

levels for one year, under legislation passed in December 1975. In 1977, Family Allowance payments were again indexed to CPI changes. In 1979, however, there was a reduction of the monthly Family Allowance when the Child Tax Credit was introduced. The indexation rate of the Family Allowance in 1983 and 1984 was limited to 6% and 5% in accordance with the federal policy on fiscal restraint, and as of 1 January 1986 the Family Allowance was partially deindexed.

The 1987 value of the FA is \$31.93 a month per child under 18, but provinces may vary the amount that the federal government pays to their residents according to the age and/or number of children in a family. For example, Alberta varies the rate according to the age of the child and Quebec varies the rate according to both the age of the child and the number of children in the family. Federal family allowances must be reported as income for federal income tax purposes by the person who claims tax exemption for the child (usually the father). The Family Allowance program is administered by the Department of National Health and Welfare.

In 1982 FA cost the federal government \$1,700 million; it is expected to cost \$1,800 million in 1988, an increase of only 1% per year on average. Although the nominal level of benefits has increased at a faster rate than 1% since 1982, the number of children receiving the benefit is expected to fall from 6.7 million in 1982 to 6.4 million in 1988 because of declining birth rates.⁽⁹⁾ In addition, real income growth and higher taxes are also reducing the net cost to the federal government.

Since the Family Allowance is treated as taxable income, this program is redistributive in nature, delivering greater net benefits per child to poorer families. This effect is relatively mild, however, and the program continues to be broadly based. Its main feature is to grant a financial benefit only to those families with children. It thus imparts a measure of horizontal equity into the fiscal system. The Family Allowance has also come to be regarded as a symbolic gesture towards assisting all families, regardless of their financial situation, with childraising expenses.

The ratio of children per family varies widely by income group (see Table 2:1). It is true, however, that those in the lowest income class receive more of the net benefits because less is taxed back from them and because the poor tend to have more children.

To put the estimates presented here in perspective, the National Council of Welfare projected that the net cost of the FA to the federal government in 1985 was \$1,990 million,⁽¹⁰⁾ 8.9% higher than our own estimate of \$1,822.3 million.

(9) This projection is based on unpublished data from Health and Welfare Canada.

(10) National Council of Welfare, *Opportunity for Reform*, Ottawa, 1985, p. 58.