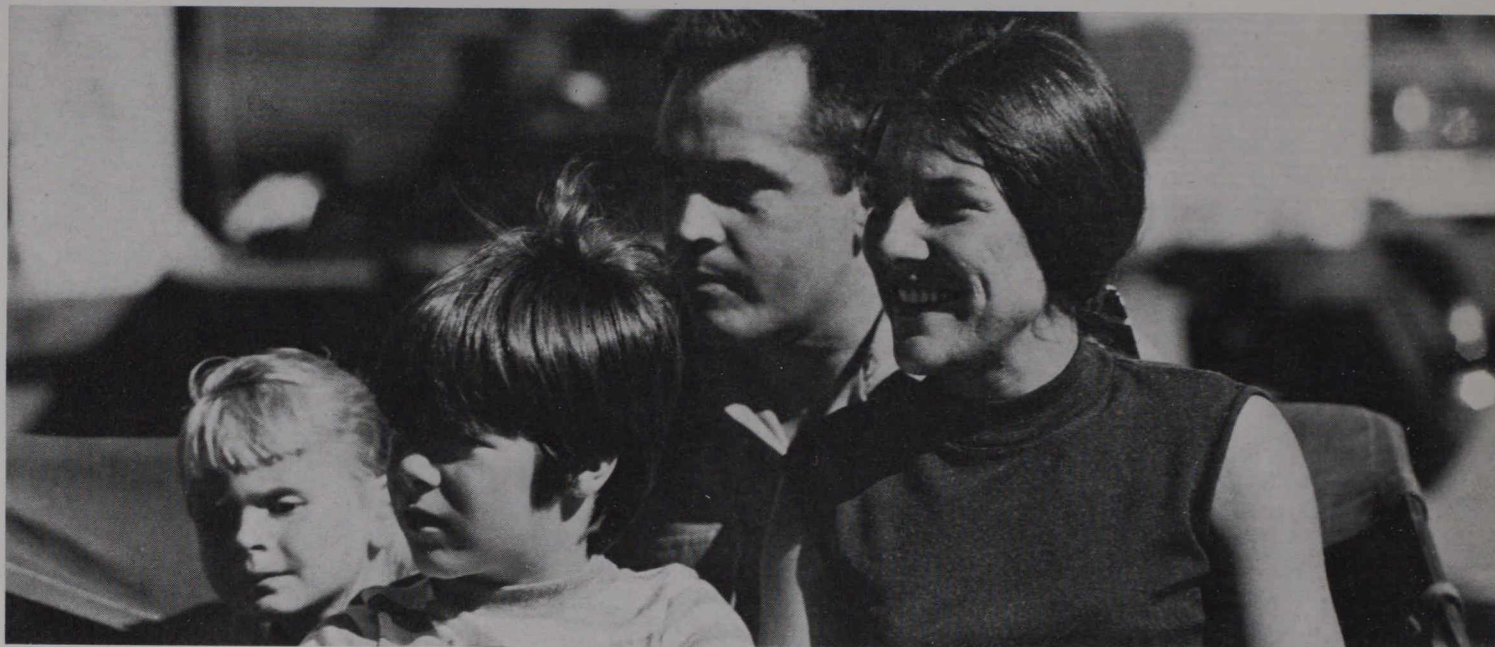


Social Welfare

Family allowance is also an economic instrument

by Jenny Pearson



Family allowances, when they arrive in the home, have something of the aspect of Christmas presents from a super-reliable godparent, an extra which you are very soon counting on to fill an established gap in the household economy. You don't often pause to consider what would happen if the gift ceased to arrive: nor, on the other hand, do you spend a lot of time wondering about the motives of the giver.

Yet these motives are more complex and oblique than at first they may seem. What looks like a simple giveaway to help out with the expenses of the family is, in the wider context, also a tool for manipulating the social and economic development of a country. This has been true of family allowances in Canada since they were first introduced in 1945 and it is true of a dramatically different programme which came into effect on January 1 of this year.

Under the new programme, government expenditure on family allowances is three times what it was this time last year, providing for an average of \$20 a month to be paid out on each child under the age of 18, regardless of parental income. In British terms, this amounts to roughly £2.30p a week as compared with our scale of no allowance for a first child, 90p for the second and £1 for each child after that.

The increased cost of this is to some extent counteracted by the fact that Canada's family allowances are for the first time being made taxable (as they have always been in Britain) so that better-off families may receive the full statutory allowance

with one hand, but they are then required to hand back some or all of it with the other.

Thus the Canadian government have cast themselves in the role of a rather benevolent Robin Hood – not exactly robbing the rich, but in the final analysis giving them rather less in order to give rather more to the poor. Observers in Canada have commented that the new measures are the beginning of a 'guaranteed family income'.

The thinking behind Canada's family allowances legislation has always extended beyond a simple desire to raise living standards, though that is of course its most important single effect. When they were first introduced in 1945 there was a strong economic motive behind them.

Politicians were anxious at that time about the possibility of an economic depression following the war. It was argued that family allowances would help to ward off a depression because money put into the pockets of the poor and needy is bound to be spent. How this can help to stabilize the economy was explained in a recent review of Canada's family allowances programmes by Joseph W. Willard, the deputy Minister of National Welfare.

He wrote: 'Payments under the family allowances programme involve a transfer of income from those with higher incomes who have lower marginal propensities to consume to families with a relatively high propensity to consume. Thus the net effect is to increase the propensity to consume. . . .

Family allowances, which have recently been increased in Canada, serve not only to support the economies of families like the one shown here. They also serve as an instrument of stabilization for purchasing power in the Canadian economy, so experience indicates.

'The allowances not only increase the purchasing power of those who need the money but put this additional buying power in the hands of those who are most certain to use it immediately. Those in the lower income groups who are not orientated to saving or have a high marginal propensity to consume will tend to spend the allowances promptly and wholly.

'It should be noted, too, that in contrast with public works, these transfer payments tend to increase aggregate demand without intruding on the province of private enterprise. Moreover, they provide a large sector of private enterprise with a greater measure of stability in the market for their products. The fact that the payments are continuous and nonseasonal also provides some stability in the flow of this type of purchasing power. Further, the allowances are channeled to recipients over the full range of occupations from one end of the country to the other.

'All these factors argued strongly for the introduction of family allowances on economic grounds.'

Another useful economic side-effect of the family allowances programme, according to Mr. Willard, has been a redistribution of income – not only in favour of families with children, but in favour of certain regions in the country. Statistics