**Think like a Canadian economist**

**Episode 5: Child Benefits**

**VIDEO SCRIPT:**

*Why should government do anything to help families with kids?*

Economists usually answer this in one of two ways:

First, by investing in kids, especially when they’re little, we get better grown-ups later on. Those grown-ups might be more likely to work hard, pay taxes and less likely to generate (preventable) costs in law enforcement~~,~~ and health care. There’s some research to back this up – especially when you look at long-term effects on child poverty and even children’s abilities: investments now can turn into bigreturns later on.

Second, we consider equity, or ‘fairness’. Feminist economists have pointed out that all that work to make and raise kids doesn’t usually get paid but is really important if we want growth in our economy and wellbeing, and we should recognize that. Other economists simply recognize kids cost lots of money and think we should take that into account when we figure out how much tax you should pay or what benefits you should get’. We use words like ‘horizontal equity’ and ‘ability to pay’ and point out that a single person making $50,000 can probably afford higher taxes (at a given standard of living) than a single parent making the same $50,000 and supporting 2 kids.

Neither of these arguments really tell us much about what a government should do and there are lots of options.

The investment rationale tells us that we want spending to actually make a difference in the outcomes for kids. This is about ‘effectiveness’. To get the return, we want the money to go into good investments not bad ones. And the equity argument tells us that we need to think about ability to pay so that families who need more get more. Finally, we really don’t want to waste any of our resources so we care about efficiency.

We’ll keep it simple and talk about tax credits, cash transfers, and public funding for services

If government has a limited budget, which one is best?

Right now, for federal income taxes, there’s the Childcare Expenses Deduction, that lets a parent deduct up to $8,000 against their taxable income. But parents have to pay the fees first and have to keep receipts. The rationale is that you should be able to subtract certain expenses associated with working before working out your taxes.

All deductions tend to be worth more for higher income earners. A parent in the top income bracket using the full deduction would see their federal taxes fall by $2,320 plus additional savings in provincial taxes. A parent in the bottom tax bracket, even if they used the full deduction, would only save $1,200 on their federal taxes.

In practice, people with higher incomes tend to spend more on daycare so they’re more likely get the full value of this deduction. About 1 in 4 families with kids claim this deduction each year, taking about $1 billion out of federal tax revenues annually.

There are also lots of non-refundable credits related to families with kids. There had been a Canada Child Tax Credit of $2,200 for each child, which could be justified as a way to recognize the costs of supporting a child. It was cancelled for the 2015 year onwards. Income splitting for qualifying couples with children was introduced as a tax credit for 2014, but there’s 85 steps to that, which requires another video.

Other non-refundable credits for kids only kick-in if parents do something first. There are credits for children’s art lessons, bus passes, and organized sports. Higher income taxpayers are much more likely to make use of these credits. However, parents aren’t more likely to sign their kids up for organized sports because of the credit. Without behavioral responses, one concern is that these credits reward people for doing things they would have already done. There can be political and even policy reasons for doing exactly that, but economists ask whether this is a very efficient use of public funds.

Cash transfers generally come in one of two flavors: flat or universal benefits and income-tested benefits.

Right now we have one universal child benefit – the Universal Child Care Benefit. Created in 2006, it pays the same amount per child, no matter what other income a family has. In 2015, it pays $160 per month for each child age 0-5 and $60 for each child age 6-17.

The money is taxable. The taxes are based on the parent with the lower income, so a family with one parent at home or working very little might not lose anything to taxes, even if their total family income is the same as another with two equal-earning parents.

Because the benefit is taxable, there can be some cases where this extra income leads to lower benefits elsewhere. Provinces and cities often use tax returns to figure out eligibility for things like housing and daycare subsidies. If the UCCB isn’t deducted from that calculation (sometimes it is, sometimes it isn’t), then the net value of the benefit should take into account those effects.

We also have one national income-tested child benefit. The Canada Child Tax Benefit pays a monthly benefit that goes up with the number of children and down with family income. For the sake of illustration, a single parent with two kids and $50,000 in income would get about $250 per month.

The CCTB isn’t taxable and is excluded from those housing and daycare subsidies so what you see is more likely to be what you get. There’s also a targeted portion of the benefit for the lowest-income families

On the one hand, flat, universal benefits are easy to administer. Some argue that universal benefits avoid the problem of stigmatizing poor people since everyone gets the same thing. Some also argue that universal benefits are more durable and less vulnerable to being cut since, again, everyone gets the same thing.

But, on the other hand, universal benefits, all else being equal, cost more and are less efficient because you have to cover the cost paying of benefits to well-off families and paying benefits that might be higher than needed to families that are already comfortable.

So targeted benefits, based on family income usually look more efficient and effective to economists because you can get more money to the families where you think it might make the most difference.

One criticism of cash transfers is that they can’t directly increase the supply of services for families.

Suppose our goal is to ensure access to affordable quality child care – if cash transfers are used for other things a family needs, then there’s no incentive for local daycare providers to offer more spaces, reduce their fees, or improve their programs. So another option is to put the cash into a program where only daycare providers can use it to create spaces or, lower the costs or boost the quality of existing spaces.

Then economists get interested in questions like:

-How many new spaces actually get created that otherwise wouldn’t have?

-Do those spaces go to places where kids needed them, or do they end up in places where providers are better equipped to take on more kids?

-What other policies might intervene to change the outcomes in the number or quality of spaces?

- Do parents work a little more and pay more income taxes as a result or do these things stay about the same?

- Are there knock-on costs to provincial or local governments and how does that impact them?

- Who wins the most? If a family making $150,000 was prepared to spend $8,000 a year for daycare, won’t they get a big windfall if they only have to pay $3,500 a year because the price has been subsidized by public money?

The big challenge is putting the money into the services that families will actually use so their kids can benefit from them. It’s hard to make too many rules about that at a national level.

Each of the parties is promising something a little different –the current system, more targeted benefits, or more services or some combination of benefits and services. All of the parties have promises that have some merit, and will have some benefit to some children in Canada. But each promise comes with tradeoffs.

Hopefully you are now better equipped to weigh your options.

To learn more, follow us on twitter at tlcecon and visit our website, or IRPP, for more videos.

**Suggested references and reading:**

Jennifer Robson. “Hey Federal Parties, which ‘middle-class families’ are you talking about?” IRPP Policy Options Blog, May 19, 2015. <http://policyoptions.irpp.org/2015/05/19/hey-federal-parties-which-middle-class-families-are-you-talking-about/>

Lauren Jones, Kevin Milligan, and Mark Stabile. Child Cash Benefits and Family Expenditures: Evidence from the National Child Benefit. NBER Working Paper No. 21101, April 2015. <http://www.nber.org/papers/w21101>