These twin objectives of both informing and persuading make awkward and sometimes conflicted companions. I will argue that persuading has usually interfered with and sometimes even eliminated informing.

An impact analysis accompanies most federal and provincial budgets, as well as major program changes, such as the replacement of Unemployment Insurance with Employment Insurance and the evolution of the CTB. Impact analyses describe the effect of program changes on Canadians. They answer questions like: How many people are better-off/worse-off? By how much? Who are they?

Factual accuracy is important in such analysis, but, as the examples that follow will show, accuracy certainly does not ensure clarity. Indeed, documents can at the same time be accurate and misleading, especially when the objective of truly informing the public takes a back seat to persuasion.

Impacts are inherently about change. Impact analysis involves a number of choices. What years are used for comparison? Do we adjust for inflation? Are total expenditures presented in dollars or as a per cent of government spending, government revenue or GDP? If we are illustrating the impact using typical families, what family types are used and at what income

levels? Is the impact shown in dollars, as a percentage change or as a per cent of income? A single factual base can lead to a multitude of possible impact statements, all accurate, yet each one telling a very different and sometimes misleading story.

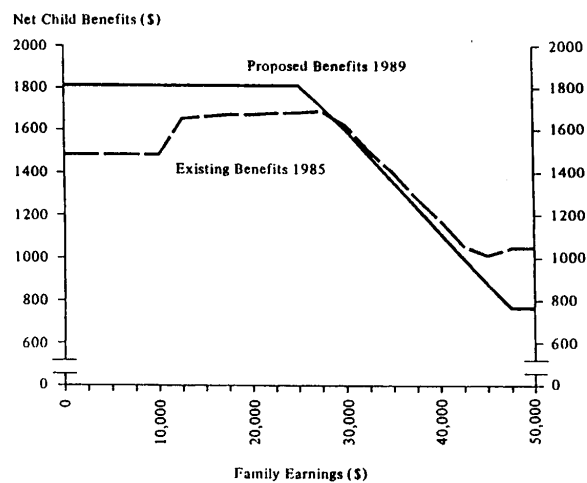
From 1985 through 1999 federal impact statements have reflected the (perhaps natural) tendency for governments to put the CTB program in the best possible light. They have typically emphasized winners while de-emphasizing or even ignoring losers. Unfortunately, over the long term this understandable political predisposition to accentuate the positive has produced a general misconception that the CTB assists all low-income families.

We begin in 1985 with Michael Wilson’s first budget, which increased the targeting of the child benefit system by reducing the Child Tax Exemption and increasing the refundable Child Tax Credit. As a result, there were some losers and a few winners.

Figure 1 was included in the budget papers. It implied improved benefits for those with annual incomes less than \$30,000 and losses for those over \$45,000. The graph was not adjusted for inflation, however, which in 1985 was about five per cent, more than double what it is now. This failure to provide indexed numbers is ironic in view of the fact this is the budget that introduced partial indexation, which caused bracket

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Figure 1
Net annual child benefits in current dollars for a one-earner couple with two children in Ontario under existing and proposed systems, 1985 and 1989



Source: 1985 Budget papers

creep and the automatic erosion of supports like the CTB that continued for 15 years until the 2000 budget restored full indexation.

In fact, had the inflation adjustment been made, the graph would have shown that the only winners were those very few families with income below \$10,000 (in \$1985)—and their gain was wiped out by inflation by 1992—and that losses under the plan started at \$25,000.

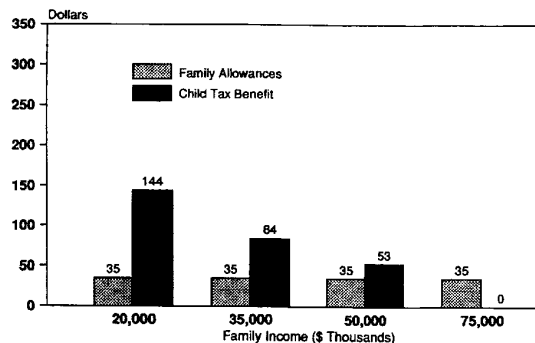
Seven years later, the 1992 budget announced a major structural overhaul of the child benefit system. Family allowance, which had been clawed-back for a couple years, was eliminated. So was the non-refundable child tax credit (which had earlier been the child tax exemption). The payment of the refundable child tax credit was changed from annual to monthly cheques. As well, a Working Income Supplement was introduced for poor families with labour market earnings.

For middle and higher-income families the impact of these changes depended on their circumstances, their income and the number of their children. For poor families the impact was pretty clear and depended on earnings. The Working Income Supplement increased support for the working poor. For welfare families the total income support was unchanged at \$1,020 per year.

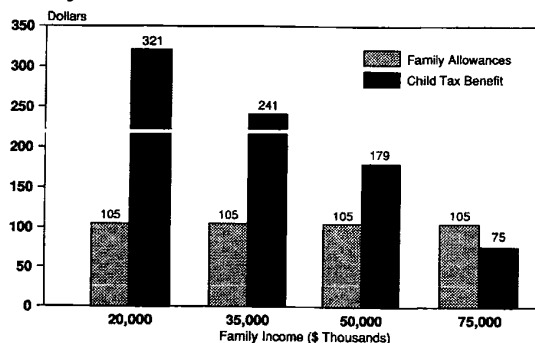
The impact analysis, a 12-page “white paper,” demonstrated how an analysis can be perverted by the selective use of “accurate” statements. The following quotes and chart from the 1992 paper leave the strong—but incorrect—impression that support levels were being increased significantly for all poor families: “The child benefit will be delivered monthly and will increase assistance to families with low and middle incomes.” No mention is made that some, or indeed most, of the poor are excluded.

“Lower-income families with one child will receive a monthly payment of up to \$144, significantly more than the monthly payment of \$35 they now receive. Approximately two million families with incomes below \$50,000 will receive larger monthly payments than they do now.” This goes well beyond selective reporting. The device of concentrating on the monthly cheque (ignoring the loss of an annual cheque), enabled Ottawa to make factually correct, but entirely misleading claims. The focus on the “monthly cheque” contributes to the illusion that “everyone wins.” In fact, poor families on

Figure 2
Monthly payments
family with one child



Family with three children



This comparison excludes present benefits under the child credit and refundable child tax credit, which are not delivered monthly. One child under age seven.

Source: 1992 “White paper.”

welfare received no increase in annual support. Indeed, since their income remained at \$1,020, inflation ensured that their purchasing power declined.

Figure 2 is reproduced from the “white paper.” It continues the bizarre charade of determining the impact of the 1992 changes based solely on the size of the “monthly” cheques. The first footnote to this chart indicates that the authors knew pertinent information was being excluded.

Thus the “white paper” presented an analysis without losers that led readers to think support for poor families had increased across the board. The *Globe and Mail*, for one, appears to have fallen for the ruse: “Mr. Mazankowski’s reforms will sharply raise support for low-income families with children,” it reported. “The plan will allow Ottawa to make monthly payments of up to \$144 for each child in a low-income family, four times the current family allowance. About two million families with incomes below \$50,000 a year will receive larger monthly payments than they now do.”

A publicity blitz following the [1992] “white paper” suggests that some federal officials may have lost their apolitical footing. One Finance official boasted: “We have mailed out 350,000 copies of the white paper that we tabled at the time of the February Budget, which probably, in terms of white papers, makes it a runaway best seller ...”

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Turn now to the CTB announced in the 1997 budget. It added another layer of complexity: the co-ordination of federal and provincial support levels. The federal government increased its support for low-income children on condition that provincial social assistance spending be clawed back dollar for dollar. Provinces agreed to “reinvest” the money thus freed up in a range of supports for low-income children—which may or may not include children whose families are on social assistance. Provinces also promised that no welfare child would be worse off after the change. (Newfoundland and New Brunswick did not take part in the claw-back scheme.)

Most of the controversy surrounding the CTB has concerned this agreement that provinces would “claw back” the increased federal support. Information about the clawback’s impact is clearly critical to the policy debate about the CTB and its impact as an anti-poverty measure. Unfortunately, the impact analyses which accompanied the changes failed to inform the debate about the clawback.

The analyses published with the 1997 budget included the following statement, which over-

states the number of those benefiting from the CTB by simply ignoring the provincial claw-back. “Some 1.4 million families with 2.5 million children would receive higher federal benefits.” Use of the word “federal” is critical to the truth of this statement since the clawback ensures that welfare families will lose their federal increase to the province. But if the number assisted federally is worth documenting, then why wouldn’t the number who are still better off after the clawback not be just as significant and newsworthy?

The following government statement from that year’s *Budget Plan* suggests the program benefits the “neediest children.” [The program will] ... provide better support for low-income families with children ... Over time, this initiative will build a more secure base of benefits and services for Canada’s neediest children.” But while most observers would argue that welfare children are Canada’s neediest their base of benefits and services is far from secure. Welfare is now the program of last resort. To receive it, families must have even exhausted their financial assets. In reality, welfare families are *not* assisted by the Child Tax Benefit but instead are further excluded from society by its provisions. In fact, the CTB’s treatment of welfare families has been the its most contentious aspect. It has been opposed by municipal governments, the UN committee on economic, social and cultural rights, and virtually all social policy research and advocacy groups.

The impact analysis of the CTB’s anti-poverty value might have included, at the very least, the number of CTB recipients being clawed-back. Children in such low-income families receive no direct benefit from the CTB initiative. But so far, the only data available on the number clawed back have been published by the National Council of Welfare, a citizen body which advises the Minister of Human Resources Development. In a 1998 paper, it estimated that because of the clawback 64 per cent of poor children and 83 per cent of poor children of single parents do not receive any increased income support from the CTB. Getting a rough estimate of these figures is not difficult. One only needs to know the proportion of poor children whose parents rely on welfare income. The Council’s estimate was roughly comparable to available data on social assistance: The nation’s one million children relying on welfare are about 70 per cent of its per children.

When these numbers were reported in the *Toronto Star* federal officials were said to “dis-

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pute the figures.” This is difficult to reconcile with my own *Access to Information* request for these data. The reply to my request was in part: “Please be informed that no reports, analyses, deck or other presentations, studies [*sic*] were done or commissioned by Human Resources Development Canada on the impact of changes to the child benefit system and the Canada Child Tax Benefit on Canadian low-income families.” On what possible basis then did HRDC “dispute” the Council of Welfare’s figures?

The confusion is further increased by the following government statement in a submission to the United Nations “... a new National Child Benefit (NCB) system was implemented on July 1, 1998 as a collaborative initiative by federal, provincial and territorial governments; about half of the beneficiaries are single-parent families headed by women.” Most readers of the UN document presumably accepted the statement at face value and concluded that this “collaborative initiative” is targeted to assist female single parents. But the statement directly contradicts the Council of Welfare estimate that very few single parents are assisted by the CTB. Can both statements be true?

The statement to the UN must simply ignore the clawback. After the clawback, the Council of Welfare points out, the vast majority of single-parents see no increase in support. So the only public data on the number of poor children subject to the clawback are produced by one federal government body yet are disputed by HRDC officials who have published none of their own, having informed me they’ve done no calculations of their own. But HRDC has sufficient data to make the UN statement, which only confuses the legitimate policy debate.

HRDC’s second policy assertion is that support for welfare children will not decline with the CTB. We are told that provinces have agreed that children will receive at least as much income support as they did previously. As their social union website puts it: “Under the National Child Benefit, families who remain on social assistance will not see a reduction in their combined income support.” Or, as they put it in a July 1999 statement “Families on social assistance will continue to receive at least the same level of income support from governments as under the previous arrangement.”

There are a number of problems with these assertions. Along with the federal income tax system, the CTB has been subject to only partial indexation since 1985. For the income tax sys-

tem, the result has been the well-publicized “bracket creep.” For the CTB, it has been declining purchasing power. This has been true for all recipients of the CTB, but the working poor, at least, have enjoyed real increases in support which have more than offset the erosion due to inflation; not so welfare families. Until February of this year, the last budget that increased CTB supports for welfare families was 1985 (with the increases phased in between 1986 and 1989).

Support payments per child on welfare peaked in 1989 at \$1,241 (in 2000\$). By 2000 it had dropped to \$1,020—a decline of more than \$200 per child or about 20 per cent. To argue that no welfare child is worse off requires wilful blindness to the amounts eroded away by inflation.

As noted, full indexation of the CTB was restored in the 2000 federal budget, which also provided a small increase in the actual support to children on welfare (about \$4 per month after inflation). But that still doesn’t end problems with the assertion that welfare children are “no worse off.” Recent announcements of cuts to social assistance in Ontario and Nova Scotia would appear to violate the federal-provincial agreement that no child would be “worse off.” Ontario’s welfare reductions are in STEP (Supports to Employment Program). The program cuts involved will reduce incentives for welfare recipients who find employment. Amazingly, Ontario is rebuilding the welfare wall that the CTB was designed to knock down! Nova Scotia has also announced reductions in welfare rates that would seem to violate the agreement that no children on social assistance see a reduction in income support.

That the Child Tax Benefit is being marketed as an anti-poverty program may explain why many people assume it benefits poor children. In a recent paper for the Caledon Institute, Tom Kent decried the use of marketing by political parties. “Nationally, the parties have become little more than advertising machines, competing for public support by much the same techniques of imagery as businesses with almost identical products use to compete for market share of detergents or banking services or whatever.”

Mr. Kent’s comments predate the recent deluge of political advertising masquerading as policy information, and the ludicrous display of the federal and Ontario governments using taxpayers dollars to pitch their competing versions of the federal share of health spending. (Because

the CHST covers health, post-secondary education and social assistance, this number is in fact unknowable.) Mr. Kent's critique applies equally to many government documents, including the ones referred to here. We should also be concerned that a traditionally apolitical civil service is regularly preparing documents that use data selectively to help market whoever happens to be the governing political policy.

A related issue concerns the openness reflected in the *Access to Information Act*. The response to my *Access* request was that no data on the poverty impact of the CTB existed. Yet HRDC officials publicly disputed data from the Council of Welfare, while offering none of their own. Government is often the only source of much data pertinent to policy analysis and debate. In my experience, government practices fall far short of anything that could be called openness. The only data HRDC has made available places the program in a positive light and the Ministry reportedly "disputes" the only data that exist on those poor families neglected by the program.

The need to inform and the urge to persuade arise in two other fields: commercial advertising and accounting. In advertising, industry standards have evolved to ban misleading statements. The goal is not only accuracy but fair-

ness—perhaps honesty is a better word. The current situation is far from perfect. Firms continue to make court appearances over misrepresentations. But honesty is at least the declared goal of industry self-regulation.

The accounting profession has also developed a set of accepted standards that facilitate the presentation of companies' financial data, thus making cross-company comparisons possible. While not perfect, financial statements are light-years ahead of statements made in public policy debates where groups pick and choose data, assumptions and indicators more to persuade than inform. This is true not only of governments but think-tanks and advocacy groups as well. It is time we established standards for the publication of impact analyses. If we take seriously the idea of a democracy based on informed policy debate, then we should require that data released by government attain a much higher standard than now exists.

During the fall of 2000 Richard Shillington is the policy research fellow at St. Christopher House and Massey College in Toronto. His recent publications include "Adding social condition to the Canadian Human Rights Act: Some issues," published by the Canadian Human Rights Act Review Panel, and "The dark side of targeting: Retirement saving for low-income Canadians," published by the C. D. Howe Institute.

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