



# **CHILDREN IN POVERTY: TOWARD A BETTER FUTURE**

**Standing Senate  
Committee on  
Social Affairs,  
Science and Technology**

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**Chairman  
The Honourable Lorna Marsden  
Deputy Chairman  
The Honourable Brenda Robertson**

**Second Session  
Thirty-fourth Parliament**

**January 1991**



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11  
11  
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11

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# MEMBERSHIP

The Honourable Senator Lorna Marsden, *Chair*

The Honourable Senator Brenda Robertson, *Deputy Chair*

and

The Honourable Senators:

Jack Austin, P.C.  
Peter Bosa  
Paul David  
Philippe Gigantès  
Jacques Hébert  
Michael Kirby  
Thérèse Lavoie-Roux  
\*Allan MacEachen, P.C.  
(or Royce Frith)

Lorna Marsden  
Jack Marshall  
\*Lowell Murray, P.C.  
(or William Doody)  
Brenda Robertson  
Noel A. Kinsella  
Norbert Thériault

\**Ex Officio Members*

Note: The Honourable Senators Beaudoin, Bonnell, Cochrane, Doyle, Haidasz, Rossiter, Spivak and Tremblay also participated in the proceedings of the Committee.

January 1991

## ORDERS OF REFERENCE

### **Extract from the Minutes of Proceedings of the Senate, Wednesday, June 21, 1989:**

The Honourable Senator Marsden moved, seconded by the Honourable Senator Turner:

That the Standing Senate Committee on Social Affairs, Science and Technology be authorized to examine and report upon the relationship between childhood poverty and certain significant and costly social problems that manifest themselves in adult life and on measures that might better alleviate such problems; and

That the Committee present its report no later than December 31, 1989.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

### **Extract from the Minutes of Proceedings of the Senate, December 20, 1989:**

Pursuant to the Order of the Day, the Senate proceeded to the consideration of the Tenth Report of the Standing Senate Committee on Social Affairs, Science and Technology (extension of date of final report re study on child poverty), presented in the Senate on 19th December, 1989.

After debate,

The Honourable Senator Marsden moved, seconded by the Honourable Senator Watt, that the Report be adopted.

The question being put on the motion, it was—

Resolved in the affirmative.

### **Extract from the Minutes of Proceedings of the Senate, June 27, 1990:**

The Honourable Senator Marsden moved, seconded by the Honourable Senator Leblanc (*Sauvel*):

That the Order of Reference of the Standing Senate Committee on Social Affairs, Science and Technology dated December 20, 1989, respecting child poverty, be amended by deleting the words "June 29, 1990" and substituting therefor the words "October 31, 1990".

The question being put on the motion, it was—

Resolved in the affirmative.

**Extract from the Minutes of Proceedings of the Senate, January 29, 1991:**

The Honourable Senator Robertson moved, seconded by the Honourable Senator Comeau,

With leave of the Senate and notwithstanding Rule 45(1)(a),

That notwithstanding the Order of Reference of December 20, 1989 and the Order of Reference of June 27, 1990, the Standing Senate Committee on Social Affairs, Science and Technology which was authorized to continue its examination of child poverty in Canada, be empowered to present its report no later than Thursday, March 28, 1991.

The question being put on the motion, it was—  
Resolved in the affirmative.

Gordon Barnhart  
*Clerk of the Senate*

# REPORT OF THE COMMITTEE

THURSDAY, January 31, 1991

The Standing Committee on Social Affairs, Science and Technology has the honour to table its

## TWENTY-THIRD REPORT

Your Committee, which was authorized to study and report on childhood poverty and certain significant and costly social problems that manifest themselves in adult life and on measures that might better alleviate such problems, has, in obedience to its Order of Reference of Wednesday, June 21, 1989, proceeded to that inquiry and now presents its final report entitled: "Children in Poverty: Toward a Better Future".

Respectfully submitted,

LORNA MARSDEN

*Chairman*





# TABLE OF CONTENTS

## CHAPTER ONE: ACKNOWLEDGEMENTS ..... 1

The Committee acknowledges with thanks the research work for this report by Ms. Sandra Harder and Dr. Joan Vance of the Library of Parliament, and Mr. Ken Battle, Dr. Richard Shillington and Dr. David P. Ross from outside Parliament. In addition, we thank our own researcher, Ms. Patricia MacDonald of the Parliamentary Centre and our Clerk, Mr. Serge Pelletier. .... 6

## CHAPTER THREE: CHILD POVERTY: THE CANADIAN PICTURE ..... 7

- A. Aboriginal Child Poverty ..... 9
- B. Can the Problem of Child Poverty be Solved? ..... 11

## CHAPTER FOUR: INCOME AND SUPPORT: A TWO-TIERED APPROACH ..... 13

## CHAPTER FIVE: INCOME ..... 15

- A. Employment ..... 15
  - 1. Seeking Higher Levels of Employment ..... 15
  - 2. Canada's Labour Market: Working to Remain Poor ..... 16
  - 3. Addressing Special Needs ..... 17
    - a. Women ..... 17
    - b. Aboriginal Peoples ..... 17
    - c. Employment Equity ..... 19
- B. Current Government Transfers (Income Support) ..... 21
  - 1. Family Allowance ..... 22
  - 2. Refundable Child Tax Credit ..... 23
  - 3. Canada Assistance Plan (CAP) ..... 24
- C. Income Support Options: Assessing the Impact of Recent Changes ..... 26
  - 1. One-Earner Families ..... 24
  - 2. Two-Income Families ..... 25
  - 3. Single-Parent Families ..... 28
- D. Providing Income Alternatives ..... 28
  - 1. A Targeted Approach ..... 28
  - 2. A Mixed Approach - Targeted with a Universal Component ..... 29
  - 3. "Universal" Options ..... 34



# TABLE OF CONTENTS

Page

<b>CHAPTER ONE: TERMS OF REFERENCE</b> .....	1
<b>CHAPTER TWO: A DISTURBING REALITY: ONE IN SIX CANADIAN CHILDREN LIVE IN POVERTY</b> .....	3
A. Measuring Child Poverty in Canada .....	3
B. International Comparisons.....	5
C. Poverty, Poor Education and Low Wage Jobs.....	6
<b>CHAPTER THREE: CHILD POVERTY: THE CANADIAN PICTURE</b> .....	7
A. Aboriginal Child Poverty .....	9
B. Can the Problem of Child Poverty Be Solved?.....	11
<b>CHAPTER FOUR: INCOME AND SERVICES: A TWO-TIERED APPROACH</b> .....	13
<b>CHAPTER FIVE: INCOME</b> .....	15
A. Employment.....	15
1. Seeking Higher Levels of Employment.....	15
2. Canada's Labour Market: Working to Remain Poor.....	16
3. Addressing Special Needs .....	17
a. Women.....	17
b. Aboriginal Peoples.....	18
c. Employment Equity .....	19
B. Current Government Transfers (Income Support).....	21
1. Family Allowance .....	22
2. Refundable Child Tax Credit.....	23
3. Canada Assistance Plan (CAP) .....	24
C. Income Support Options: Assessing the Impact of Recent Changes .....	26
1. One-Earner Families .....	26
2. Two-Income Families.....	27
3. Single-Parent Families .....	28
D. Providing Income Alternatives .....	28
1. A Targeted Approach.....	28
2. A Mixed Approach — Targeted with a Universal Component...	28
3. Assessing the Options.....	29

# TABLE OF CONTENTS

	<i>Page</i>
<b>CHAPTER SIX: SERVICE OPTIONS</b> .....	33
A. Health and Nutrition.....	34
B. Education .....	36
C. Conduct Disorders and Juvenile Delinquency .....	38
D. Housing.....	39
<b>CHAPTER SEVEN: CONCLUSIONS</b> .....	43
<b>LIST OF RECOMMENDATIONS</b> .....	44
<b>LIST OF WITNESSES</b> .....	46
<b>LIST OF BRIEFS</b> .....	50
<b>APPENDIX I: CHILD POVERTY AND POOR EDUCATIONAL ATTAINMENT: THE ECONOMIC COSTS AND IMPLICATIONS FOR SOCIETY</b> .....	51
<b>APPENDIX II: CHILD BENEFITS REFORM</b> .....	87

# CHILDREN IN POVERTY: TOWARD A BETTER FUTURE

## CHAPTER ONE: TERMS OF REFERENCE

The Standing Senate Committee on Social Affairs, Science and Technology has a long record of research into the problems facing Canadian children. In 1980, under the Chair of Senator Lorne Bonnell, the Committee published its report *Child at Risk*, which considered the relationship between early childhood experiences and criminal behaviour. Under the Chair of Senator Arthur Tremblay, the Committee published three reports: *Analysis of Child and Family Benefits in Canada: A Working Document* in 1985, *Child Benefits: Proposal for a Guaranteed Family Supplement* in 1987, and *Child Care* in 1988.

In a speech to the Senate on 17 May, 1988, Senator Robertson drew attention to the devastating human and economic costs of child poverty. She expressed her commitment to undertake a study which would move well beyond a mere enumeration of the negative outcomes of child poverty to real solutions. Realizing the magnitude of this undertaking, she stated:

... all governments in (Canadian) society have always been interested in the elimination of poverty. The tools that we have to deal with the problems have been inadequate. Without the proper research, without the proper information, our efforts will continue to be a catch-up effort that most often addresses the symptoms of poverty, and not the root causes.<sup>(1)</sup>

On 7 June 1988, the Standing Senate Committee on Social Affairs, Science and Technology appointed a subcommittee, chaired by Senator Brenda Robertson to examine and report on the relationship between childhood poverty and certain significant and costly adult social problems, and on measures which might alleviate such problems. On 21 June 1989, the Committee obtained authorization from the Senate to continue the study of child poverty.

An *Interim Report*, entitled *Child Poverty and Adult Social Problems* (hereafter referred to as the *Interim Report*), was tabled on 19 December 1989. This report acknowledges child poverty as a very serious social problem commanding our immediate attention. The Committee continued the study in 1990 by:

- 1) further assessing the social and economic costs of child poverty; and
- 2) recommending solutions to the problem of child poverty in Canada.

This report recommends further changes to the delivery of child and family benefits and expands upon our earlier report on child benefits by advocating a two-tiered approach; one which recognizes that successfully addressing child poverty in Canada will require both income support and service provision.

<sup>(1)</sup> Debates of the Senate, 17 May 1988, p. 3408.



## CHAPTER TWO: A DISTURBING REALITY: ONE IN SIX CANADIAN CHILDREN LIVE IN POVERTY

We are constantly bombarded through media reports with the visual proof of devastating child poverty and starvation in India, Africa and South America. Such pictures evoke in us feelings of pain, sorrow and guilt which are often translated into concrete humanitarian responses. But, while Canadians are quite aware of these devastating conditions in other areas of the world, we are less aware of the breadth and depth of child poverty in Canada.<sup>(2)</sup> In part, this lack of awareness may have something to do with the visual images we associate with poverty; distended bellies, hollow faces, sunken eyes and bony frames. To the extent that child poverty presents a different face in Canada, we may be unconvinced of the gravity of the problem in our own country. A 1975 report of the National Council of Welfare describes what it is like to be a poor child in Canada:

“To be born poor is to face a greater likelihood of ill health — in infancy, in childhood and throughout your adult life. To be born poor is to face a lesser likelihood that you will finish high school; lesser still that you will attend university. To be born poor is to face a greater likelihood that you will be judged a delinquent in adolescence and, if so, a greater likelihood that you will be sent to a “correctional institution.” To be born poor is to have the deck stacked against you at birth, to find life an uphill struggle ever after. To be born poor is unfair to kids.”<sup>(3)</sup>

### A. Measuring Child Poverty in Canada

A great deal of imprecision surrounds the definition and the measurement of poverty in Canada and elsewhere. There are a number of measures for poverty including the Statistics Canada Low-Income Cutoffs (LICOs), the Canadian Council on Social Development Income Lines, the Senate Committee Poverty Lines (resulting from the 1971 Report chaired by Senator David Croll and updated annually), various provincial social assistance rates, and the Montreal Diet Dispensary Guidelines. The measure of poverty most frequently used in Canada, however, is the Statistics Canada LICOs. Statistics Canada does not refer to these figures as poverty lines, but indicates that people living below these lines can be said to be living in “straightened circumstances.” Most social policy analysts refer to the LICOs as poverty lines.

The process for calculating the low-income cutoffs entails an estimation of the percentage of gross income<sup>(4)</sup> spent by the average Canadian family on food, clothing and shelter. Statistics Canada then increases this amount by 20% and this figure corresponds to a given income level, which is identified as the low-income cutoff line.

<sup>(2)</sup> For the purposes of this report, a child who lives in a family whose income is at or below the Statistics Canada low-income cutoffs is considered poor. Statistics Canada defines as low-income a family spending more than 58.5% of its income on food, shelter and clothing. The actual figures for low-income cutoffs vary according to the size of the family and the place of residence and are updated each year according to changes in the cost of living as measured by the Consumer Price Index. In 1988, the low-income cutoff was \$23,539 for a family of four in a large urban centre (500,000 and over) and \$17,316 for the same family living in a rural area.

<sup>(3)</sup> *Poor Kids: A Report of the National Council of Welfare on Child Poverty*, Ottawa, March 1975.

<sup>(4)</sup> In calculating gross income, Statistics Canada includes wages and salaries before deductions, net income from self-employment, investment income, government transfers, training allowances, private pensions, scholarships and alimony payments.

The basis for the estimation of the percentage of gross income spent on life's necessities is the *Family Expenditure Survey*, an occasional survey conducted by Statistics Canada. During those years when a survey is not conducted, Statistics Canada updates its low-income cutoffs in relation to changes in the consumer price index.

In establishing the low-income cutoffs, further precision is sought by adjusting the figures in reference to family size and urban or rural location. The urban/rural distinction is further refined by the size of the community; the larger the community, the higher the cutoff lines and vice versa. Using these processes, Statistics Canada has come up with 35 separate low-income cutoffs. However, some problems remain.

The use of the *Family Expenditure Survey*, as the basis for calculating the LICOs, is problematic because it excludes certain populations: those living in the Territories, in institutions, on Indian reserves, and those who are members of the armed forces. Similarly, income data for comparing incomes to the LICOs, in order to estimate the numbers of people living at certain income levels, is based on the *Survey of Consumer Finances* (conducted annually), which excludes the same populations. Consequently, the usual published poverty figures will exclude those poor living in the Territories and on Indian reserves.

Measurement problems occur because LICOs are published using different *Family Expenditure Surveys*, referred to as the 1969, 1978 and 1986 based LICOs. Many social policy analysts use the 1986 base in calculating the number of poor children living in Canada. Statistics Canada and Health and Welfare Canada, however, continue to use the 1978 base. According to the *Fact Book on Poverty*, use of the fully revised 1986 base rather than the 1978 base adds 118,000 families and 121,000 unattached individuals to the low-income rolls. The numbers of poor children will also vary according to the age cut-off employed to define children and whether or not native children living on reserves are included in the total.

Using the 1978 base, in 1988, there were approximately 875,000 children living in poverty (excluding those populations identified above).<sup>(5)</sup> Using the 1986 base, in 1988, there were approximately 913,000 children under the age of 16 years living in Canada, and when children of 16-17 years of age living with their parents are included, along with children living on reserves, it is estimated that the figure would exceed one million, hovering at around 1.1 million.<sup>(6)</sup> For these reasons, when figures are quoted in this report, the LICO base being used to measure the number or the percentages is identified in brackets after each figure.

Despite the technical difficulties in precisely measuring the number of poor children in Canada, it is impossible to deny the fact that a significant number of Canadian children (one in six)<sup>(7)</sup> live in circumstances which place them at a greater social, physical and emotional disadvantage over both the

<sup>(5)</sup> Health and Welfare Canada, *Children of Canada, Children of the World: Canada's National Paper for the World Summit for Children*, Minister of Supply and Services Canada, Ottawa, 1990.

<sup>(6)</sup> David P. Ross and Richard Shillington, *Canadian Fact Book on Poverty*, Canadian Council on Social Development, Ottawa, 1989. See also Standing Senate Committee on Social Affairs, Science and Technology, *Child Poverty and Adult Social Problems*, Interim Report, December 1989, p. 3.

<sup>(7)</sup> Proceedings of the Senate Standing Committee on Social Affairs, Science and Technology (Thereafter Proceedings), 3 April 1990, Issue 20, p. 22.



short term and long term. It is time for Canadians and their governments to rethink and confront this disturbing reality.

## B. International Comparisons

While Canada's child poverty rate has remained relatively constant (at approximately 16%) over the past number of years, among industrialized nations, Canadians have very little of which to be proud when it comes to the measures we have taken for safeguarding the well-being of our children. International comparisons of any kind must be done with some caution. As the authors of the *Fact Book on Poverty* indicate, the scarcity of information and the non-compatibility of data and definitions exercise some constraints on our ability to make such comparisons.

Data taken from the Luxembourg Income Study uses a measure of relative poverty which estimates the number of households in a country that have disposable incomes (after taxes and including transfers) of less than one-half of the country's median disposable household income. This provides a more standardized measure which allows for comparisons among different countries. Using this data, Canadian child poverty rates of approximately 16 per cent have remained lower over the years than those of the United States which has a child poverty rate of approximately 20 per cent. However, when we compare our rates to those of other industrialized nations, particularly the Scandinavian countries, the picture is not as encouraging with Norway and Sweden exhibiting rates of 5.6 and 5.2 respectively.<sup>(8)</sup>

The United States and Australia<sup>(9)</sup> recently released reports on child poverty. These reports draw remarkably similar pictures of the negative impacts of child poverty. In these countries, as well as in Canada, children who live and grow up in poverty have many unmet needs. Research and experience demonstrate a strong connection between the greater frequency of unmet needs and adult social problems such as unemployment, physical and mental illness and disability, illiteracy and criminal behaviour.

## C. Poverty, Poor Education and Low Wage Jobs

All too frequently poor children grow up to be poor adults. At least part of this process is attributable to the rates of school dropout among poor children and adolescents. Using current Statistics Canada information, research undertaken for the committee projects that over the next 20 years, approximately 187,000 students will leave school due to poverty (see Appendix I, *Child Poverty and Poor Educational Attainment: the Economic Costs and Implications for Society*).

These high dropout rates will cost Canadians an estimated \$620 million in Unemployment Insurance costs and an additional \$710 million in social assistance payments. If these high dropout rates were eliminated, research estimates that federal and provincial income taxes would rise by \$7.2 billion

<sup>(8)</sup> Standing Senate Committee on Social Affairs, Science and Technology, *Interim Report*, p. 6; Ross and Shillington (1989), *Fact Book on Poverty*, p. 85.

<sup>(9)</sup> National Center for Children in Poverty, *Five Million Children: A Statistical Profile of Our Poorest Young Citizens*, School of Public Health, Columbia University, New York, 1990; Don Edgar, David Keane and Peter McDonald (eds.), *Child Poverty*, Allen and Unwin, Sydney, Australia, 1989.

and consumption taxes by \$1.15 billion. Finally, research indicates that incomes would be \$23 billion higher if poverty-induced dropouts had gone on to complete an average level of education.

Limited educational attainment leads to a disadvantaged employment future for poor children. Today we know that minimum wage jobs provide only a portion of what one needs to meet even the most rudimentary living conditions. In 1975, a full-time worker earning the minimum wage would make 81 per cent of the poverty line (using the 1969 Base). In 1990, this worker would earn only 42.4 per cent of the poverty line income (using the 1986 Base).<sup>(10)</sup>

As a recent American study suggests, a country whose child poverty problem is even greater than Canada's, it is "within our reach" to break this cycle of poverty.<sup>(11)</sup> This Committee heard from many witnesses about interventions that 1) work, 2) that are not stigmatizing, and 3) that can be delivered on terms over which families can exercise some control. Given our knowledge about interventions and the painfully destructive consequences of child poverty, both to individuals and society, it becomes unconscionable not to take action to deal with this problem. Social and economic commentators frequently warn that Canada cannot continue to compete and prosper in the global arena if approximately one-sixth of our children continue to grow up poor, and under circumstances that seriously jeopardize their chances of becoming happy and productive citizens.

Similarly, as recent developments in crime prevention suggest, if we wish to have safer, healthier communities, we must not ignore the problems faced by children at risk of becoming offenders or we will certainly suffer the consequences. Poor children face this risk more than others. Children are the future of any society. There is no sounder investment in Canada's future than an investment in our children. It is disturbing to this Committee, as it is the many witnesses who appeared before us, that the necessity of solving child poverty must be justified in monetary or "bottom line" terms. Nevertheless, if that is required, the figures speak for themselves — but poor children cannot. This report adds an additional voice to those who already speak on behalf of Canada's poorest and most vulnerable citizens.

<sup>(10)</sup> Canadian Council on Social Development, Brief of the Committee, 2 March 1990, p. 8.

<sup>(11)</sup> Schorr, L. *Within our Reach: Breaking the Cycle of Disadvantage*, Doubleday, Toronto, 1988.

### CHAPTER THREE: CHILD POVERTY: THE CANADIAN PICTURE

We have already seen that presenting a picture of Canadian child poverty is neither an easy nor a pleasant task. An accurate reflection of child poverty in Canada is complicated by regional differences and variations and it is also complicated by the particular conditions facing Canadian aboriginal children. With these facts in mind, the following section will underscore the conditions facing Canada's poor children. A separate section has been devoted to examining the circumstances of Canada's poor aboriginal children.

The conditions associated with child poverty are well documented and for one out of every six children in Canada, such conditions are their reality. Child poverty declined during the 1970s but increased again during the recession of the early 1980s peaking, in 1984, at 1,154,000 or 20.1 per cent of all children (using the 1978 Base). Fortunately, child poverty is again on the decline (913,000 or 16.1 per cent poor children in 1988 using the 1986 Base or 875,000 or 15.4 per cent using the 1978 Base). However, the rate and the numbers are still higher than they were prior to the recession in 1980 (14.8 per cent using the 1978 Base).<sup>(12)</sup> As indicated, there are marked provincial variations in child poverty rates from a high of 22.6 per cent in Saskatchewan and 20.7 per cent in Newfoundland, to a low of 11.9 per cent in Ontario.<sup>(13)</sup>

Canada's record is least commendable where children in lone-parent families are concerned. The *Fact Book on Poverty* shows that in 1986 the largest number of poor children in Canada still live in two-parent families but poverty rates for children in lone-parent families, particularly those led by women, and two-parent families led by a person under the age of 24, are especially high.<sup>(14)</sup> In 1986, 56.1 per cent (using the 1978 Base) of lone-parent families led by women were poor. Lone-parent mothers with low incomes were much younger and were much less likely to be employed.<sup>(15)</sup>

Twenty-two point eight per cent (using the 1978 Base) of lone-parent families led by men were poor in 1986. In the same year, 30.2 per cent (using the 1978 Base) of families led by someone 24 years of age and under were poor.<sup>(16)</sup> The main differentiating characteristic of this latter type of family is education, according to the *Fact Book on Poverty*. The proportion of heads of these young families with some post-secondary education or better, is much lower than for non-poor families in the same age group.

There has been a decline in recent years in the number of children living in "working poor"<sup>(17)</sup> families from 42.7 per cent in 1979 to 37.4 per cent in 1986 (using the 1978 Base). However, there has

<sup>(12)</sup> Submission to the Committee by National Council of Welfare, p. 2. See also Health and Welfare, 1990, *Children of Canada*, p. 62.

<sup>(13)</sup> Joan Vance, *Poverty in Canada*, Current Issue Review 88-14E, Research Branch.

<sup>(14)</sup> David P. Ross and Richard Shillington, Canadian Council on Social Development, Ottawa, 1989, p. 47-49 (hereafter referred to as the *Fact Book on Poverty*). National Council of Welfare, *Women and Poverty Revisited*, Minister of Supply and Services Canada, Summer 1990.

<sup>(15)</sup> Ross and Shillington (1989), *Fact Book on Poverty*, p. 44.

<sup>(16)</sup> *Ibid.*, p. 44.

<sup>(17)</sup> The working poor are those households which have at least 49 weeks of either full-time or part-time work during the year and whose ages are under 65 years. In situations where there is one earner in the household, the criterion requires year-round participation in the labour force by that one person. In situations where there are two adult earners, some combination of weeks worked that adds up to 49 weeks would qualify. The definition excludes any income generated by any dependent children.

been an increase in those children living in families where adults are not in the labour force, referred to as "other poor" families. In 1979, 57.3 per cent of poor children lived in "other poor" families whereas in 1986 this percentage had increased to 62.6 (using the 1978 Base).

According to the *Fact Book on Poverty*, 86 per cent of children living in these "other poor" families were in lone-parent families led by women. Most "other poor" families are receiving social assistance under the Canada Assistance Plan (CAP). Based on data provided to them by the provinces for the month of March 1989, Health and Welfare Canada estimates that approximately 680,000 children live in families receiving social assistance ('welfare'). An Ontario study of children suggests that children in families receiving social assistance under CAP are at significantly higher risk to conditions detrimental to their development and well-being than the children of the working poor.<sup>(18)</sup>

In what kinds of material conditions do poor children live? Undoubtedly, there are marked differences among poor families in Canada, but the conditions of child poverty are striking in their similarities. Poor children are more likely to live in inadequate housing or experience what is often referred to as "core housing need". Canada Mortgage and Housing Corporation reports that, of the approximately three million Canadian households with children under sixteen years of age, about 11 per cent live in such conditions.<sup>(19)</sup>

What does "core housing need" mean in concrete terms? These are the households where the proportion of household income required to pay for shelter is considered too high. The Committee was told repeatedly of situations where households were paying up to 50 per cent, or even as high as 70 per cent of their income for housing. This situation is a particular problem in large urban locations such as Toronto, Vancouver, Edmonton and Calgary. If the family is lucky enough to pay only 30 to 35 per cent of their income on housing costs, the accommodations may be inadequate. Inadequacy may translate into any number of problems including, sub-standard heating, not enough hot water, improper ventilation and unsafe living conditions including a lack of space for children to play.

Core housing need may also mean that the family is living in concentrated blocks of subsidized housing with their attendant problems of high crime rates and vandalism. Such housing conditions contribute to an environment which puts poor children at higher risk to health, developmental and other problems.

How and what do poor children eat? The Canadian Association of Food Banks, in their March 1989 survey entitled "Hunger Count", estimates that children are twice as likely to need food assistance as adults. Children under the age of 18 accounted for 40 per cent of the 378,000 people who used their food services monthly. (151,000 children).<sup>(20)</sup> These figures suggest that many poor children are inadequately fed and that some of them go hungry as they are forced to skip meals or survive on "fillers" such as rice, pasta and bread.

<sup>(18)</sup> Dr. Dan Offord *et al.*, *The Ontario Child Health Study* conducted by McMaster University and Chedoke McMaster Hospital in cooperation with Statistics Canada, Hamilton, Ontario, 1985.

<sup>(19)</sup> Canadian Mortgage and Housing Corporation, Research Division, "An Assessment of the Number of Children Living in Housing in Core Housing Need 1988," March 1989.

<sup>(20)</sup> Hungerwatch Program, Canadian Association of Food Banks, Canadian Hunger Count 1989, Toronto, November 1989. The HungerCount study was based on special surveys carried out by food bank organizations in 65 Canadian cities and towns covering 907 emergency grocery and meal programs. The surveys provided a direct count of people being assisted with food in areas representing over half the population of the country.

Multiple risk factors, which occur more frequently among poor children, especially among children in families that are persistently poor and live in areas of concentrated poverty, are frequently the precursors of adult social problems. Studies document<sup>(21)</sup> the higher risk of low birth weight, poor nutrition, developmental disabilities, poor school performance, juvenile delinquency and child abuse among poor children. Research also demonstrates that the relatively higher exposure of poor children to multiple risk factors such as these, helps to account for the link between child poverty and adult social problems such as unemployment, physical and mental illness and disability, illiteracy and criminal behaviour.

The Committee was also reminded that poor children are the sons and daughters of poor adults and that therefore child poverty cannot be viewed in isolation. In part, such poverty is a result of the fact that families with children in Canada are facing declining economic conditions. Witnesses told the Committee that, contrary to common belief, the majority of poor children live with both parents and their parents are among the working poor, the unemployed, the underemployed, the sick and the disabled. They said that many Canadian families who live in poverty do so simply because of the presence of their children. Tax increases and cuts in social benefits in recent years as well as the lack of accessible and affordable child care alternatives, low educational attainment, lack of access to job training and re-training, and excessive housing costs, severely tax the capacities of many families.

Many witnesses spoke of growing numbers of low and middle-income families who are finding it increasingly difficult to "make ends meet". Authors of the *Fact Book on Poverty* similarly identify the "near poor" whose incomes are only 10 to 20 per cent above the Statistics Canada LICOs and whose standard of living is not much different from that of the poor. Research and testimony from various witnesses suggest that many of those hovering above the poverty line have been able to stay in the mainstream only because of two earners. For lone-parent families without a second income earner, this means of keeping poverty at bay is not available.

#### A. Aboriginal Child Poverty

No discussion of child poverty in Canada is complete without a discussion of the circumstances facing Canada's aboriginal children. As this report indicates, contemporary estimates of child poverty are not truly representative of the extent of child poverty in Canada because they do not include figures on child poverty among the aboriginal population. Since Confederation, Canada's record with respect to aboriginal people in general, and aboriginal children in particular, has been poor. This fact is borne out in research sponsored by the Laidlaw Foundation which suggests that 51% of all aboriginal children are living in poverty and that the figure is not significantly different between children living on-reserve and off-reserve.<sup>(22)</sup> The higher rates of child poverty among aboriginal children reflect the fact

<sup>(21)</sup> S.K. Escalona, "Babies at Double Hazard: Early Development of Infants at Biological and Social Risk," *Pediatrics*, Vol. 70, No. 5, November 1982; A.W. Myres and D. Kroetsh, "The Influence of Family Income on Food Consumption Patterns and Nutrient Intake in Canada," *The Canadian Journal of Public Health*, Vol. 69, 1978; the Children's Services Branch, Ontario Ministry of Community and Social Services (with the assistance of David P. Ross), *Low Income and Child Development: A Case for Prevention Strategies*, A Background Paper for the Ontario Social Assistance Review, June 1987; David Farrington, *Early Precursors of High Rate Offending*, Paper prepared for the Conference on Delinquency and the Family, Harvard University, 1985; M.A. Strauss and R.J. Gelles, "Societal Change in Family Violence from 1975 to 1985 as Revealed in Two National Surveys," *Journal of Marriage and the Family*, Vol. 48, 1986.

<sup>(22)</sup> E. Richard Shillington, *Estimates of the Extent of Native Child Poverty: Census 1986*, Research undertaken for the Laidlaw Foundation, 6 February 1990.

that, in general, poverty rates for aboriginal peoples are significantly higher than those of Canada's non-aboriginal population.<sup>(23)</sup> According to the 1986 census, approximately 85% of all Indian families have incomes below \$10,000, as reported to the Committee by witnesses from the Assembly of First Nations (AFN).<sup>(24)</sup>

While such rates of poverty are telling, in and of themselves, they do not adequately describe current living conditions. The Committee was provided with facts that go some distance toward illuminating the scope of aboriginal poverty. Disadvantaged conditions begin at birth and follow throughout the life cycle.

At birth, an aboriginal person's life expectancy is eight years less than that of the non-aboriginal Canadian population. For infants, the incidence of death in the first year of life is four times the national average and the rate of infant mortality is twice the national average. As young children grow up, they are more likely to die as the result of an accident between the time they reach one year of age and their nineteenth birthday. Accidental death and injury account for approximately 73 per cent of the deaths of young native people as compared to a national average of 56 per cent. A native child who reaches his or her nineteenth birthday is six times more likely to have lost a friend of his or her own age cohort as a result of suicide than is a non-native youth in Canada.<sup>(25)</sup>

Housing is also a major concern. According to the AFN, approximately 60 per cent of Indian homes lack running water, sewage disposal or indoor plumbing. There is also a much greater likelihood that native children will grow up in housing which is overcrowded. In 1986, the percentage of crowded Indian dwellings on reserves was eleven times that of communities near reserves. Thirty-eight per cent of native dwellings on reserves lack central heating. For Canada as a whole, the figure is approximately five per cent.<sup>(26)</sup>

Aboriginal children are much more likely than other children to come in contact with the child welfare system in Canada. As outlined in *The National Inquiry into First Nations' Child Care* by the AFN, by the 1980s thousands of Indian children had been placed in foster homes and institutions or had been given up for adoption.<sup>(27)</sup> In 1987, the percentage of status Indian children "in care" was four times that of non-Indian Canadian children, 3.2 per cent as compared to 0.8 per cent for the total population.

The AFN *National Inquiry* emphasizes the multiple risk factors associated with aboriginal child poverty which predispose such children to adult social problems. Alcohol and drug abuse, and physical and sexual abuse are common in the environment of many poor aboriginal children and are often associated with poor outcomes in adulthood:

An investigation of the Coldwater Band of British Columbia turned up 497 cases of physical and sexual abuse and 49 cases of incest. We know that victims of such crimes grow to adulthood focusing all their energy on controlling or denying the pain they suffered. The victims of incest, in particular, suffer a crippling loss of self-esteem and are more likely to develop a self-destructive streak. Not all

<sup>(23)</sup> *Ibid.*

<sup>(24)</sup> Proceedings, 6 March 1990, Issue 16, p. 43.

<sup>(25)</sup> *Ibid.*

<sup>(26)</sup> *Ibid.*

<sup>(27)</sup> Assembly of First Nations, *National Inquiry into First Nations Child Care*, Ottawa, Ontario, 1989.

victims of family violence become abusive parents. But many abusive parents suffered abuse as children from parents who were themselves abused in the institutions to which they had been sent. They have absorbed patterns of behaviour that they must unlearn.<sup>(28)</sup>

Compared to Canadian families in general, larger numbers of Indian families are receiving social assistance. In fact, witnesses from the AFN stated that more Indian adults and children (290,000) receive social assistance under CAP than the four Atlantic provinces combined (201,000).<sup>(29)</sup> They told the Committee that social assistance monies they currently receive could be put to more meaningful use if aboriginal peoples were given more flexibility with respect to such funds:

...because we do not want to stay on welfare for the rest of time, it is important for the native people to have the ability to utilize what money they do receive in the form of social assistance for creative opportunities for their people...<sup>(30)</sup>

The Committee agrees that attention needs to be paid to such concerns and urges the federal government to investigate, in collaboration with aboriginal people, the possibility of greater discretion in the use and application of social assistance funds.

The AFN drew the Committee's attention to the fact that there is a great need to direct attention to aboriginal child poverty and its effects on the lives and future of aboriginal children and requested the collaboration of the Committee in this endeavour:<sup>(31)</sup>

solutions to the social problems that exist in our communities can best be addressed by providing adequate resources to our people to provide for themselves and in ways that are appropriate and consistent with their own aspirations and their way of life ... the solution to (aboriginal) poverty is not more and more social assistance or welfare.<sup>(32)</sup>

Rather, the solution lies in creating meaningful alternatives to social welfare as a way of life for aboriginal people. The Committee concurs with this position. While in the short term social welfare is a clear necessity, the goal must be to reduce its place in the lives of aboriginal peoples.

## **B. Can the Problem of Child Poverty Be Solved?**

Assuredly, the answer to this question is yes. However, due to the complex network of interrelated factors contributing to child poverty, no one single or simple solution is available. We know that growing up poor places children at risk to a number of conditions. These include poor nutrition and poor physical and mental health, poor school performance and early school drop-out patterns, juvenile delinquency and a variety of conduct disorders such as withdrawal and aggression. Child development research indicates that both children and society can benefit from a preventive approach. The Canadian Council on Children and Youth says:

If we provide early support to children through primary prevention programs, such as prenatal and postnatal health care, high-quality child care and parenting support and education, we can contribute

<sup>(28)</sup> Assembly of First Nations, 1989, p. 17.

<sup>(29)</sup> Proceedings, 6 March 1990, Issue 16, p. 43.

<sup>(30)</sup> Proceedings, 6 March 1990, Issue 16, p. 49.

<sup>(31)</sup> Proceedings, 6 March 1990, Issue 16, p. 42.

<sup>(32)</sup> Proceedings, 6 March 1990, p. 44-45.

to their optimal development. We may be able to deal with problems before they become serious and expensive.<sup>(33)</sup>

A preventive approach implies both adequate income for families with children and a philosophy of service delivery that will adequately address the diverse nature of their needs. A two-tiered approach combining income support and services is required. This Committee believes that it is possible to "break the back" of child poverty in the short term through the implementation of a revised income support system and appropriate services. Over the longer term, it is important to recognize that eliminating child poverty is a process which requires ongoing management, assessment and readjustment.

<sup>(33)</sup> *Safer Tomorrows Begin Today*, Ottawa, 1989, p. 1.

Assembly of First Nations 1988, p. 13.  
Proceedings 6 March 1990, para. 10, p. 43.  
Proceedings 6 March 1990, para. 10, p. 43.  
Proceedings 6 March 1990, para. 10, p. 43.  
Proceedings 6 March 1990, para. 10, p. 43.



## CHAPTER FOUR: INCOME AND SERVICES: A TWO-TIERED APPROACH

Witnesses have emphasized that poor families have insufficient financial resources to provide for, care, and nurture their children. Therefore, solutions which provide income are a first step in addressing child poverty. It is also clear that income alone is not enough. Dr. Dan Offord, head of the Ontario Child Health Study told the Committee:

It is clear that economic reforms are needed. It is equally clear that poor children need more than that, that there will still be children at the bottom no matter what you do about raising the level of income .... what is needed is a combination of economic reforms and non-economic reforms targeted to the deficits these children have.<sup>(34)</sup>

In addition to programs which provide economic resources to poor families with children, programs providing services are indicated. These programs should have objectives which include affordable, adequate housing and integrated, appropriate child services which are available on a continuous basis throughout the life-cycle of the child, i.e., prenatal care, child care, nutrition, education, recreation and special needs programs.

Both income and service programs must be sensitive programs, that is, they must not stigmatize children and their families and create further problems for them. This is not always the case with existing programs. Critics of the CAP, for example, point out the negative impacts on poor children of receiving 'welfare.'<sup>(35)</sup> Witnesses involved in the Ontario Child Health Study suggest that the stigma and conditions associated with being "on welfare" translate into a higher incidence of childhood and adult social problems for children of families receiving social assistance. Similar negative outcomes, such as juvenile delinquency, among children living in families in subsidized housing, were reported in research cited in our *Interim Report*. Witnesses suggested that programs of family benefits directed to all families with children could avoid this outcome.

To successfully deal with child and family poverty will require both long and short-term strategies. Long-term strategies will require structural changes in Canadian society, the longitudinal effects of which will minimize and prevent poverty. These changes will involve a reallocation of responsibilities and benefits between the advantaged and the less advantaged, a labour force strategy and a consideration of the intergenerational obligations of adults without children for adults with children.

In the short term, there must be strategies to supplement the capacities of families to meet their needs until the impacts of long-term strategies can be felt. This plan requires that both long-term and short-term strategies be initiated swiftly and simultaneously. The strategic elimination of child poverty will occur in stages as programs of both income and services become more preventive than curative.

In addressing the problem of child poverty, we must be prepared to accept that solutions will entail social expenditures and require ongoing management. Income programs are the jurisdiction of the federal government while services are primarily the purview of the provinces and/or municipalities. These realities necessitate that intergovernmental communication and cooperation be given a high priority. There will be costs in the short run. However, evidence cited in this report and calculations

<sup>(34)</sup> Proceedings, 30 March 1990, Issue 18, p. 22-23.

<sup>(35)</sup> Proceedings, 3 April 1990, Issue 20, p. 35-36.

provided in Appendix I, (*o.p. cit.*) and Appendix II, *Child Benefits Reform*, suggest that short-term costs will be offset by the long-term human and economic benefits incurred by lower levels of child poverty.

The ongoing management of child poverty entails a recognition that as the structure of the economy changes over time, poverty rises and falls among different groups within society. Certain groups are particularly vulnerable to poverty, i.e., seniors, particularly elderly women, lone-parent mothers and children. Encouraging progress has been made with respect to poverty among seniors. The poverty rate for families headed by someone 65 years or older declined from 21.9 per cent in 1979 to 9.5 per cent in 1986 (using the 1978 Base).<sup>(36)</sup> The fact that poverty rates remain high among unattached seniors (38.8 per cent in 1988, using the 1978 Base)<sup>(37)</sup> demonstrates that despite improvements in the retirement income system, such as the Guaranteed Income Supplement for low-income seniors, and maturation of the Canada and Quebec Pension Plans, work still remains to be done. Despite the fact that poverty among seniors will require ongoing management, it is fair to say that there have been major accomplishments in reducing poverty among this group. We must now do the same for our children.

## RECOMMENDATIONS

1. **We recommend that the federal government fully support the objective of substantially reducing child poverty in Canada. Toward that objective, we recommend that the federal government show leadership by undertaking co-operative strategies, with other levels of government and the public at large, to address the needs of Canada's children living in poverty.**
2. **We recommend that a national conference, involving all levels of government and the general public, on the subject of shared solutions to the problem of child poverty in Canada be held within the next twelve months.**

While this report addresses the severity of child poverty across the country, it is also important to emphasize the variations in child poverty among groups in society, for example, aboriginal children.

As a Committee, we are heartened by the 1 October 1990 announcement that the Minister of National Health and Welfare will be given the responsibility to bring forward to Cabinet follow-up recommendations on the Declaration and Action Plan signed by Canada at the World Summit for Children held in New York. We are also encouraged that the Department of Health and Welfare will develop new mechanisms to ensure coordination and consistency in areas addressing children's issues. Given these new structures:

3. **We recommend that problems facing aboriginal children be given top priority by the Minister now responsible for children's issues. Toward that end, we recommend that the department allocate significant financial resources to this issue and undertake consultations with relevant aboriginal organizations in order to assess the needs of aboriginal children in Canada, and establish an action plan for meeting these needs.**

<sup>(36)</sup> Ross and Shillington (1989), *Fact Book on Poverty*, p. 44.

<sup>(37)</sup> Health and Welfare Canada, 1990, *Incidence of Low-Income and Numbers for Persons and Family Units*, Unpublished data.

## CHAPTER FIVE: INCOME

The circumstances under which poor children live are characterized by a complex network of risk factors which contribute to undesirable outcomes in adulthood. However, the lack of financial resources dominates in virtually every case. The sources of income available to poor families are, mainly, employment and government transfers (income support). The latter are administered either as income programs, such as the Family Allowance or through the tax system, e.g., the Child Tax Credit.

### A. Employment

Research and testimony indicate that the incidence of child poverty is clearly associated with the employment status of the parents.<sup>(38)</sup> Dr. Robert Glossup, of the Vanier Institute of the Family, pointed out the significant increases in rates of child poverty associated with the recession at the beginning of the 1980s when rates of unemployment were high.

#### 1. Seeking Higher Levels of Employment

As several witnesses who appeared before the Committee indicated, a shift in philosophy regarding both the role and the priorities of the government, particularly with regard to employment, has occurred. A focus on deficit reduction, paring down the national debt and strengthening Canada's competitive position in the global marketplace have been built on a philosophy of limiting government intervention and expenditure in favour of a basic reliance on the marketplace. As summarized by one of the witnesses:

In short, business and government have been attempting to replace the postwar liberal consensus based on the economics of J.M. Keynes with an alternative and conservative view based on individualism, and the private market in which the primary role of government is to ensure the stability of markets, particularly the market for money. The result of this change in conception of the role of government has been the constant erosion of social programs for the past 15 years, with particularly dire consequences for children.<sup>(39)</sup>

While the goal of "full employment" remains elusive, until the late 1970's and early 1980's when unemployment hit its highest levels, Canada's rate of unemployment did not exceed 7 per cent.<sup>(40)</sup> Despite the fact that there have been modest improvements in the rate of unemployment in recent years, Canada's level of unemployment has not compared favourably with other Organization for Economic Co-operation and Development (OECD) countries. Canadian unemployment rates have remained "consistently higher, throughout the 1980's than both the OECD average and the average for the seven major industrialized countries."<sup>(41)</sup>

The Committee was told that the Finance Minister's most recent budget stated that unemployment may need to rise to 8.5 per cent or higher in order to fight inflation.<sup>(42)</sup> Witnesses indicated that given these trends in government policy it seems reasonable to expect that there will be an increase in both

<sup>(38)</sup> Proceedings, 3 April 1990, Issue 20, p. 29.

<sup>(39)</sup> Proceedings, 6 March 1990, Issue 16, p. 24.

<sup>(40)</sup> Proceedings, 6 March 1990, Issue 16, p. 26.

<sup>(41)</sup> Economic Council of Canada, *Legacies*, Twenty-Sixth Annual Review 1989, Minister of Supply and Services, p. 38.

<sup>(42)</sup> Proceedings, 20 March 1990, Issue 18, p. 37.

adult and child poverty in Canada. If poverty is to be avoided, employment policies which allow all Canadians to earn sufficient money for their needs are required.

## 2. *Canada's Labour Market: Working to Remain Poor*

Several witnesses indicated the importance of examining the nature of jobs that have been created in recent years in relation to child poverty. That is, many earners with dependent children are in low-wage jobs. While new jobs have been created, most of the growth has been concentrated in the following categories: managerial, administrative, and related occupations; occupations in medicine and health; and sales and service occupations. These four categories accounted for 97 per cent of the more than half a million new jobs created between 1981 and 1986.<sup>(43)</sup>

Despite growth in job creation, the Economic Council of Canada (ECC) finds that income in 1987 was close to two per cent lower than it had been in 1977. Accompanying this trend, has been an absolute decline in industrial and certain resource sector jobs. Blue collar jobs are decreasing, lending weight to the concern that there is a greater polarization of jobs and wealth in Canada. This trend, identified by the ECC, and specified by several witnesses, is the tendency toward a "shrinking middle" in the Canadian labour market. Recent employment growth has been characterized by a decrease in the percentage of middle income earners (from 27.4 per cent of the work force in 1967 to 21.5 per cent in 1986) and a growth in the percentages of both upper and lower income earners.<sup>(44)</sup>

Service and retail sales sector jobs, which accounted for 74 per cent of the total employment gains between 1977 and 1987, are generally characterized as unskilled, poorly paid, non-unionized, highly vulnerable to economic fluctuations and often seasonal or part-time in nature. It is frequently argued that such jobs do not offer the range of benefits, or the degree of job security necessary to provide basic income security for individuals and families. These facts echo the realization that, for many Canadians, employment does not necessarily guarantee either an escape from poverty or an absence of impoverished living conditions. Statistics such as those presented by the EEC support the fact that wages have not kept pace with expenses.

We have already observed that the most common mechanism that households have used to offset these conditions is the addition of another wage earner, often a woman. However, witnesses from the Canadian Teachers Federation indicate that poor households may also depend on the income of children:

One of my frustrations as a teacher has been to watch my students — and I am just out of a school — rush home because they have babysitting jobs or they are working at McDonald's, and I am talking about Grades VI and VII children. There have been children working in nightclubs until 3 o'clock in the morning, and they do not want anyone to know because that income would be lost to the family.<sup>(45)</sup>

<sup>(43)</sup> Economic Council of Canada, 1989, p. 37.

<sup>(44)</sup> Economic Council of Canada, 1989, p. 37.

<sup>(45)</sup> Proceedings, 20 March 1990, Issue 18, p. 63.

While national statistics provide important clues as to the current changes in Canada's economy, the EEC says that they also mask a number of regional differences in Canada. Based on seasonally adjusted figures for September 1990, Atlantic Canada continues to exhibit unemployment rates in the double-digit range with a low of 11 per cent in Nova Scotia and a high of 16.9 per cent in Newfoundland. New Brunswick and Prince Edward Island have rates of unemployment of 12.3 per cent and 13.5 per cent respectively. Ontario, on the other hand, had an unemployment rate of 6.4 per cent in 1990.<sup>(46)</sup>

Witnesses suggested that it is important to recognize that just as all jobs are not "created equal", so it is important to understand that those working in marginal jobs, those who are unemployed and those who belong to the working poor are not a homogeneous group. In fact, the Committee was told, it is important to differentiate among groups within this population and in so doing, to examine some of the issues which are particularly important for them, especially in the context of employment related solutions. Both women and aboriginal people are among those unemployed or working poor who require specific attention.

### 3. Addressing Special Needs

#### a. Women

As the Canadian Advisory Council on the Status of Women states, women continue to earn salaries which fall far below those of men and they continue to be over-represented in those segments of the labour market that are poorly paid, highly vulnerable to economic fluctuations, non-unionized and characterized by part-time work arrangements. These conditions contribute to significantly higher rates of poverty among women. In 1986 the rate of poverty for adult women was much greater than that of men, with adult women at 16 per cent and adult men at 11.7 per cent.<sup>(47)</sup> Between the early 1970's and the mid 1980's, the proportion of the female population in poverty rose from 45.6 per cent (using the 1969 Base) to 58.7 per cent (using the 1978 Base).<sup>(48)</sup> Women's continued responsibility for child rearing, increases in divorce rates and the relatively recent growth of single motherhood underscore the fact that women have particular needs with respect to employment and employment related solutions aimed at alleviating child poverty.<sup>(49)</sup>

The lack of affordable, quality child care in Canada was identified by many witnesses as a major barrier to parents, particularly women, in their attempts to raise themselves above poverty levels. The Canadian Council on Social Development said, in their brief to the Committee:

Perhaps the greatest impediment to employment outside the home is the lack of affordable, accessible, and flexible child care options for low income and moderate income families with children. Yet this is imperative if sole-support parents and two-parent families are to obtain and maintain employment. The *Transition* report\* concluded that the lack of child care is the number one barrier to self-reliance for sole-support parents receiving social assistance.

<sup>(46)</sup> Statistics Canada, Catalogue #71-001, 1990.

<sup>(47)</sup> Morley Gunderson and Leon Muszynski, *Women and Labour Market Poverty*, Canadian Advisory Council on the Status of Women, Ottawa, 1990, p. 7.

<sup>(48)</sup> *Ibid.*, p. 8.

<sup>(49)</sup> Proceedings, 10 April 1990, Issue 21, p. 8.

\* Report of the Social Assistance Review, George Thomson, Chairman, Prepared for the Ontario Ministry of Community and Social Services, Toronto, September 1988.

The brief goes on to say that:

The lack of child care forces many low-income parents to make informal child care arrangements which can be less than desirable, while others abandon outside employment entirely and remain at home caring for their children, which can have serious economic consequences.<sup>(50)</sup>

Witnesses pointed out that the Child Care Expense Deduction, as it now exists, is regressive because it is worth more in income tax savings to higher-income families than to lower-income families. For example:

...a parent with taxable income over \$55,000 claiming \$2,000 deduction will save an average of \$1,209 in federal and provincial income taxes, whereas a parent with taxable income under \$27,500 will save \$527 in averaged combined federal and provincial income taxes for a \$2,000 Child Care Expense Deduction. Poor families with no taxable income receive no benefit from this program.<sup>(51)</sup>

Another problem associated with child care and identified by a number of witnesses, is that the wages of child care workers are usually below the poverty line. While the Committee recognizes that these salaries fall within provincial jurisdiction, we feel compelled to indicate the importance of ensuring a reassessment of these salaries at the provincial level. Wages for these workers need to be increased to reflect the value society attributes to this work and to attract and retain qualified staff, as well as to provide the workers themselves with adequate incomes.<sup>(52)</sup>

## RECOMMENDATION

**4. We recommend that the federal government, in collaboration with the provincial and territorial governments, set out a policy on national child care outlining a range of child care options, as quickly as possible.**

### *b. Aboriginal Peoples*

According to the *Canadian Human Rights Commission Annual Report 1989*, the relationship of aboriginal people to the labour force is troubling. Their figures show that Canada's aboriginal people are drastically under-represented in the labour force. Despite the presence of the *Employment Equity Act* (proclaimed in August 1986), between 1987 and 1988, aboriginal people increased their representation in the labour force only from .66 per cent to .77 per cent. At this rate of improvement, the report predicts that aboriginal peoples will not represent their current level of availability in the work force (2.1 per cent) until 2010. Aboriginal women's representation in the labour force, as a proportion of all aboriginals, declined over the same period.<sup>(53)</sup>

Not surprisingly, there is a strong relationship between aboriginal poverty and aboriginal unemployment rates. About 75 per cent of aboriginal families with less than 26 weeks of employment live at or below the poverty line as compared to figures of between 40 and 50 per cent for non-aboriginals.<sup>(54)</sup>

<sup>(50)</sup> "A National Strategy to End Child Poverty in Canada," 2 March 1990, p. 6.

<sup>(51)</sup> Canadian Council on Social Development, Brief to the Committee, 2 March 1990, p. 7.

<sup>(52)</sup> Social Planning and Research Council of British Columbia, Brief to the Committee, 20 March 1990, p. 4.

<sup>(53)</sup> *Canadian Human Rights Commission Annual Report 1989*, Ministry of Supply and Services Canada, Ottawa, 1990, p. 16.

The poverty rates among aboriginal families varies across the country from 56 per cent in New Brunswick to 32 per cent in Quebec.<sup>(55)</sup>

### c. *Employment Equity*

The *Employment Equity Act* is one avenue which can be used to address the employment-related inequality faced by women, aboriginal people, the disabled and other minority groups. This *Act* is strategically important. Witnesses emphasized that solutions to child poverty must ultimately entail concrete solutions to poverty among these groups.<sup>(56)</sup> The Committee was told that the efficient implementation of both employment equity and pay equity are crucial to improving the labour market position of women, aboriginal peoples, the disabled and other minority groups.

The *Act* requires all federally regulated companies and Crown Corporations, with 100 or more employees, to implement employment equity procedures and provide annual reports on these procedures. Witnesses indicated that both the scope and the reporting/monitoring procedures of the *Act* require strengthening.<sup>(57)</sup> The lack of sufficient resources to quickly and efficiently investigate complaints will ultimately undermine the strength of the *Act*.

The *Act* is scheduled for review in 1991. Based on the testimony of witnesses, the Committee urges the federal government to consider in its review the long-term benefits which could be realized in providing better jobs and incomes for target groups. Any provisions to strengthen and improve the *Act* would make a contribution to a reduction in child poverty.

Witnesses also indicated repeatedly the need to address the poor salaries of those working in minimum wage jobs, the "working poor." Current minimum wages do not produce incomes sufficient to prevent poverty even for those who are employed full-time. According to witnesses, in 1990, a minimum wage of about \$6.85 would be required to raise the working poor individual to the poverty line<sup>(58)</sup> and a minimum wage of about \$7.50 would bring its purchasing power to that of the minimum wage of the mid-1970s.<sup>(59)</sup>

In 1975, a fully employed minimum wage worker who supported a spouse and a child in a large city could earn 81% of the Statistics Canada poverty line income. In 1990, this worker could earn only 42.4% of the poverty line income. In fact, even if both spouses were fully employed at the minimum, they could earn only 84.8% of a poverty line income.<sup>(60)</sup>

Table 4 from Appendix I of this Report, reproduced below, identifies the formidable monetary gaps between the annual minimum wage income and the poverty line in each province. The closest that a full-time minimum wage worker can come to earning a poverty line income is in Prince Edward Island, where workers can earn 59.3 per cent of the poverty line. The largest gap exists at the federal minimum wage level where workers earn only 41.2 per cent of the poverty line. Given that the *Fact*

<sup>(54)</sup> Proceedings, 27 March 1990, Issue 19, p. 19.

<sup>(55)</sup> E. Richard Shillington, 1990, p. 5.

<sup>(56)</sup> Proceedings, 10 April 1990, Issue 21, p. 8.

<sup>(57)</sup> Submission to the Committee by the National Council of Welfare, p. 36.

<sup>(58)</sup> Canadian Council on Social Development, Brief to the Committee, 2 March 1990, p. 8.

<sup>(59)</sup> Social Planning Council and Research Council of British Columbia, Brief to the Committee, 20 March 1990, p. 3.

<sup>(60)</sup> Canadian Council on Social Development, Brief of the Committee, 2 March 1990, p. 8.

*Book on Poverty* shows that 37.4 per cent of dependent poor children lived in working poor families in 1986,<sup>(61)</sup> it is vital that the issue of minimum wage levels be addressed.

TABLE 4

**A Comparison of Minimum Wage Income to the Poverty Line Income  
for One Parent With One Child, 1990**

Jurisdiction	Minimum wage	Annual minimum wage income	Poverty line	Income as % of poverty line
Federal	4.00	7,904	19,200	41.2
Newfoundland	4.25	8,398	16,900	49.7
P.E.I.	4.50	8,892	15,000	59.3
Nova Scotia	4.50	8,892	16,900	52.6
New Brunswick	4.50	8,892	16,900	52.6
Quebec	5.00	9,880	19,200	51.5
Ontario	5.00	9,880	19,200	51.5
Manitoba	4.70	9,287	19,200	48.4
Saskatchewan	4.75	9,386	16,900	55.5
Alberta	4.50	8,892	19,200	46.3
British Columbia	5.00	9,880	19,200	51.5

Note: Minimum wages are those prevailing on April 1, 1990. Minimum wage income is based on a 38 hour work week, and 52 weeks of work. The poverty line is the estimated Statistics Canada low income cut-off for each province's largest city.

Professor Allan Moscovitch, in his brief to the Committee, said:

There must be employment for the parents of poor children, employment at rates of pay which permit the family to reach beyond the level of measured poverty. Minimum wage rates like social assistance rates are set by each province and territory without public debate and without reference to living standards or changes in the cost of living over time. Adequacy is not a question to be confined to assistance rates alone: it must be addressed directly in consideration of the minimum wage. While this is the responsibility of each province and territory, the federal government is in a position to take the lead through the minimum wage it sets for public employees and for the employees of companies that do business with the government.<sup>(62)</sup>

## RECOMMENDATIONS

- 5. We recommend that the federal minimum wage be increased to a level that will provide an annual income equal to the Statistics Canada poverty line for an individual living anywhere in**

<sup>(61)</sup> Ross and Shillington, Ottawa, 1989, p. 50.

<sup>(62)</sup> Brief to the Committee, 6 March 1990, p. 67.



Canada. After this level has been achieved, the minimum wage should be fully indexed to the cost of living.

**6. We recommend that the new level of the federal minimum wage be required for all federally funded and cost-shared programs and contracts.**

An additional concern with respect to income is the incidence of part-time employment in Canada. Families whose heads work part-time are five times more likely to be poor than those whose heads are full-time workers.<sup>(63)</sup>

Given these concerns regarding employment, it is clear that the thrust of existing income support programs such as unemployment insurance and social assistance should be geared toward assisting those persons who are able, through adequate training, to re-enter the full-time, full-year paid labour force as quickly as possible.

**7. We recommend that existing income support programs provide greater flexibility so that recipients who wish to undertake job retraining and/or further education to enhance their employability, not be subject to penalties with respect to the level of social assistance they receive, including their access to relevant services such as medical prescription coverage, etc.**

The Committee feels that addressing the declining value of the minimum wage, and the issue of job training in combination with long-term job creation, are key to the erosion of conditions which perpetuate child poverty.

**B. Current Government Transfers (Income Support)**

Witnesses appeared to agree that government income support programs will still be required to eliminate child poverty even if higher levels of employment, employment equity, increased minimum wages, and accessible child care are achieved. The Social Planning and Research Council of British Columbia, in their brief to the Committee elaborated on some of the reasons why this is the case.

The vagaries of the market economy, as well as individual circumstances, will not provide for adequate incomes to all families. For example, someone who is working full-time may have their hours reduced during a firm's economic restructuring. Another example would be a change in family circumstances such as an unexpected illness, pregnancy or family separation. It is clear from all the reports on poverty that families with a single earner have a greater incidence of poverty.<sup>(64)</sup>

The federal government has three major income transfer programs which benefit poor families with children; the Family Allowance, the Refundable Child Tax Credit and the Canada Assistance Plan (CAP). The Family Allowance is paid to all families with children. The Child Tax Credit, administered through the income tax system, gives additional income support to low and middle-income families with children and CAP is targeted to "needy" families.

<sup>(63)</sup> Joan Vance, *Poverty in Canada*, Current Issue Review 88-14E, Research Branch, Library of Parliament, Ottawa, 12 December 1989, p. 5.

<sup>(64)</sup> Brief to the Committee, 20 March 1990, p. 4.

## 1. Family Allowance

The Family Allowance Program was initiated in 1944 and the first benefits were actually received by parents in 1945. As Appendix II indicates, the rationale behind the introduction of a family allowance scheme was a combination of political and economic motives. However, in large part, the program was implemented with a view toward recognizing the fact that wages and salaries are not sensitive to family size and the costs associated with raising children. This Committee's report, *Child Benefits: Proposal for a Guaranteed Family Supplement Scheme* (1987), stated:

Since Family Allowance is treated as taxable income, this program is redistributive in nature, delivering greater 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.<sup>(65)</sup>

Provinces may vary the amount the federal government pays to their residents according to the age and/or number of children in a family. The provinces of Alberta and Quebec have taken this option. The value of the Family Allowance in 1990 is \$33.33 a month per child for dependent children under the age of 18 years. From 1974 to 1982, the Family Allowance generally increased with the Consumer Price Index. However, in January 1976, Family Allowance payments were frozen at 1975 levels for one year and indexed again in 1977. In 1978, payments were restructured and the benefits were reduced by approximately \$6 per child, per month. In 1979, the payments were again restructured with the introduction of the Child Tax Credit. Between 1983 and 1984, the indexation rate was subject to the six and five per cent policy of fiscal restraint. In 1986, Family Allowance payments were partially de-indexed. As a result of this change, the Family Allowance is indexed to the rate of inflation over 3 per cent per year. Under a fully indexed system, since 1986, the current Family Allowance would amount to approximately \$38.58 per child per month, as compared to the current rate of \$33.33. By 1995, it is estimated that ten years of inflation will have reduced the Family Allowance to \$35.65 compared to the rate of \$47.75 had full indexation been maintained.<sup>(66)</sup>

According to the National Council of Welfare, the tax-back on the Family Allowance will have serious long-term implications for its value.<sup>(67)</sup> The Family Allowance will be taxed-back at a rate of 15 per cent for every dollar of income over a \$50,000 threshold. Once the higher-income parent's income reaches \$55,240, a family with two children will lose all of their Family Allowance. Due to the partial de-indexation policy, the threshold will fall steadily over time and will thereby affect increasing numbers of families. By 1995, the threshold for tax-back will have fallen to an estimated \$41,886 in constant 1990 dollars.<sup>(68)</sup>

<sup>(65)</sup> Report of the Standing Senate Committee on Social Affairs, Science and Technology, June 1987, p. 8.

<sup>(66)</sup> Ken Battle, *Child Benefits Reform*, A report prepared for the Standing Senate Committee on Social Affairs, Science and Technology, July 1990, p. 5. Note these figures are quoted in current, not constant, dollars.

<sup>(67)</sup> National Council of Welfare, *The 1989 Budget and Social Policy*, Minister of Supply and Services, 1989.

<sup>(68)</sup> Ken Battle, "Child Benefits Reform," 1990, p. 5.

## 2. Refundable Child Tax Credit

The Refundable Child Tax Credit, first implemented in 1979, was designed to provide additional assistance in meeting the costs of raising children for low to middle-income families. Any parent or guardian who receives the Family Allowance is eligible to apply for the Refundable Child Tax Credit when filing an income tax return. Eligibility is based on annual net family income, and benefits vary according to family income and number of eligible children. For families with taxable incomes, the refundable credit reduces the tax which must be paid. Families whose taxes are less than the credit, or who owe no tax at all, receive a non-taxable lump sum payment from the federal government. The Refundable Child Tax Credit is the only component of the federal child benefits package which is uniform across Canada.

The Refundable Child Tax Credit for 1989 was \$565 for each eligible child and was payable in full to families with net annual incomes of less than \$24,769. There was also a \$200 supplementary credit for children under seven years. Like the partial de-indexation which has affected the Family Allowance provisions, the Refundable Child Tax Credit has also been subject to partial de-indexation. In this context, the assistance to low and middle-income families is deteriorating over time. Over the long term, the value of the credit will fall and the threshold level will also decline, meaning that fewer and fewer low and middle-income families will qualify for the benefit. A number of these realities call into serious question the anti-poverty/income supplementation objectives of this benefit. As is outlined in Appendix II, a family with two children (one under and one over seven years of age) earning \$24,769 receives the maximum benefit of \$1,353. By 1995, it is estimated that the maximum benefit will have declined to \$1,102 and families who make more than \$20,184 will not be eligible for the maximum benefit.<sup>(69)</sup>

Witnesses expressed concern about the effects of partial de-indexation and the tax-back on the Family Allowance. The Canadian Council on Social Development stated:

Since 1984, the federal government has made some improvements to the child benefits system. They replaced the children's tax exemption with a nonrefundable credit and increased the refundable child tax credit. However, other changes have added to the systems problems. The federal government doubled the regressive Child Care Expense Deduction (from a maximum of \$2,000 to \$4,000 for children six years and under), introduced the clawback on Family Allowances for parents with net incomes over \$50,000, and partially de-indexed child benefits which is eroding their value over time.<sup>(70)</sup>

It is clear that employment-related income, together with Family Allowance and the Refundable Child Tax Credit do not provide an adequate income for many families with children. More and more families are turning to the benefits provided under CAP, traditionally viewed as the program of "last resort." As we observed earlier, approximately 680,000 children live in families receiving social assistance. The *Fact Book on Poverty* reports that the percentage of "other poor" families (those where adults are outside the labour force) is increasing and that 62.6 per cent of poor dependent children live in such families. Furthermore, 86 per cent of the children in "other poor" families are in lone-parent families headed by women.<sup>(71)</sup>

<sup>(69)</sup> Ken Battle, *Child Benefits Reform*, 1990, p. 8.

<sup>(70)</sup> Brief to the Committee, 2 March 1990, p. 12.

<sup>(71)</sup> Ross and Shillington, Ottawa, 1989, p. 50.

### 3. *Canada Assistance Plan (CAP)*

CAP constitutes the legislative basis for what we know as the 'welfare system'. Introduced in 1966, it was an attempt to consolidate a variety of existing schemes for individual categories of need, e.g. unemployment, age and disability, into a more comprehensive arrangement of social assistance. CAP provides a minimum income for Canadians in need of financial assistance regardless of the particular situation or condition that gives rise to that need. The welfare system has been characterized by the National Council of Welfare as a 'safety net':

It (the safety net) comes into play when other sources of funds such as personal savings are nearly exhausted; when individuals are ineligible for support from other programs; when supplementary income is required to meet emergency or special needs.<sup>(72)</sup>

Federal and provincial governments share equally under CAP in the cost of basic items such as food, shelter, clothing, utilities, household supplies, health care, transportation and personal requirements (personal care, grooming and recreation). Individual provinces decide how much to allow for each category of expense and, therefore, the overall level of assistance.

There is a great deal of regional variation in social assistance programs under CAP. Most provinces, however, have a social assistance program which provides benefits to individuals who require aid on a long-term basis (those classified as unemployable, e.g. due to disability) and to persons who are unemployed but considered to be capable of working.

The principal eligibility criterion for all welfare programs is 'need'. Need is determined on the basis of a means test which takes into account budgetary requirements as well as resources available to meet those needs. In the calculation of resources, certain exemptions with respect to personal assets and income are allowed.

Witnesses identified a number of reasons why CAP has not been successful in creating an adequate social safety net for Canadians. A primary concern is the less than adequate level of income provided to recipients everywhere in Canada under the Plan.

Professor Moscovitch stated that, while the preamble to CAP suggests benefits should be adequate, there is no definition of adequacy in either federal or provincial legislation or administration:

There are rate structures in each province with varying relationships to rates of poverty in each region but nowhere is the nature of the relationship spelled out publicly. Neither is there anything even approximating uniformity of rates across the country. Most importantly for child poverty, no family with children dependent on social assistance is able to achieve a level of gross income before taxation above the Statistics Canada Poverty line.<sup>(73)</sup>

The only study currently available on the complex network of provincial plans which make up the Canadian "welfare system", reports:

It is impossible to describe in words alone the devastating impact of abysmally low rates of social assistance. No written account can even come close to portraying the damage to physical health and

<sup>(72)</sup> *Welfare in Canada: The Tangled Safety Net*, National Council of Welfare, Ottawa, November 1987, p. 1.

<sup>(73)</sup> Brief to the Committee, 6 March 1990, p. 5.

the scars to psychological well-being that can come from living at standards below those deemed absolutely minimal for basic subsistence.<sup>(74)</sup>

Witnesses were also concerned about the tendency for some social assistance recipients to fall into the "welfare trap" where some people live for multiple generations in poverty. This is at least partly due to eligibility rules and limits on assets for recipients of income assistance under CAP. It can be argued, in this regard, that the low level of assets a recipient is allowed and still remain eligible, ensures that only the "poorest of the poor" receive assistance and then only when all other avenues have been exhausted.<sup>(75)</sup> According to this argument, the chances that people will eventually be able to pull themselves out of poverty are greatly reduced in the process.

Another concern involved the ability of people to become more independent of income assistance through the retention of earned income. Some witnesses argue that the steep rate at which the earned income of a recipient of social assistance is taxed back, effectively discourages recipients from supplementing their income and from earning their way out of poverty. According to the national coalition on child poverty:

The protracted longterm reliance on the social assistance system can be as debilitating as it is helpful. Many of the disincentives for "breaking free" from the welfare system are built into the system itself (e.g., reduction from monthly welfare cheques amounts equivalent to earned income, calculation of monthly assistance amounts after Family Allowance payments are deducted). Programs which enable and support self-reliance initiatives (e.g., child care, training incentive programs, assistance supplementation, etc.) are all key to enabling parents receiving assistance to take advantage of programs which would reduce their dependency.<sup>(76)</sup>

Recently, the negative effects on children in families receiving social assistance under CAP have been documented. A survey on children's health in Ontario, for example, compared illness among "welfare" and "non-welfare" children aged 4-16 years. The findings indicated that relative to other children, welfare children had over twice the rate of psychiatric disorder, poor school performance and incidence of smoking. In addition, they have greater than 1.5 times the frequency of chronic health problems and low participation in extra-curricular activity.<sup>(77)</sup>

Precisely why being on welfare, as a distinct form of low-income status, has a negative influence on poor children has not been determined. Possible explanations include the stigma associated with receiving social assistance tied to social attitudes toward recipients, the needs-testing and the investigative methods of delivering social assistance. While being poor is strongly associated with psychiatric disorder and poor school performance, there is an independent association (aside from low income) between being on welfare and these conditions.<sup>(78)</sup> The Ontario Social Assistance Review Committee stated:

<sup>(74)</sup> National Council of Welfare, November 1987, p. 82.

<sup>(75)</sup> Social Planning and Research Council of British Columbia, Brief to the Committee, 20 March 1990, p. 5.

<sup>(76)</sup> Brief to the Committee, 3 April, p. 10.

<sup>(77)</sup> Dr. Dan Offord and Michael H. Boyle, *Morbidity Among Welfare Children in Ontario*, A Brief to the Ontario Social Assistance Review Committee, 12 December 1987.

<sup>(78)</sup> The Children's Services Branch, Ontario Ministry of Community and Social Services (with the Assistance of David P. Ross), *Low Income and Child Development: A Case for Prevention Strategies*, A Background Paper for the Ontario Social Assistance Review, June 1987 (hereafter referred to as the OMCSS Report).

We consider it is reasonable to assume that part of the explanation may lie in the continuing stigma of "being on welfare", which attaches also to children. Public attitudes toward people who are poor but in the labour force tend to be more favourable than the public perception of social assistance recipients. Such attitudes, of course, do not differentiate between adults and children.<sup>(79)</sup>

In light of these findings, the Ontario Social Assistance Review recommended removing children entirely from the social assistance system and using another program to meet their income needs.

Witnesses were unanimous in the view that the present system of delivering income support to poor families with children is inadequate and in some cases even harmful (see Recommendation 7, page 21). This Committee's Report, *Child Benefits: Proposal for a Guaranteed Family Supplement Scheme* (1987) said that there was an injustice in the taxation and social security systems in this country because the benefits we provide for our children and the benefits available to other sectors of our society are not comparable. In 1990, this injustice continues.<sup>(80)</sup>

It seems clear that in order to abolish child poverty, we must find a more efficient, less intrusive and less stigmatizing method of delivering support. As earlier portions of this Report described, the long-term solution to child poverty will entail a combination of income and service support, implemented simultaneously and monitored for its effectiveness on an ongoing basis. The Committee emphasizes that the income support schemes, outlined below, are necessary but not sufficient for the task at hand. We urge readers to consider the following discussion of income programs as one tier of the two-tiered approach we, along with the witnesses, envisage for addressing child poverty. The second tier, "service solutions," is addressed in a subsequent section of the Report.

### C. Income Support Options: Assessing the Impact of Recent Changes

Contemporary income support programs (Family Allowance, Refundable Child Tax Credit and the Canada Assistance Plan) are losing their effectiveness as "anti-poverty" instruments. Indeed, Appendix II outlines in detail the impact of various changes to the system which have taken place since 1984, on different family types at various income levels, by comparing the "old" system of child benefits as they existed in 1984 (the Family Allowance, Children's Tax Exemption, Refundable Child Tax Credit and Child Care Expense Deduction) with the "new" system as it will look in 1994 (the Family Allowance with the tax-back, Non-Refundable Child Tax Credit, Refundable Child Tax Credit and the Child Care Expense Deduction, taking into account partial de-indexation). The year 1994 was chosen in order to take into account the effect of four years of inflation on the partially de-indexed system. The estimates are based on a "model family" with one child under seven years and one child over seven years. Estimates are outlined for one-earner, two-earner and single-parent families.

#### 1. One-Earner Families

Among one-earner couples, all but the poorest families will experience a decrease in their child benefits over the next few years. Even the welfare poor family (with no earnings but receiving the Family Allowance and the Refundable Child Tax Credit), the only family with an increase in child

<sup>(79)</sup> *Transitions*, Report of the Social Assistance Review, Prepared for the Ontario Ministry of Community and Social Services, Toronto, Queen's Printer for Ontario, September 1988, p. 115.

<sup>(80)</sup> Senate of Canada, Ottawa, p. 39.

benefits, notices only a very slight increase (\$41) when compared with the 1984 levels. A working poor family (earning \$20,000 in 1990 and receiving the Family Allowance, the Refundable and the Non-Refundable Child Tax Credits) will lose \$241 over the 10-year period with a reduction in their benefits from a level of 10.4 per cent in 1984, of their earnings to a level of 7.8 per cent in 1994. Under the same conditions, a middle-income family (earning \$40,000 and receiving the Family Allowance and the Refundable and Non-Refundable Child Tax Credits) will also incur substantial reductions in their benefits; from \$2,066 or 5.2 per cent of their earnings in 1984 to \$806 or 1.7 per cent of their earnings by 1994. The upper-income family (earning \$100,000 and receiving the Family Allowance and the Non-Refundable Child Tax Credit) will notice a drop in their benefits from \$1,408 in 1984 or 1.4 per cent of their earnings to \$180 or .2 per cent of their earnings in 1994.

## **2. Two-Income Families**

Further research indicates the impact of these changes on two-income families and single-parent families. The results are very similar. The largest loser in two-income families are the middle-income families (earning \$55,000). Benefits fall by 45 per cent from \$2,312 or 4.2 per cent of their earnings in 1984 to \$1,272 or 2.4 per cent of their earnings in 1994.

## **3. Single-Parent Families**

The working poor family (earning \$15,000 and receiving the Equivalent-to-Married Credit, the Child Care Expense Deduction for the younger child, Family Allowance and the Refundable Child Tax Credit) experiences a decline in benefits over the 10-year period. Benefits decline from \$3,046 or 20.3 per cent of their earnings in 1984 to \$2,862 or 19.7 per cent of their earnings in 1994. Middle-income single-parent families (earning \$25,000 with the same benefits as the working poor single-parent) see a decline in benefits from \$3,184 or 12.7 per cent of their earnings in 1984 to \$2,413 or 10.0 per cent of their earnings in 1994.

These declines illustrate the extent to which contemporary changes in child benefits have implications over the long term. The tax-back and the move from full to partial de-indexation are particularly important. These changes have severely undermined the traditional objectives of child benefits and the impending changes show the potential for greater erosion over time.

## **D. Providing Income Alternatives**

Taking into account the factors which have been examined above, and bearing in mind the importance of an alternative income scheme which would help to supplement the capacities of families with children, this Committee has examined two alternative income proposals: a targeted option and a mixed approach. Either of these proposals would alter the situation of families with children, while simplifying a system which has become more complex and ineffective. However, the two proposals differ in the extent to which they target monies to certain families (i.e., those most needy) as opposed to adopting a more universal approach. The latter proposal will entail the expenditure of new money (approximately \$500 million), while the first proposal is a revenue-neutral approach.

### 1. *A Targeted Approach*

Based on current spending on child benefits and child-related social assistance expenditures, Appendix II indicates that a total of approximately \$5.7 billion was available in 1990. However, the research also indicates that by 1991, the federal child benefits system will pay out about \$1.7 billion less than it would have under the old (pre-1985) system. It is important to recall that the sum is a composition of all existing child benefits plus monies spent on children under the current Canada Assistance Plan.

Under the targeted option, current child benefits would be replaced with a single, Refundable Child Tax Credit. This Credit would pay \$3,075 per child for families with incomes under \$16,500, beyond which benefits are reduced by 25 per cent of other income. This design is modelled upon the consolidated child benefits scheme recommended by the Ontario Social Assistance Review Committee in 1988. As Appendix II, Figure J indicates, a family of two parents with two children will receive no benefit beyond an income level of \$41,100.

The lack of any universal component (i.e., no Family Allowance) in this proposal means that families beyond the \$41,100 level would receive no compensation for the costs of raising children. A consequence of this option is the abandonment of the long-established principle of providing some income equity between households with and without children, at all income levels. Also important in this context is recognition of the fact that the estimated median income for a Canadian family in 1990 is approximately \$45,000. The cutoff for all benefits in this option is well below this median income.

### 2. *A Mixed Approach — Targeted with a Universal Component*

While the previous option is a “revenue neutral” approach, the Committee has also reviewed an option which entails the expenditure of new money. In considering the expenditure of new money, it is instructive to recall that research undertaken for the Committee indicates that an estimated \$3.5 billion will be removed from the child benefits system between 1986 and 1991. As the Child Poverty Action Group indicated:

The withdrawal of public benefits to middle and modest income families has not led to more substantial support for the poor in this country... From 1984 to 1988...real wealth in constant dollars grew by 15 per cent, but child benefits for poor families grew by only 6.6 per cent. So as we were withdrawing benefits from middle and modest income families, we were not taking the vast wealth of this country and redirecting it to families in need, which was the justification for doing it in the first place.<sup>(81)</sup>

The mixed option we explore entails the expenditure of a fraction of the amount removed from child benefits — approximately \$500 million.

This option adopts the same principle as the targeted option in that it is based on combining existing benefits and “rolling” them into one Refundable Child Tax Credit. Under the mixed option, the Credit would be \$2,775, the threshold for tax-back and the tax-back rate (\$16,600 and 25 per cent, respectively) would remain the same as in the targeted option outlined above.

<sup>(81)</sup> Proceedings, 10 April 1990, Issue 21, p. 46.



The major difference in this second option is the maintenance of the Family Allowance for families with children at all income levels. The additional expenditure of \$500 million would sustain the Family Allowance program at current rates of approximately \$400 per child per year. This option does not include the "tax-back" on Family Allowance, but does tax Family Allowance as regular income.

### 3. *Assessing the Options*

Clearly, both options simplify the existing system of child benefits and are based on a recognition of the need to increase the amount of support available to families with children. Similarly, both options, by including an estimation of the amount of money spent on children under CAP and redirecting that money to a Refundable Child Tax Credit, remove children from the social assistance rolls. As emphasized in the Social Assistance Review Committee of Ontario's Final Report, such a move signals a major advance in social welfare reform. In the contemporary system, social assistance recipients experience a very sharp reduction in their benefits (due to the loss of child benefits) once they begin to work. Providing working-poor families with benefits similar to those received by social assistance recipients, will serve to eliminate the "disincentive to work" and will facilitate a smoother transition from "welfare" to work.

Under both the targeted option and the mixed option, welfare poor families' benefits would stay roughly the same, although under the mixed option they would receive an additional \$100 (\$2,775 from the Refundable Child Tax Credit and \$400 from the Family Allowance). In addition, social assistance families would be no worse off than they are under the current system. Appendix II, Figure J compares both options with the current system. Both the targeted and the mixed option mark a considerable increase in child benefits for working-poor and lower middle-income families. The mixed option would pay, for example, \$5,064 to a two-earner family making \$20,000. Under the current system, that family receives \$2,153.

The changes entailed in either option translate into quite substantial increases for families in Canada. The key difference between options is the maintenance of universal benefits paid to families with children at all income levels. A number of arguments are identifiable from those who support and those who reject the maintenance of a universal Family Allowance program.

Those who oppose an income support scheme which includes a universal component argue that current economic conditions can no longer support the ideal of universality and that its maintenance is more utopic than realistic. They argue that the money which is spent on maintaining a universal family allowance program would be better spent if it were directed to families in need, in a more targeted benefit scheme. Others assert that monies spent on Family Allowance payments could also be redirected and thereby provide the basis for full indexation of a Refundable Child Tax Credit component. It is impossible to assess the extent to which all of these arguments are likely to become facts, in the event a completely targeted option is selected.

Those who support a universal Family Allowance call upon a number of compelling arguments. For instance, they insist that universal social programs have always been the cornerstone of Canadian social policy and that they provide a foundation upon which more selective social programs are based. In support of the universal Family Allowance, the National Council of Welfare says:

All Canadians, no matter where they live and what their income, benefit from universal programs at some point in their lives. Abandoning the principle of universality in so prominent a benefit as Family Allowances would weaken the foundation of Canada's social security system. Over time, taxpayers' support for social spending would decline and people who have to turn to selective programs for financial assistance would suffer as a result.<sup>(82)</sup>

Further, it is argued that universal social programs foster a sense of unity and community among all Canadians, and that a move away from this policy position will institute conditions that are fundamentally divisive and disruptive. As the Committee was told:

One of the consequences of eroding benefits to middle- and modest-income families, which is what the agenda is, is that it divides people in this country and creates conditions which are not generous for the poor- or modest- or middle-income people...when a government begins to erode benefits for middle- and modest-income families, it introduces class warfare into the social policy system and prevents either group from benefitting. If targeting really worked, then social assistance would be the most generous form of payment in the country. Historically, it is not, because there is no political foundation to social assistance.<sup>(83)</sup>

Supporters of the Family Allowance also single out this program because it provides money which goes directly into the hands of women. Although the amount may not be substantial, supporters of the Family Allowance argue that the definition of substantial is relative. For poor and working-poor women, the ability to depend upon a monthly cheque has afforded them some degree, however small, of independence. Some argue that even among middle- and upper-income families, women may not have access to, or control over, any money, apart from the monthly Family Allowance cheque.<sup>(84)</sup>

It is also important to recall that even though the Family Allowance is allocated equally, its treatment in the tax system means that poor families receive greater benefits than do middle-income families and those with the largest income get the least. Family Allowances are treated as income and taxed accordingly. As is indicated in Appendix II, a welfare poor family paying no income tax receives the full benefit, while a working-poor, one-income family with a \$20,000 income retained 74 per cent of their benefits keeping only \$295 of the \$400 per child payment. A middle-income family with an income of \$50,000 retained only 60 per cent of their benefit or \$239 per child, while an affluent family retained only 55 per cent of their benefit or \$220 per child. In light of these figures, it is apparent that although the benefit is labelled as universal, it is not purely universal in its application.

It seems clear that either income support option will need to be fully indexed in order to be effective over the long term. As previous discussions in this Report have emphasized, the move to partial de-indexation has severely undermined the effectiveness of current child benefit programs. In order to be fully effective as an anti-poverty instrument, full indexation of income programs must be ensured. In the absence of this measure, the benefits will continue to decline and will eventually reach a point where their effectiveness is nullified.

<sup>(82)</sup> National Council of Welfare, *Family Allowances For All?*, Minister of Supply and Services, 1983.

<sup>(83)</sup> Proceedings, 10 April 1990, Issue 21, p. 50.

<sup>(84)</sup> National Council of Welfare, 1983, *Family Allowances*.

## RECOMMENDATIONS

8. We recommend that the federal government carefully review the following income support options prepared on the basis of statistical models used by consultants to the Committee (see Appendix II), and that they adopt either:

a) a national child benefit consisting of the Family Allowance (at current rates but fully indexed and without the taxback) plus an enhanced Refundable Child Tax Credit (fully indexed) at a rate which would meet the basic costs of raising a child. This scheme would be financed with monies saved from the elimination of the Non-Refundable Child Tax Credit, monies redirected from spending on children under CAP, monies from the existing Refundable Child Tax Credit and \$500 million in new funds.

OR

b) an enhanced Refundable Child Tax Credit (fully indexed) targetted at poor families with children. This scheme would be financed with monies saved from the elimination of the Family Allowance and the Non-Refundable Child Tax Credit plus monies from the existing Refundable Child Tax Credit and monies redirected from spending on children under CAP (see Appendix II).

The Committee recognizes that the implementation of either one of these income support options will entail the full support of the provinces, and their agreement to maintain current rates of fiscal participation in the Canada Assistance Plan, including the maintenance of services currently provided under CAP.

9. We recommend that the provincial and federal governments undertake an agreement to ensure that current levels of income support now provided by the provinces under CAP be maintained and subject to a rate of indexation comparable to that applied to other areas of assistance funded under CAP.

<sup>1</sup> Ibid., p. 27, March 1990, issue 19, p. 24.

<sup>2</sup> Ibid., p. 27, March 1990, issue 19, p. 13.

<sup>3</sup> Ibid., p. 27, March 1990, issue 19, p. 20.

<sup>4</sup> Ibid., p. 27, March 1990, issue 19, p. 14.

<sup>5</sup> Ibid., p. 27, March 1990, issue 19, p. 17.

<sup>6</sup> Ibid., p. 27, March 1990, issue 19, p. 22.



## CHAPTER SIX: SERVICE OPTIONS

In this report and in the *Interim Report*, we have repeatedly emphasized that addressing the issue of child poverty in Canada requires a two-tiered approach if we are to alleviate the consequences of child poverty in the short term, and adequately manage it over the long term. By themselves, income and employment measures will not go far enough in addressing the effects of child poverty and neither will they support the long-term changes that are necessary. As one witness stated, it is important that Canadians be cognizant of the scope and depth of reforms that are necessary:

It is misleading to tell the people of this country that there are one or two things that will significantly address the problem (of child poverty). We have to learn from that experience. The Americans were told that if you put in programs like Headstart and if you target needing communities for extra benefits, you would deal with poverty. The American experience failed on a number of grounds. It could not work. It was not politically sustainable and it collapsed after six years.<sup>(85)</sup>

Many witnesses who spoke from first-hand knowledge of dealing with poverty in general, and child poverty in particular, spoke of the need for services. They indicated that it is necessary for such services to be delivered in tandem with more macro-level reforms in the area of employment and income. However, witnesses indicated that there is every reason to believe that the best delivery of services will be conceived and developed on the basis of sound principles of child development,<sup>(86)</sup> a recognition of the need for federal, provincial and municipal cooperation<sup>(87)</sup> as well as cross-ministry cooperation.<sup>(88)</sup> This type of approach would avoid problems such as the fragmentation and duplication associated with the "patchwork" of services which presently exists.

One way of approaching the issue of service delivery is through a perspective referred to by one witness as the "life chances perspective". Such a perspective ensures children a "pathway to a positive adult status from gestation through to young adulthood."<sup>(89)</sup> This entails a recognition that children require an expansive range of services. Moreover, it recognizes that the specific nature of the services required varies among children, shifts throughout their development from prebirth to adulthood, and varies according to gender, cultural background and the community in which they live. Emphasizing the need for integrated services one witness said:

... that schools are important but they cannot do the job themselves; professional services are important but they cannot do the job themselves and schools and professional services are important but together they cannot do the job...we have to make provision for that continuum of income services, support and community development...<sup>(90)</sup>

This general principle of a continuum of integrated services must be kept in mind when designing and delivering services described below.

<sup>(85)</sup> Proceedings, 27 March 1990, Issue 19, p. 24.

<sup>(86)</sup> Proceedings, 27 March 1990, Issue 19, p. 13.

<sup>(87)</sup> Proceedings, 27 March 1990, Issue 19, p. 20.

<sup>(88)</sup> Proceedings, 20 March 1990, Issue 18, p. 18.

<sup>(89)</sup> Proceedings, 27 March 1990, Issue 19, p. 17.

<sup>(90)</sup> Proceedings, 27 March 1990, Issue 19, p. 22.

## A. Health and Nutrition

Poor children run a higher risk of being in poor health than do the children of higher income people. The rate of infant mortality among the poor is almost double the rate among the rich.<sup>(91)</sup> The Canadian Medical Association reports that among the poor, infant mortality from infectious diseases is 2.5 times more common and accidental deaths twice as common as the national average.<sup>(92)</sup>

The incidence of low birth weight, the single most important cause of infant mortality and a common predecessor of poor health in childhood and later life, is also higher among poor mothers. The Ontario Medical Association finds that a number of factors such as the poor nutritional status and smoking behaviour of poor single and adolescent women contribute to this situation.<sup>(93)</sup> Witnesses stated that the significance of good nutrition for pregnant and breast-feeding mothers cannot be over-emphasized. For example, children born to poor parents generally weigh 200-300 grams less than infants born to their better-off counterparts.<sup>(94)</sup>

Low birth weight places children at a much higher risk for a host of problems in both the early and later stages of their lives. Perinatal mortality is much greater among low birth weight babies. Infants born below 2.5 kilograms run a risk of death within the first month that is forty times greater than those babies who reach full term and attain a higher birth weight.<sup>(95)</sup>

Over the longer term these same infants run greater risks of mental deficiencies, physical handicaps, slow or retarded growth and neuromotor problems.<sup>(96)</sup> The costs to the health care system, of caring for low birthweight babies, are significantly greater than for normal babies.<sup>(97)</sup> Hospital costs, for example, can range from \$9,500 to \$60,000 for low birth weight babies compared to around \$5,500 for a normal weight baby.<sup>(98)</sup>

Efforts to reduce the incidence of low birth weight must be seen as part of the solution to child poverty. Programs which provide nutritional supplements to pregnant women (vitamins, milk, eggs and orange juice) have been among those services effective in reducing the incidence of low birth weight.<sup>(99)</sup>

<sup>(91)</sup> Russell Wilkins, Owen Adams and Anna Brancker, *Changes in Mortality by Income in Urban Canada from 1941 to 1986: Diminishing Absolute Differences, Persistence of Relative Inequality*, Health Policy Division, Health and Welfare Canada and the Health Division, Statistics Canada, Ottawa, June 1989 (Information presented to the Federal-Provincial-Territorial Conference of Deputy Ministers of Health).

<sup>(92)</sup> Leslie Fruman, "Growing Up Poor: Disadvantaged in Every Way," *Toronto Star*, 29 September 1987.

<sup>(93)</sup> Submission to the Ontario Social Assistance Review Committee, 9 January 1987.

<sup>(94)</sup> Proceedings, 27 March 1990, Issue 19, p. 27.

<sup>(95)</sup> Proceedings, 3 April 1990, Issue 20, p. 8.

<sup>(96)</sup> Proceedings, 27 March 1990, Issue 19, p. 27.

<sup>(97)</sup> Proceedings, 3 April 1990, Issue 20, p. 11.

<sup>(98)</sup> Proceedings, 3 April 1990, Issue 20.

<sup>(99)</sup> Proceedings, 27 March 1990, Issue 19, p. 32.

## RECOMMENDATION

- 10. We recommend the gradual implementation, over the next five years, of a national prenatal campaign focusing on pre-natal education with specific attention paid to high-risk pregnancies, especially among the adolescent population.**

One mechanism for ensuring early access to health care and to money which may provide nutritional supplements for pregnant women, is to make the current family allowance payments available to women *during* their pregnancy. In France, women receive a monthly allowance starting in the fifth month of pregnancy and continuing up until the child is four months of age, regardless of income. Once the baby has reached four months of age, the family's income is assessed and the allowance may be extended or adjusted. A similar program helped to reduce the infant mortality rates in Finland during the 1930s. Today, the Finnish maternity benefit is withheld from women who do not visit a clinic before the fifth month of pregnancy.<sup>(100)</sup>

## RECOMMENDATION

- 11. We recommend that family allowance payments be available to pregnant women subject to a medical confirmation of their pregnancy *and* the maintenance of regular pre-natal health care, either through public health visits or attendance at community-based pre-natal classes.**

The Committee was told that programs which supplement the nutritional requirements of some mothers, particularly teenage and young mothers, should not preclude the implementation and continued support for programs aimed at preventing unwanted pregnancies. In fact, one witness suggested that in attempting to focus on specific issues with respect to the prevention of low birth weight infants:

...a wanted baby has a better chance in other words, a pregnancy that is truly wanted, rather than one that simply happens. That might be one effective way of trying to address the problem of low birth weight.<sup>(101)</sup>

The evidence suggests that continued efforts to support non-governmental organizations and agencies which provide accurate and accessible birth planning and birth control information will contribute to a decline in the rate of child poverty. The Committee sees these services as requiring adequate financial support in order to ensure their long term survival and effectiveness.

In addition to the issue of low birth weight, other nutritional concerns were made apparent. Nutrition is often seen as a health rather than a social issue. Isolating discussions of nutrition in this way obscures the fact that "factors such as education, literacy, housing, transportation, social support and economics greatly influence the nutritional behaviour of an individual or family."<sup>(102)</sup>

<sup>(100)</sup> Based on information received from the French and Finnish Embassies.

<sup>(101)</sup> Proceedings, 3 April 1990, Issue 20, p. 19.

<sup>(102)</sup> Proceedings, 10 April 1990, Issue 21, p. 23.

The links between income and nutritional health are significant. Based on anecdotal evidence, the Committee learned that for families living on marginal means, the food budget is very often the "catch-all" budget. In other words, non-food expenses which cannot be met are often subsidized by the food dollar. This means that nutritional requirements are often sacrificed out of necessity.<sup>(103)</sup>

Several witnesses indicated that these shortfalls in the food budget are particularly significant for social assistance recipients. Food and clothing allotments are far from adequate. In Nova Scotia, for example, social assistance recipients were receiving approximately 60 per cent of what it costs to buy food supplies based on the requirements of Agriculture Canada's Nutritious Food Basket.<sup>(104)</sup>

For many years both secondary and post-secondary educational institutions have offered food services to their students. Very often these services offer nutritious and reasonably priced meals. The Committee was told that if similar services were made available in elementary schools across the country, these programs could supplement and begin to compensate for often meagre food allowances.<sup>(105)</sup>

The Committee is aware of several school-based food programs that are currently in place across the country. For the most part, such food programs have been successful both as educational and as anti-poverty measures. The dual-faceted nature of these types of programs lies in their philosophy of linking the provision of food (breakfast and lunch programs as well as nutritious snacks) to the teaching of health and nutrition among students. Such a model involves students, teachers, parents and the community in a joint project aimed at both preventing and alleviating the problems associated with poverty and poor nutrition. The Committee supports the extension of similar programs so that children will have access to subsidized meals and milk in the public educational system.

In recent years hunger has become more visible in Canada, in part because of the presence and proliferation of food banks, soup kitchens and similar food related services for poor people. Concern was expressed by some witnesses that these services would become institutionalized in our society.

## RECOMMENDATION

12. We recommend that the federal government allocate resources to study and make recommendations on the appropriate role of food banks and similar organizations in Canada, including such considerations as the possibility that food banks be converted into Consumer Cooperatives owned and run by low-income people and/or into collection and distribution centres for nutritious meals for school children.

### B. Education

The relationship between child poverty and education merits special attention. The *Ontario Child Health Study* demonstrates that the odds of a poor child (defined as a child coming from a family with

<sup>(103)</sup> Proceedings, 10 April 1990, Issue 21, p. 23-24.

<sup>(104)</sup> Proceedings, 10 April 1990, Issue 21, p. 25.

<sup>(105)</sup> *Children, Schools and Poverty*, Canadian Teachers Federation, June 1989.



an income of less than \$10,000.) having poor school performance (failing a grade or attending on a full-time or part-time basis, special education classes) are three times those of non-poor children.<sup>(106)</sup>

Evidence from this same study also emphasizes that the rate of poor school performance varies markedly by gender. For young girls between the ages of six and eleven years living in families on social assistance, the rate of poor school performance is 28 per cent compared to 6 per cent for those in families not on social assistance. Rates of poor school performance are also much higher for girls than for boys.<sup>(107)</sup>

The findings of a background study for this Committee (Appendix I) underscore the need for services which are sensitive to the problems of poor children in the area of education.<sup>(108)</sup> Despite the fact that education falls within provincial jurisdiction, the Committee feels compelled to emphasize the importance of educational services in assessing and addressing some of the conditions associated with child poverty. In this regard, The Canadian Teachers Federation have been successful in laying some important groundwork in their report, *Children, Schools and Poverty* (1990).

## RECOMMENDATION

13. We recommend that the study by the Canadian Teachers Federation (*Children, Schools and Poverty*) be circulated among members of parliament at both the federal and provincial level and that it be used as a basis for consultation and discussion in preparation for the proposed national conference on child poverty.

Early childhood intervention programs help to ensure that poor children begin the road to adulthood from a position which begins to approximate equality with their non-poor counterparts. In speaking about this path one witness indicated that:

...growing up in Canada is a race. Everyone understands that it is a race. There are two things about this race that are important. First, one has to ensure that the race is fair. That means that things like prenatal care, day care, etcetera, should be the same for all kids so that everyone has an equal opportunity.... Also there has to be another area of investigation which focuses on the penalties for losing in growing up in Canada. So the two things are to ensure that the race is fair and to reduce the penalties for losing.<sup>(109)</sup>

In addition to the advantages that poor children receive from earlier access to the educational system, they also benefit from superior pre-school and extra-curricular programs which are both school and community based. Involvement in such programs appears to provide a "protective factor" which tends to shield poor children from the outcomes of marginal home environments, according to the *Ontario Child Health Study*.<sup>(110)</sup>

<sup>(106)</sup> Proceedings, 20 March 1990, Issue 18, p. 11.

<sup>(107)</sup> Proceedings, 20 March 1990, Issue 18, p. 14.

<sup>(108)</sup> Ross, David P. and Richard Shillington, *Child Poverty and Poor Educational Attainment: The Economic Costs and Implications for Society*, Ottawa, May 1990 (Appendix I).

<sup>(109)</sup> Proceedings, 20 March 1990, Issue 18, p. 20.

<sup>(110)</sup> Dr. Dan Offord *et al.*, *Ontario Child Health Study: Children at Risk*, Queen's Printer, Toronto. The Study indicates that further research is needed to determine the extent of causality between protective factors and improved school performance and a reduction in psychiatric disorders among poor children.

To quote Dr. Dan Offord:

To sum it up, if you had to take an area in Canada where poor children lose out, there would be none more severe than the area of recreation and skill development...among the things that poor children need are the best outside-the-home programs that the country can provide, and they tend to get the worst.<sup>(111)</sup>

This testimony suggests that cross-ministry cooperation will be essential in the establishment of such services. Ontario's Ministry of Community and Social Services is currently committed to a long-range demonstration project aimed at providing early intervention that will be located in approximately four to six economically-disadvantaged locations throughout Ontario. Each location will be representative of a different type of poverty. The project includes provisions for long-range follow-up to "track" the children who have had access to these early intervention programs until they reach 20 years of age. This study can be seen as a model which incorporates many of the principles discussed in the opening remarks to this chapter. The Committee sees this as a workable model and encourages other provinces to investigate the implementation of similar approaches to service delivery for poor children.

### C. Conduct Disorders and Juvenile Delinquency

Conduct disorders (chronic aggressiveness and rule breaking) are more often reported among poor children. The prevalence of parental reporting of conduct disorders among poor children are four per cent compared to the 1.8 per cent for non-economically disadvantaged children. These differences are more startling when the incidence of teacher reporting of conduct disorders is examined, the *Ontario Child Health Study* shows. The odds of teachers identifying a conduct disorder among poor children are approximately seven times what they would be for children who are not poor.<sup>(112)</sup> Conduct disorders are at the centre of the debate concerning the relationship between child poverty, juvenile delinquency and adult criminal behaviour. Recent longitudinal studies in Britain and the United States indicate that antisocial behaviour in adults can often be traced back to difficulties they encountered in early childhood (e.g. 1-5 years) including inconsistent and uncaring parenting, problems at school and poverty. These studies also found that early childhood programs show much promise in dealing with these difficulties.<sup>(113)</sup> The Canadian Council on Children and Youth urges us to invest more energy and resources in studying and developing effective primary prevention strategies and that:

If we ignore the problems faced by children at risk of becoming offenders, we will certainly suffer the consequences. If we abandon these children to lives of unfulfilled promise and limited opportunities, we will pay for it in the future through the costs of an alienated population and lost productivity and creativity.

Witnesses emphasized the importance of integrating child and parental support programs as an approach to dealing with conduct disorders. Impoverished living conditions stretch parent's ability to deal effectively with the lives of their children and themselves. Feelings of powerlessness and helplessness undermine parents capabilities and their self-esteem and have long-term consequences for all household members.

<sup>(111)</sup> Proceedings, 20 March 1990, Issue 18, p. 12.

<sup>(112)</sup> Proceedings, 20 March 1990, Issue 18, p. 10.

<sup>(113)</sup> Canadian Council on Children and Youth, *Safer Tomorrows Begin Today*, Ottawa, 1989, p. 1.

## RECOMMENDATION

14. We recommend that Health and Welfare Canada provide financial resources to establish a fund to support a range of "self-help" projects. Provinces should be encouraged to avail themselves of these funds and should undertake to coordinate and assess requests for the money with local organizations (see also Recommendation 3). The federal government would screen for duplication, evaluate these projects, and disseminate information on their findings.

Serious consideration should also be given to more fully integrated social support services for families within the educational system. Local schools could provide information and, where possible, serve as the location for a variety of support programs.

### D. Housing

Housing is an issue which received a considerable amount of attention from many witnesses. The issues of affordability, availability and access and the quality of housing conditions were all recurring themes.

On any given day in Canada, according to a 1987 study done by the Canadian Council on Social Development, there are at least 10,000 people living in emergency shelters. Throughout the year, between 130,000 and 250,000 people make use of shelter accommodation and about 20 per cent of these people are in families that include children.<sup>(114)</sup>

Families who are forced to depend on emergency shelter accommodations may find themselves in this position for a variety of reasons. The Committee was told that the broader economic conditions faced by the parents of poor children are among the most important factors influencing their children's quality of life. Families who are living at slightly above or below the poverty line find it difficult to sustain contemporary housing costs and may be forced to live in conditions which severely compromise their children's life styles. The problem of affordability is exacerbated for families, particularly single-parent (predominantly female-led) families, who are dependent on social assistance income.

Affordability plays a major role in determining housing choices. The cost of various forms of housing has increased dramatically in recent years and neither minimum wages, nor income support levels, have kept pace with these changes. Such a situation means that housing costs often consume a major portion of household budgets, particularly among poor, working-poor and social assistance recipient families.

The Committee learned that for social assistance recipients and for poor and working-poor families, housing costs may account for between 40 and 60 per cent of their budgets. This problem is particularly acute for those who live in large urban centres like Toronto, Ottawa and Vancouver.<sup>(115)</sup>

<sup>(114)</sup> Canadian Council on Social Development, Brief to the Committee, p. 10.

<sup>(115)</sup> Proceedings, 3 April 1990, Issue 20, p. 26.

One of the problems associated with housing for social assistance recipients is the fact that there is a large discrepancy between the amounts allocated for housing costs in the calculation of social assistance rates, and the actual cost of housing. A former administrator for the Regional Government of Ottawa-Carleton commented with respect to housing that:

...most social assistance recipients live in private housing...approximately 89 per cent of the residents of Ottawa-Carleton live in private housing. With increased costs and increased rents, a large number of social assistance recipients are paying in excess of 50 per cent of their income on housing. The consequence of that, of course, is that they have only 50 per cent of a very limited income to cover other essentials...the consequences are what you see in the street...the line-ups (at foodbanks) that begin toward the end of the month every month when people run out of money.<sup>(116)</sup>

These trends are not linked solely to social assistance recipients. According to a study using 1985 data, there is a strong relationship between income and housing affordability problems. Nine out of ten households with very low incomes spent at least 30 per cent of their income on shelter costs. Among households with incomes less than \$20,000, in 1985, renters were more likely than owners to spend 30 per cent or more of their income on shelter.<sup>(117)</sup>

Within this group, there are certain people who are more likely to experience affordability problems. Lone-parent families, young families and one-person households, for example, experience more severe housing affordability problems than other groups and these problems are enhanced for urban dwellers. In 1986, 56 per cent of female-headed lone-parent families residing in urban locations paid more than 30 per cent of their income for shelter, as compared to 51 per cent in 1981. The situation is more severe for young families. In 1986, 72 per cent of households with a household maintainer aged 15-19 years experienced affordability problems, as compared to 62 per cent in 1981. Among those households with a maintainer 20-24 years of age, the percentage experiencing housing pressures was 46 in 1986 as compared to 37 per cent just five years earlier.

In addition to issues of affordability, concerns with respect to the quality of housing conditions and their potential impact on children were also noted. The Committee was told that there are links between inadequate housing, health and child poverty and that this situation requires immediate attention. Children who live in housing which is not well heated, insulated and ventilated are more susceptible to colds, infections and other health problems which, although minor, are potentially dangerous. The lack of safe and pleasant places for children to play means that they may run a higher risk of accidents and injuries.

The *Ontario Child Health Study* also found that there is a relationship between housing and more serious health problems such as psychiatric disorders, including conduct disorders and hyperactivity among children. The study found that children living in subsidized or social housing, particularly those which live in large complexes, have higher rates of such psychiatric problems. These disorders affect almost one-third of children, particularly those who are between six and eleven years of age.<sup>(118)</sup>

In addition to psychiatric disorders, the study found that there is a greater risk of poor school performance among children living in subsidized housing. Such risks increase greatly as the children

<sup>(116)</sup> Proceedings, 6 March 1990, Issue 16, p. 31.

<sup>(117)</sup> Tom Bird, "Shelter Costs," *Canadian Social Trends*, No. 16, 1990, p. 9.

<sup>(118)</sup> Dr. Dan Offord *et al.*, *Ontario Child Health Study: Children at Risk*, Queen's Printer, Toronto, 1990, p. 12.

reach high school, where they generally receive less individualized attention, and where they are expected to attend to their educational program requirements with more self-discipline. The percentage of children with poor school performance among those between 12 and 16 years of age was 42.2 per cent as compared to 13.6 per cent for those aged six to eleven years.<sup>(119)</sup>

These facts speak to the impact of inadequate and non-affordable housing on the lives of poor children and their families in Canada. The need for a renewed and strengthened commitment to housing was expressed by a number of witnesses. Concern was expressed that short-term interim policies in the field of housing must be combined with a long-term commitment to provide increased numbers of affordable housing units for those in need. The fact that current figures do not indicate a trend in this direction is a cause for concern.

For example, the availability of housing stock in Canada is approximately 9.5 million units, yet social housing accounts for a mere 5 per cent of the total stock and represents only 3.8 per cent of all new housing starts.<sup>(120)</sup>

The Committee was also told that Canada Mortgage and Housing Corporation (CMHC) recently experienced a 15 per cent reduction in the overall funds designated for new social housing in 1989-90 and 1990-91. This means that the number of new households which CMHC will be able to assist will be reduced by 6,000, from 42,000 in 1988-89 to approximately 36,000 for the current year.<sup>(121)</sup> The Committee urges that greater financial commitments to housing programs already in place be vigorously pursued.

While the Committee heard from any number of witnesses who support the notion of affordable housing, there was also concern that new approaches to affordable housing need to be developed. A reliance on large-scale social housing complexes would appear to be misplaced, given the abundance of research which demonstrates that such living situations often foster a number of social problems for children and adults alike.

Canada Mortgage and Housing currently operates a Rent Supplement Program which is administered through an agreement between the government and a landlord. Under this program, a landlord agrees to set aside a designated number of their housing units which will be available on a rent supplement basis. This agreement spells out the rent that the owner will be paid for each unit, based on comparable accommodation and market rents in that community. The difference between the agreed upon rent and the tenant's payment is then subsidized jointly by CMHC and the province (according to a rent-to-income scale).

The problems with this manner of system were outlined by a number of witnesses who indicated the limited supply of rent-supplemented units in most communities. There is a need for greater flexibility in the administration of rent supplements.

<sup>(119)</sup> *Ibid.*, p. 12.

<sup>(120)</sup> Canadian Council on Social Development, Brief to the Committee, p. 10.

<sup>(121)</sup> Proceedings, 6 March 1990, Issue 16, p. 19.

RECOMMENDATIONS

- 15. We recommend that the federal government consider an alternative to the present Rent Supplement Program administered through CMHC, including a system of cost-shared rent supplements to be made directly available to households who pay more than 30 per cent of their income on shelter costs, up to a specified limit which reflects local costs of adequate housing.
- 16. We recommend that the federal government increase their financial support to programs aimed at facilitating home ownership for low and middle income Canadians.

In previous attempts to alleviate impoverished living conditions, housing was given a high priority. The Committee was told that similar will must now be focused on the provision of affordable housing to Canada's poor and middle income families with children.

For example, the availability of housing stock in Canada is approximately 2.5 million units, yet the field of housing must be considered. The Committee was also told that the number of new units required in the next five years is estimated at 1.5 million units. The Committee was also told that the number of new units required in the next five years is estimated at 1.5 million units. The Committee was also told that the number of new units required in the next five years is estimated at 1.5 million units.

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While the Committee heard many in favour of witnesses who support the notion of affordable housing, there was also concern that new approaches to affordable housing need to be developed. A number of witnesses would appear to be in favour of the idea of a rent supplement program for low and middle income families. The Committee was also told that the number of new units required in the next five years is estimated at 1.5 million units.

The Committee was also told that the number of new units required in the next five years is estimated at 1.5 million units. The Committee was also told that the number of new units required in the next five years is estimated at 1.5 million units. The Committee was also told that the number of new units required in the next five years is estimated at 1.5 million units. The Committee was also told that the number of new units required in the next five years is estimated at 1.5 million units.

The problems with the current system were outlined by a number of witnesses who indicated the limited supply of rental units in most communities. There is a need for greater flexibility in the financing of rental programs.

## CHAPTER SEVEN: CONCLUSIONS

In preparing both the Interim and the final reports, we have heard from many of Canada's top experts and workers in the field of poverty in general and child poverty in particular. The paradox we currently face in Canada — that despite our wealth we continue to have unacceptably high rates of child poverty — deeply concerns us. We need to focus our priorities on substantially reducing the number of children who live in poverty. As this report has emphasized, the historical precedent for undertaking specific and successful measures to alleviate poverty among Canada's senior population is a powerful reminder that solutions to the problem are indeed "within our reach."

The fact that solutions are accessible does not mean that we are ignoring the complexity of the problems and the solutions. Witnesses continually emphasized the various dimensions and consequences of child poverty, many of which manifest themselves in a variety of adult social problems. The Committee is convinced that, simultaneously, solutions must address both income support programs and service provisions.

We recognize that innovative and resourceful federal-provincial/territorial negotiations will be essential to the success of the approach we recommend. While this report provides a set of recommendations which focus their attention on the role of the federal government, it is also necessary to underscore the importance of the recommendation calling for a national conference on shared solutions to the problem of child poverty. We see this conference as an opportunity for all levels of government, and the general public, to communicate and share in the development of a long-term strategy.

## LIST OF RECOMMENDATIONS

1. We recommend that the federal government fully support the objective of substantially reducing child poverty in Canada. Toward that objective, we recommend that the federal government show leadership by undertaking co-operative strategies, with other levels of government and the public at large, to address the needs of Canada's children living in poverty. (page 14)
2. We recommend that a national conference, involving all levels of government and the general public, on the subject of shared solutions to the problem of child poverty in Canada be held within the next twelve months. (page 14)
3. We recommend that problems facing aboriginal children be given top priority by the Minister now responsible for children's issues. Toward that end, we recommend that the department allocate significant financial resources to this issue and undertake consultations with relevant aboriginal organizations in order to assess the needs of aboriginal children in Canada, and establish an action plan for meeting these needs. (page 14)
4. We recommend that the federal government, in collaboration with the provincial and territorial governments, set out a policy on national child care outlining a range of child care options, as quickly as possible. (page 18)
5. We recommend that the federal minimum wage be increased to a level that will provide an annual income equal to the Statistics Canada poverty line for an individual living anywhere in Canada. After this level has been achieved, the minimum wage should be fully indexed to the cost of living. (page 20)
6. We recommend that the new level of the federal minimum wage be required for all federally funded and cost-shared programs and contracts. (page 21)
7. We recommend that existing income support programs provide greater flexibility so that recipients who wish to undertake job retraining and/or further education to enhance their employability, not be subject to penalties with respect to the level of social assistance they receive, including their access to relevant services such as medical prescription coverage, etc. (page 21)
8. We recommend that the federal government carefully review the following income support options prepared on the basis of statistical models used by consultants to the Committee (see Appendix II), and that they adopt either:
  - a) a national child benefit consisting of the Family Allowance (at current rates but fully indexed and without the taxback) plus an enhanced Refundable Child Tax Credit (fully indexed) at a rate which would meet the basic costs of raising a child. This scheme would be financed with monies saved from the elimination of the Non-Refundable Child Tax Credit, monies redirected from spending on children under CAP, monies from the existing Refundable Child Tax Credit and \$500 million in new funds

OR



- b) an enhanced Refundable Child Tax Credit (fully indexed) targetted at poor families with children. This scheme would be financed with monies saved from the elimination of the Family Allowance and the Non-Refundable Child Tax Credit plus monies from the existing Refundable Child Tax Credit and monies redirected from spending on children under CAP (see Appendix II). (page 31)
9. We recommend that the provincial and federal governments undertake an agreement to ensure that current levels of income support now provided by the provinces under CAP be maintained and subject to a rate of indexation comparable to that applied to other areas of assistance funded under CAP. (page 31)
  10. We recommend the gradual implementation, over the next five years, of a national prenatal campaign focusing on prenatal education with specific attention paid to high-risk pregnancies, especially among the adolescent population. (page 35)
  11. We recommend that family allowance payments be available to pregnant women subject to a medical confirmation of their pregnancy *and* the maintenance of regular pre-natal health care, either through public health visits or attendance at community-based pre-natal classes. (page 35)
  12. We recommend that the federal government allocate resources to study and make recommendations on the appropriate role of food banks and similar organizations in Canada, including such considerations as the possibility that food banks be converted into Consumer Cooperatives owned and run by low-income people and/or into collection and distribution centres for nutritious meals for school children. (page 36)
  13. We recommend that the study by the Canadian Teachers Federation (*Children, Schools and Poverty*) be circulated among members of parliament at both the federal and provincial level and that it be used as a basis for consultation and discussion in preparation for the proposed national conference on child poverty. (page 37)
  14. We recommend that Health and Welfare Canada provide financial resources to establish a fund to support a range of "self-help" projects. Provinces should be encouraged to avail themselves of these funds and should undertake to coordinate and assess requests for the money with local organizations (see also Recommendation 3). The federal government would screen for duplication, evaluate these projects, and disseminate information on their findings. (page 39)
  15. We recommend that the federal government consider an alternative to the present Rent Supplement Program administered through CMHC, including a system of cost-shared rent supplements to be made directly available to households who pay more than 30 per cent of their income on shelter costs, up to a specified limit which reflects local costs of adequate housing. (page 42)
  16. We recommend that the federal government increase their financial support to programs aimed at facilitating home ownership for low and middle income Canadians. (page 42)

**LIST OF WITNESSES**

Honourable Alan Redway  
Minister of State (Housing)

Tuesday, March 6, 1990  
Issue 16

Dr. Alan Moscovitch  
School of Social Work  
Carleton University

Tuesday, March 6, 1990  
Issue 16

Mr. Ovide William Mercredi  
Regional Chief, Manitoba  
Ms. Karen Isaacs  
Policy Analyst  
Assembly of First Nations

Tuesday, March 6 1990  
Issue 16

Claudette Bradshaw  
Executive Director  
Moncton Headstart Program

Tuesday, March 6, 1990  
Issue 16

Ms. Noreen Bell  
Project Coordinator, Women Against Poverty Campaign  
Alberta Status of Women Action Committee

Tuesday, March 6, 1990  
Issue 16

Dr. Robin Walker, President  
Ms. Marion Dewar, Executive Director  
Ms. Michelle Clarke, Research Officer  
Canadian Council on Children and Youth

Wednesday, March 7, 1990  
Issue 17

Dr. Carol Russell  
Project Design Coordinator  
Primary Prevention/Early Intervention

Initiatives Children's Services Branch  
Ministry of Community and Social Services (Ontario)

Wednesday, March 7, 1990  
Issue 17

Mr. Terrence Hunsley, Executive Director  
Ms. Melanie Hess, Researcher  
Mr. Jean Bernard Robichaud, Senior Policy Associate  
Canadian Council on Social Development

Wednesday, March 7, 1990  
Issue 17

Mr. Dan Brown, President and Chief Executive Officer  
Dr. Denise Avard, Vice-President,  
Research and Information Services  
Canadian Institute of Child Health

Wednesday, March 7, 1990  
Issue 17

Professor Irving Waller  
Department of Criminology  
University of Ottawa

Wednesday, March 7, 1990  
Issue 17

Dr. Dan Offord  
Department of Psychiatry  
McMaster University

Tuesday, March 20, 1990  
Issue 18

Mr. Michael Goldberg  
Director of Research  
British Columbia Social Planning and Research Council

Tuesday, March 20, 1990  
Issue 18

Ms. Kitty O'Callaghan, President  
Ms. Heather Jane Robertson, Director, Professional Development Services  
Dr. Stirling McDowell, Secretary General  
Canadian Teachers Federation

Tuesday, March 20, 1990  
Issue 18

Mr. Nathan Gilbert, Executive Director  
Mr. Bryan Hayday, Chairman, Ontario Social Assistance Reform Network  
Dr. Richard Volpe, Institute of Child Study, University of Toronto  
Professor Marvyn Novick, Department of Community Services, Ryerson  
Institute  
Laidlaw Foundation

Tuesday, March 27, 1990  
Issue 19

Ms. Marie-Paule Duquette  
Dietician  
Montreal Diet Dispensary

Tuesday, March 27, 1990  
Issue 19

Dr. Denise Avard, Vice-President,  
Research  
Dr. Graham Chance, President  
Ms. Rebecca Last, Executive Director, Canadian Cerebral Palsy Association  
Canadian Coalition for the Prevention of Developmental Disabilities

Tuesday, April 3, 1990  
Issue 20

Mr. Trevor Williams, President and Chief Executive Officer, Family Service Canada  
Mr. Gerry Gaughan, Board of Directors, Family Service Canada  
Dr. Robert Glossop, Coordinator of Programs and Research, Vanier Institute of the Family  
Family Service Canada  
Vanier Institute of the Family

Tuesday, April 3, 1990  
Issue 20

Dr. Glenda Simms, President  
Ms. Norma Logan, Chair, Economic Development Committee  
Dr. Elly Silverman, Director of Research  
Ms. Joan Scott, Research Analyst  
Canadian Advisory Council on the Status of Women

Tuesday, April 10, 1990  
Issue 21

Ms. Sandy Dyer, Community Nutritionist, Halifax Social Planning Department  
Professor Elizabeth Shears, Department of Home Economics, Mount St. Vincent University  
Nova Scotia Nutrition Council

Tuesday, April 10, 1990  
Issue 21

Ms. Susan Piggot, Chair  
Professor Brigitta Kitchen, Social Policy Coordinator  
Professor Marvyn Novick, Social Policy Coordinator  
Child Poverty Action Group

Tuesday, April 10, 1990  
Issue 21

Ken Battle  
National Council of Welfare

Tuesday, May 1, 1990  
Issue 22

David Ross and Richard Shillington  
Advisors to the Committee

Tuesday, May 1, 1990  
Issue 22

David P. Ross  
Richard Shillington

Ottawa, May 1990

**LIST OF BRIEFS**

Honourable Alan Redway

Dr. Alan Moscovitch

Assembly of First Nations

Canadian Council on Children and Youth

Ministry of Community and Social Services

Canadian Council on Social Development

Canadian Institute of Child Health

Dr. Irving Waller

Dr. Dan Offord

British Columbia Social Planning and Research Council

Canadian Teachers Federation

Laidlaw Foundation

Montreal Diet Dispensary

Canadian Coalition for the Prevention of Developmental Disabilities

Family Service Canada, Canadian Child Welfare Association,  
Vanier Institute of the Family

Canadian Advisory Council on the Status of Women

Nova Scotia Nutrition Council

Child Poverty Action Group

National Anti-poverty Association (letter)

Edmonton Working Women

TABLE OF CONTENTS

INTRODUCTION ..... 21

I. WHY CHILDREN FROM POOR FAMILIES FAIL AT SCHOOL? ..... 21

    a) Child Poverty in Canada ..... 21

        The meaning of poverty ..... 21

**CHILD POVERTY AND POOR EDUCATIONAL ATTAINMENT:  
THE ECONOMIC COSTS AND IMPLICATIONS FOR SOCIETY** ..... 21

        The poverty gap ..... 26

        Income cuts and child poverty ..... 21

        Poverty and the development of child ..... 21

    c) The Link Between a Child's Ability to Learn and School Failure ..... 29

    d) Poverty, Poor Health, and Impaired Learning ..... 40

    e) Some Child Health and Learning ..... 44

        Direct health costs ..... 44

        Remedial and special education ..... 44

        Alternative child care ..... 44

Prepared for the Standing Senate Committee on Social Affairs,  
Science and Technology by: ..... 45

II. CHILDHOOD POVERTY AND DROPPING OUT OF SCHOOL ..... 45

    a) The Prevalence of Dropping Out in Canada ..... 45

    b) The Number and Composition of Dropouts from Poor Families ..... 45

III. SOME ECONOMIC IMPLICATIONS OF DROPPING OUT ..... 48

    a) Lower Lifetime Income and Reduced Productivity ..... 48

    b) Reduced Public Revenues ..... 49

    c) Increase Public Income Security Program Costs ..... 50

IV. THE ECONOMIC COST TO SOCIETY OF DROPPING OUT DUE TO CHILD  
POVERTY ..... 71

V. THE NEED FOR A HIGHLY TRAINED LABOUR FORCE AND THE ADDED  
PRESSURE DUE TO THE AGING OF THE POPULATION ..... 74

CONCLUSION ..... 77

Ottawa, May 1990. ..... 78

NOTES AND REFERENCES ..... 78





# TABLE OF CONTENTS

<b>INTRODUCTION</b> .....		<b>54</b>
<b>I. WHY CHILDREN FROM POOR FAMILIES FAIL AT SCHOOL</b> .....		<b>55</b>
a) Child Poverty in Canada .....		55
The measure of poverty.....		55
The extent of child poverty.....		55
b) The Deprived Material Environment .....		56
The poverty gap.....		56
Incomes on social assistance.....		58
Poverty and the minimum wage .....		58
c) The Link Between a Poor Material Environment and School Failure.....		59
d) Poverty, Poor Health, and School Failure.....		62
e) Some Childhood Costs of Poverty.....		64
Direct health costs .....		64
Remedial and special education.....		64
Alternate child care.....		64
f) Conclusion.....		65
<b>II. CHILDHOOD POVERTY AND DROPPING OUT OF SCHOOL</b> .....		<b>65</b>
a) The Extent of Dropping Out in Canada.....		65
b) The Number and Composition of Dropouts From Poor Families.....		65
<b>III. SOME ECONOMIC IMPLICATIONS OF DROPPING OUT</b> .....		<b>68</b>
a) Lower Lifetime Incomes and Reduced Productivity.....		68
b) Reduced Public Revenues .....		69
c) Increase Public Income Security Program Costs .....		70
<b>IV. THE ECONOMIC COST TO SOCIETY OF DROPPING OUT DUE TO CHILD POVERTY</b> .....		<b>71</b>
<b>V. THE NEED FOR A HIGHLY TRAINED LABOUR FORCE AND THE ADDED PRESSURE DUE TO THE AGING OF THE POPULATION</b> .....		<b>74</b>
<b>CONCLUSION</b> .....		<b>77</b>
<b>NOTES AND REFERENCES</b> .....		<b>78</b>

## INTRODUCTION

This study will not be to the liking of everyone interested in alleviating child poverty. By appealing to the economic self-interest of Canadians it has a restricted focus. It gives the appearance that the economic consequences of child poverty for the nation are the only important concern. However, this is not the intention of the authors or of the Senate committee. Many of the social and human consequences and miseries of child poverty will be dealt with in the Senate committee final report, of which this study is only a background document.

In developing this special study it was felt that more attention should be paid to the "bottom line" concern of what child poverty, and its association with school failure, can mean to the Canadian economy, especially as the population ages. If some Canadians can see their future economic interests and retirements being threatened by continuing child poverty, perhaps this may stimulate action. For those many Canadians who are sufficiently motivated by feelings of equity and social justice, this study (aside from, perhaps, Parts I and II) will likely be neither helpful nor harmful.

A major, and life-long cost to society of raising children in poverty is that they perform poorly at school; drop out of school in greater numbers before completing high school; and end up more frequently as low-productivity and intermittently employed workers. Part I of this report describes why this is so. There are two main reasons: a deprived material environment leads to many unmet needs and alienation, which is detrimental to providing a proper learning environment; and poor physical and mental health resulting from being raised in poverty makes learning difficult.

Part II of the report provides a picture of the number and composition of dropouts coming from low-income families, with a particular focus on the background and circumstances of their families (a "dropout" is someone who has not graduated from high school). Part III explores the economic implications to society of poor educational achievement — lower lifetime incomes and productivity, greater use of public income security programs, and smaller tax and premium contributions. Part IV provides an estimate of the economic costs society will have put in place by the year 2010 unless child poverty conditions significantly improve. Part V explores the added pressures that will be placed on the labour force due to the aging of the Canadian population.

63	a) Lower Lifetime Incomes and Reduced Productivity
69	b) Reduced Public Revenues
70	c) Increase Public Income Security Program Costs
71	IV. THE ECONOMIC COST TO SOCIETY OF DROPPING OUT DUE TO CHILD POVERTY
74	V. THE NEED FOR A HIGHLY TRAINED LABOUR FORCE AND THE ADDED PRESSURE DUE TO THE AGING OF THE POPULATION
77	CONCLUSION
78	NOTES AND REFERENCES

## I. WHY CHILDREN FROM POOR FAMILIES FAIL AT SCHOOL

### a) CHILD POVERTY IN CANADA

At the outset it is important to define what is meant by "poverty" in Canada in the 1990's. Poverty in industrialized societies is defined most often in relation to the prevailing standard of living. As such, poverty is deprivation — being deprived of a defined minimum bundle of goods and services routinely available to the average family. Absolute deprivation — facing life-threatening living conditions — is uncommon in Canada, although the growing presence of food banks and shelters and the need for school lunch programs attests to the life-threatening situations some people face. And absolute poverty can be found on some native reserves.

#### *The measure of poverty*

The poverty measure most commonly accepted as representing the official national poverty line in Canada, is based on the set of low-income lines used by Statistics Canada to estimate the numbers living in poverty each year.<sup>1</sup> Although Statistics Canada is careful not to use the word poverty, their low-income lines are designed to estimate the level of income where people have so much less income than an average Canadian family that they would be, by comparison, living in "straitened circumstances". The estimated 1990 values for the low-income lines for people living in large cities are:

one person .....	\$14,000
two .....	19,200
three .....	24,200
four.....	27,900

and they continue on in steps up to a family of size seven or more.

#### *The extent of child poverty*

The precise number of poor children varies according to the poverty line used, the age cut-off employed to define children, and whether native children living on reserves are counted. Statistics Canada, employing its most recently revised (1986) low income cut-offs, has estimated that in 1988 there were 913,000 dependent children under the age of 16 years living in poverty.<sup>2</sup> This number, however, does not include native children living on reserves. Using 1986 census data, it is estimated that about 40,000 native children on reserves are living in poverty.

Consequently, the total number of children under the age of 16 years living in poverty in 1990 is around 953,000. If 16 and 17 year old poor children living with their families are added, the total would exceed one million. In looking at trends, the rate of child poverty for the years 1973, 1980 and 1988 has been relatively stable at around 16 percent, but the absolute numbers are up slightly.

Table 1 shows the type of family in which poor children live and the employment status of their parents (or guardian adults).

**TABLE 1**  
**DEPENDENT POOR CHILDREN, AGES 0-17**  
**FAMILY TYPE AND FAMILY EMPLOYMENT, 1986**

Characteristic	Number ( <sup>'000</sup> )	Percentage distribution %
Total	1,121	100.0
<b>Family type</b>		
couple with children	641	57.2
lone-parent/female	402	35.9
lone-parent/male	24	2.1
other	53	4.8
<b>Employment</b>		
full-year	419	37.4
none, or part-year	702	62.6

Source: David P. Ross and Richard Shillington, *Canadian Fact Book On Poverty, 1989*, Ottawa, CCSD, 1989, page 50.

The majority of poor children live in two parent (or two adult) families. However, children cared for by lone-parent mothers are over-represented among the poor. Lone-parent mothers comprise less than 10 percent of all Canadian families, but care for 35.9 percent of all poor children. The majority of poor children also live in families where the adults do not put in a full-year of employment and rely mainly on government transfer payments, such as social assistance, unemployment insurance, and disability pensions. However, over one-third (37.4 percent) live in families where one or both parents or adults have a combined full-year of employment income. These types of families are commonly referred to as the "working poor".

#### **b) THE DEPRIVED MATERIAL ENVIRONMENT**

As low as the low income cut-offs are, they are not representative of the amount of income most poor families struggle to live on. Most of Canada's poor people do not live at the low-income cut-offs, but well below them.

##### *The poverty gap*

Detailed estimates of "poverty gaps" (the amount of money required to bring a household's income to the poverty line) for various household types, and for different provinces are shown in Table 2. They reveal considerable shortfalls from the low income cut-offs.

TABLE 2

## AVERAGE HOUSEHOLD POVERTY GAP, 1986

Characteristic	Amount of gap
Canada	\$4,469
<b>Province</b>	
Newfoundland	4,151
Prince Edward Island	2,945
Nova Scotia	3,732
New Brunswick	4,077
Quebec	4,310
Ontario	4,532
Manitoba	5,076
Saskatchewan	5,132
Alberta	4,839
British Columbia	4,405
<b>Family type (non-elderly)</b>	
couple with children	6,162
couple with no children	4,349
lone-parent/female	6,365
lone-parent/male	5,698
<b>Income source (non-elderly)</b>	
mainly wages and salaries	4,605
mainly transfers	5,452

Source: Same as Table 1, page 53.

The data show that where a poor child lives in Canada helps determine how poor its family will be. On average in Canada, poor families have incomes \$4,469 below the poverty line; that is, they receive about \$375 less per month than the poverty line income. But this amount varies considerably according to which province the family lives in: the poverty gap in Saskatchewan is 1.7 times as much as it is in Prince Edward Island.

The type of family in which a poor child lives also helps determine the poverty-level income shortfall. A child living with a lone-parent mother lives in a home with a poverty gap \$203 larger than a child living with two adults, and \$667 larger than a child living with a lone-parent father. The lone-parent mother receives a family income of about \$530 less per month than that stipulated by the poverty line.

Children living in non-elderly families without steady employment, and whose main source of income is government transfers (social assistance, unemployment insurance, disability pensions, etc) are well below the poverty line — \$454 per month below. And children in non-elderly families where one or both parents have a full year of earnings are not immune to poverty either. In fact, the families of these children are only slightly better off (by \$70 a month) than children in families without steady employment income. Table 2 shows that working-poor families (income source is mainly wages and salaries) on average have incomes \$4,605 below the poverty line.

*Incomes on social assistance*

Social assistance benefits vary widely by province, but the national average social assistance benefit in 1990 is \$11,881 (\$990 monthly) for a lone parent mother with two children, and \$13,649 (\$1,137 monthly) for a two adult family with two children. The data in Table 3 provide a comparison between social assistance benefits and poverty lines.

TABLE 3

**ANNUAL SOCIAL ASSISTANCE INCOMES AS A PERCENTAGE  
OF POVERTY LINE, 1990**

Province	One adult, two children	Two adults, two children
	%	%
Newfoundland	47.7	45.5
P.E.I.	68.0	66.9
Nova Scotia	57.4	57.8
New Brunswick	42.5	38.5
Quebec	42.2	44.1
Ontario	71.3	69.8
Manitoba	45.4	48.6
Saskatchewan	58.3	60.5
Alberta	48.2	49.0
British Columbia	48.1	46.8
National average	52.9	52.8

Note: Since Statistics Canada adjusts the value of its low income cut-offs for size of community, the cut-off for each province's largest city has been used as the poverty line.

*Poverty and the minimum wage*

Table 4 lists the prevailing minimum wages, and compares the annual income which could be derived from full-time, full-year work at the minimum to the Statistics Canada cut-off. The results show that a lone parent with the care of one child working full-time year round at the minimum wage earns only about one-half of a poverty level income.

TABLE 4

**A COMPARISON OF MINIMUM WAGE INCOME TO THE POVERTY LINE INCOME  
FOR ONE PARENT WITH ONE CHILD, 1990**

Jurisdiction	Minimum wage	Annual minimum wage income	Poverty line	Income as % of poverty line
Federal	4.00	7,904	19,200	41.2
Newfoundland	4.25	8,398	16,900	49.7
P.E.I.	4.50	8,892	15,000	59.3
Nova Scotia	4.50	8,892	16,900	52.6
New Brunswick	4.50	8,892	16,900	52.6
Quebec	5.00	9,880	19,200	51.5
Ontario	5.00	9,880	19,200	51.5
Manitoba	4.70	9,287	19,200	48.4
Saskatchewan	4.75	9,386	16,900	55.5
Alberta	4.50	8,892	19,200	46.3
British Columbia	5.00	9,880	19,200	51.5

Note: Minimum wages are those prevailing on April 1, 1990. Minimum wage income is based on a 38 hour work week, and 52 weeks of work. The poverty line is the estimated Statistics Canada low income cut-off for each province's largest city.

It has often been countered that the level of minimum wages is not closely linked to poverty because minimum wage workers are either young dependents (school students) or secondary family earners (spouses) who can count on the support of others in the household. Exactly how many poor families depend almost exclusively on the minimum wage for their employment income is not known. However, the information in Table 1 showed that 37.4 percent of all poor children came from families where either one or both parents worked the full year but still had a poverty income. It can only be assumed that most of these adult workers would be working at or near the minimum wage.

In addition, a recent study by Statistics Canada has shown that in 1986, one million, or 9 percent of all Canadian workers earned \$4.00 an hour or less. And these workers were five times more likely than above-minimum wage workers to have collected welfare during the year (61 percent were women workers).<sup>3</sup> And since welfare can only be received by those in poverty (measured by family income), minimum wage workers who are secondary family earners would not qualify. Consequently, among all poor workers there is a disproportionate number who are poor, minimum wage workers without income support from family members.

**c) THE LINK BETWEEN A POOR MATERIAL ENVIRONMENT AND SCHOOL FAILURE**

The above poverty gap, social assistance and minimum wage data are presented to provide insight into the material deprivation suffered by the children of poor families. These data are summarized in Table 5 to show the amount of daily income each person has available in the average poor family, the family on social assistance and the family relying on a minimum wage worker. The amounts in Table 5 take into account the federal benefits a family receives through the refundable child tax credit, family allowances and the refundable sales tax credit.

TABLE 5

**DAILY AMOUNTS OF INCOME AVAILABLE PER PERSON IN POOR FAMILIES,  
BEFORE AND AFTER SHELTER COSTS, ACCORDING TO TYPE  
OF FAMILY, 1990**

Type	One adult, two children		Two adults two children	
	total*	after shelter**	total*	after shelter**
	\$	\$	\$	\$
average poor***	14.80	10.40	11.35	8.10
social assistance	13.10	8.70	11.15	7.85
minimum wage	10.65	6.30	8.10	4.80

\* Total amount of income should be adjusted upwards slightly in a few provinces due to provincial child benefits, but adjusted downwards for the average poor and minimum wage families due to the payment of income taxes. These adjustments will not substantially alter the daily amounts shown.

\*\* An amount of \$400 per month is estimated for average shelter cost.

\*\*\* This represents the family with the average poverty gap income based on Table 2. This family's income is a mix of employment income and government transfers (including social assistance).

As Table 5 shows, depending on the type of poor family, a family of four will be left with between \$4.80 and \$8.10 daily per person of "discretionary" income after shelter costs have been paid (the average and minimum wage families will also be required to pay some income tax). Agriculture Canada estimates the weekly cost of a "thrifty" (no frills) nutritious food basket in 1990 to be \$109.88 for a family of four and \$78.39 for a family of three headed by a female adult.<sup>4</sup> These weekly amounts require a daily food expenditure of \$3.92 and \$3.73 per person for a four and three member family respectively. This means that the four member families listed in Table 5 are now left with between \$0.88 and \$4.18 per person per day depending on the income source of the family.

But there are other essential expenditures that families must make. For purposes of keeping the discussion short, we will focus on the more representative two adult family since the two adult family cares for 57 percent of all poor children in Canada.



TABLE 6

**MINIMUM DAILY INCOMES AND ESSENTIAL EXPENDITURES  
PER PERSON IN POOR FAMILIES, FOUR PERSON FAMILY, 1990**

Type	DAILY INCOME	DAILY EXPENDITURES				DAILY BALANCE
		Rent and Utilities	Food	Clothing	Household and personal	
average poor	\$1.35	4.61	3.92	0.85	0.64	+1.33
social assistance	11.15	4.61	3.92	0.85	0.64	+1.13
minimum wage	8.10	4.61	3.92	0.85	0.64	-1.92

Daily expenditures are those recommended by the City of Winnipeg's Social Services Department for families on social assistance.

The expenditures in Table 6 represent minimum essential expenditures required simply to maintain physical functioning. There are no frills in this budget. Personal care, for example, includes only items like shaving equipment and toothbrushes. Household care does not include furnishings, but only household maintenance items such as soap and cleaning supplies. No provision is made for a telephone, radio, transportation, newspapers, prescription drugs, dental care, public education costs or fire insurance all of which most Canadians would consider basic essentials.

It is apparent from Table 6 that with a daily balance of \$1.33 per person left after paying for the basics of physical survival, the average poor child's lifestyle is rigidly limited. There is no discretion in spending allowed. How far will \$1.33 go considering that: return public transport in Canadian cities is over \$1.00, a movie runs \$4.00, public swimming costs \$1.25 (which helps explain why the rate of drowning among poor boys is three times the rate for non-poor boys)<sup>5</sup>, music lessons are \$10.00 a session, a museum visit \$1.50, a rock concert \$15.00, and a hobby magazine is priced at \$2.00.

It is easy to see that \$1.33 a day will not go far in providing any type of diversion or stimulation for a growing child. At a minimum, gym shoes cost \$25.00, skates \$50.00, a birthday present for a family member \$5.00, a school dance \$5.00, a used bicycle \$55.00, a school trip to the environmental farm \$5.00, an extra sweater \$10.00, prescription glasses \$75.00 and a tooth filled at the dentist \$60.00.

It is also unlikely that poor children even have the maximum of \$1.33 per day available to them as we have calculated. In all likelihood the parents have already cut into this allowance to pay for other essentials such as food, home furnishings, drugs, apartment insurance, telephone, back to school supplies, christmas presents, and transportation.

Also, some working-poor families as Table 6 indicates already begin each day with a \$1.92 per person deficit. Obviously, not even the essentials are provided for in these families. The most likely expenditure to suffer is food: children simply are not eating a good diet. In Nova Scotia, the Nova Scotia Nutrition Council estimated in 1988 that a family of four required \$423.76 a month for food alone, but in Truro such a family on social assistance received a total of \$270 for food *and* clothing.<sup>6</sup>

Lack of income drives many families to food banks. A 1989 survey of food banks in Winnipeg revealed that of the 4,800 people relying on food banks in a one week period, 40 percent were children

under the age of 12 years.<sup>7</sup> And a provincial parliamentary committee studying food banks in Ontario revealed there were 50 food banks in the province feeding 200,000 people a month of which 45 percent were children.<sup>8</sup> In these low-income environments it is no wonder that children are less healthy, as a later section shows.

Standing in line at food banks is not the only way poor children stand out. The lack of money means there is no choice or options in any area of their lives. The absence of money for hobbies, travel, sports, clothing, grooming and reading make it difficult for poor children to develop good feelings of self-esteem, and to feel competent, confident, proud and equal around their peers. There is little opportunity for recreation or hobbies which contribute to sound personal development. In the bleakness of this lifestyle, poor children grow up feeling defensive, and all but the exceptional feel insecure. And insecure children become insecure adults.

In the face of material deprivation, it is not surprising that the school dropout rate is almost twice as high for poor children as for non-poor children. Poor families can scarcely afford what is becoming expensive "free" public education, and poor children are constantly humiliated and rejected because they cannot participate in the events that now take up so much of the public education curriculum. They are constantly reminded of their family's poverty. They feel helpless and many become angry because of a situation over which they have no control.

At first, poor children may try to fit in with the other students, but over time they become frustrated with explaining why they cannot participate in the same events that the others routinely do. Slowly they drop by the wayside and either become isolated or choose their friends from among other disadvantaged children with whom they feel more at ease and less defensive. However, this disadvantaged group leads a different lifestyle, has less enriched experiences to share, develops a narrower outlook on life and establishes a more limited, and what seems to them, a more realistic set of expectations. Among this group of poor children, despair is reinforced and contagious. Poor children no longer aspire to the same ends as non-poor children because they realize their disadvantages and limits in a society so heavily governed by material well being.

#### ***d) POVERTY, POOR HEALTH AND SCHOOL FAILURE***

Children from poor families are more likely to suffer physical and mental health problems attributable to the poorer diet of the mother before and during pregnancy, and after birth due to the less nutritional diet available to the child. The extra stress imposed on families struggling daily to make ends meet is also a factor conditioning a poor child's physical and mental development — an economically depleted family is an emotionally depleted family. Children suffering from poor health will not be able to perform as well as healthy children at school.

The link between poverty and poor child health is well documented.<sup>9</sup> In 1986, the mortality rate from all causes for children under 20 years of age in Canada was 56 percent higher among children from poor families than it was among higher income families. Infant mortality (first year of life), in the same year, was twice as high for poor as for higher income families.

From a national study on disability covering children (0-14 years) living at home, it was revealed that poor children had twice the rate of mental and physical disability as children from high income families.<sup>10</sup> For severe disabilities only, the rate was 2.7 times higher for poor families. Statistics Canada

researchers concluded that the number of disabled children in Canada (living at home) would be cut by about 89,000 if low income was not a factor.<sup>11</sup>

Health experts agree that a major cause of child disability is low birth weight (less than 2,500 grams or 5.5 pounds) which can lead to a number of health problems, chiefly: neurodevelopment disabilities, birth defects, and respiratory tract problems. In a national study using 1986 births and income data, Statistics Canada concluded that while low birth weight babies accounted for about 6 percent of all births, this percentage varied from 5 percent among babies from the highest income families to 7 percent for babies from the poorest families.<sup>12</sup> It was estimated that low income alone contributed to about 2,900 "excess" low birth weight babies in 1986.

There are also local studies providing evidence of a link between low income and low birth weight. In Montreal, a comparative study of the low birth weight babies of mothers drawn from a cross section of deprived and higher income neighbourhoods revealed rates of low birth weight twice as high in the deprived communities as in the higher income neighbourhoods.<sup>13</sup> Also in Quebec, a strong link between low educational attainment of the mother and low birth weight has been established. And there is considerable statistical evidence linking low education and low incomes. In 1985, among mothers with less than nine years of schooling there was twice the rate of low birth weight babies as there was among the babies of mothers with a university level education.<sup>14</sup>

Among low birth weight babies there is 40 times the risk of neonatal (28 days after birth) mortality, and 5 times the risk of infant (during first year) mortality.<sup>15</sup> Congenital anomalies are twice as prevalent among low birth weight babies and neurodevelopmental handicaps are three times as likely.<sup>16</sup> Low birth weight is more likely to lead to lower IQ's, learning disabilities, developmental delays and cerebral palsy.<sup>17</sup>

The link between poverty, poor nutrition and low birth weight has also been documented by a Montreal analysis. In a controlled study of low-income mothers attending health and dietary counselling at a Montreal clinic, it was shown that an enhanced diet available to the second born (but not the first born) of the same 500 mothers led to a reduction in low birth weight babies by 50 percent.<sup>18</sup>

Although we are unaware of studies directly linking low birth weight with dropping out of school, the above evidence is strongly suggestive that students having physical and mental health problems such as developmental delay, lower IQ's and learning disabilities are going to find their school experience more difficult and frustrating and less rewarding than healthier children. In addition, less healthy children are going to be more frequently absent from school and placed at greater risk for falling behind. And a continuing lack of good nourishment and inadequate meals will create less attentive behaviour in class. Consequently, the inclination to leave this uncomfortable environment may be strong, especially when reinforced by the embarrassing restraints to participation in school activities due to lack of income.

The results of a large-scale Ontario government survey in 1983 of 3,000 school age children casts considerable light on the relationship between low income and various health and behaviour problems.<sup>19</sup> Some of these problems have a direct link with school performance. A summary of the main results is provided by Table 7.

As evidence from the study shows, children from poor families have more health and behaviour problems (and smoke more, which is known to lead to health problems). Almost one third (29.7 per cent) of poor children were suffering from poor school performance or had chronic health problems (30.1 percent). These findings tend to corroborate earlier evidence and beliefs that children from poor families are less likely to succeed and feel comfortable at school and, therefore, be more tempted to drop out.

TABLE 7

**RESULTS OF THE ONTARIO CHILD HEALTH STUDY, 1983:  
PERCENTAGE OF POOR AND NON-POOR CHILDREN 6-16 YEARS,  
WITH VARIOUS HEALTH AND RELATED PROBLEMS**

Characteristic	Family income status	
	Poor	Not poor
	%	%
emotional disorder	11.2	5.2
hyperactivity	13.2	5.3
conduct disorder	16.9	4.8
regular smoker	25.6	11.6
poor school performance	29.7	13.3
chronic health problems	30.1	17.6

Source: Dan Offord, Mike Boyle and Yvonne Racine, *Ontario Child Health Study: Children at Risk*, July 1989; as well as Dr. Offord's testimony given to the Senate Committee, March 20, 1990.

**e) SOME CHILDHOOD COSTS OF POVERTY**

There are at least three obvious areas where child poverty imposes a societal cost during the childhood period.

i) **Direct health costs** — The medical and hospital costs of low birth weight babies alone is considerable. In Quebec (1984-85) it has been estimated that the typical hospital stay varies between 2 to 8 times longer for low weight babies.<sup>20</sup> The estimated hospital costs of these stays depends on the birth weight, but are in the range of \$9,500 to \$60,000, compared to around \$5,500 for a normal weight baby.<sup>21</sup>

ii) **Remedial and special education** — Although no cost estimates are provided here, child poverty imposes costs associated with the education of children who, according to the evidence, will have greater developmental delays, learning disabilities, cerebral palsy, and conduct and emotional disorders. These extra costs will be in the nature of special schools in some areas; specially equipped classrooms; transportation; specially trained teachers, counsellors and psychologists; and reduced class sizes and higher teacher-to-student ratios.

iii) **Alternate child care** — There are also some considerable costs not directly related to health or education. In 1986, there were 49,000 children in the care of the child welfare system across the country. A series of local surveys has shown that, depending on the locality, between 54 and 75 percent of these children come from poor families.<sup>22</sup> The situation is even worse for native children since 20

percent of all children in alternate care in Canada are native children, although they account for only 2 percent of the Canadian child population.

The existence of child poverty greatly increases the likelihood that more children will require expensive alternate care arrangements. In fiscal year 1988/89, the amount of funds spent under the Canada Assistance Plan for special child care was \$800 million, or approximately \$16,000 per child per year.<sup>23</sup> These figures include the direct costs of foster care, group homes and residential treatment centres, but they exclude the cost of administering alternate care arrangements.

## *f) CONCLUSION*

Although some of the costs associated with childhood poverty have been outlined, they do not end here. The biggest, most persistent and hardest to reverse economic costs to society are not recorded in childhood, but when poor children reach adulthood. One of the biggest costs is related to low educational attainment attributable to the elevated school dropout rate of children from poor families.

## **II. CHILDHOOD POVERTY AND DROPPING OUT OF SCHOOL**

This section provides an estimate of the extent of dropping out of school, its connection with poverty, and a picture of the composition of the families of poor dropouts.

### *a) THE EXTENT OF DROPPING OUT IN CANADA*

No national source on dropout statistics was found, however, it is possible to estimate the number by using education and age data from the 1986 census. The procedure followed was to look at the 20-24 year old age group in Canada and calculate the proportion that had not completed high school. This proportion amounts to 27.1 percent. Accordingly we have used this figure for the unadjusted national dropout rate. This proportion is also very close to that estimated by special surveys undertaken for a study of dropouts in Ontario.<sup>24</sup>

However, a certain percentage of dropouts go on to complete their high school education at a later date. From two Ontario surveys this percentage has been estimated at between 14 and 18 percent.<sup>25</sup> Consequently, in calculations of the cost of poverty and dropouts, a 15 percent adjustment for later "catching up" is made. In effect, the adjusted national dropout rate becomes 23 percent.

Unfortunately, the census data do not link family income to dropping out. Therefore, of the total of school dropouts, it is not known directly what proportion come from poor families. However, by resorting to another data source it becomes possible to estimate the likelihood of poor and non-poor dropouts based on the population of Canadians 16 and 17 years old living at home with their families. The resulting estimate is that about 45 percent of the children from poor families are likely to drop out of high school.

### *b) THE NUMBER AND COMPOSITION OF DROPOUTS FROM POOR FAMILIES*

As mentioned, national dropout data that identify the characteristics of the dropout's family background is limited. The best source appears to be the annual Statistics Canada Survey of Consumer Finances.<sup>26</sup> Although this survey does not directly ask questions concerning school attendance of all

school age children, the findings allow a determination of how many 16 and 17 year olds living with their families are not attending school. The survey does not reveal how many 16 and 17 year olds not living with their families have dropped out, nor does it contain information on the educational achievements of 18 and 19 year olds.

While the survey results do not provide an accurate estimate of the absolute number of dropouts in Canada, they do allow a fairly reliable comparison between the dropout rates in poor and non-poor families. Pooling the results of the annual surveys for four years (1982, 84, 86 and 87), makes it possible to provide certain details on the characteristics of the poor families of the 16 and 17 year old school dropouts.

**TABLE 8**  
**THE SCHOOL DROPOUT RATE OF 16 AND 17 YEAR OLDS IN POOR AND NON-POOR FAMILIES, POOLED RESULTS FOR 1982, 1984, 1986 AND 1987.**

Characteristic	Poor		Non-poor	
	Rate	Distribution	Rate	Distribution
	%	%	%	%
<b>Canada</b>	<b>16.0</b>	100.0	<b>8.5</b>	100.0
<b>Community size</b>				
100,000 or more	15.2	50.9	7.5	48.6
other urban	18.1	33.2	9.5	32.8
rural	15.5	15.8	9.7	18.6
<b>Weeks worked*</b>				
0 - 48 weeks	17.6	67.2	14.3	16.7
49 or more	13.5	32.8	7.8	83.3
<b>Family type</b>				
couple/children	14.9	46.2	7.6	74.0
female/lone-parent	14.8	34.3	11.5	10.3
other	23.2	19.4	12.9	15.7
<b>Head's schooling</b>				
0 - 8 years	21.5	50.7	15.0	42.8
over 8 years	12.8	49.3	6.4	57.2
<b>Spouse's schooling</b>				
0 - 8 years	23.9	64.7	15.4	37.8
over 8 years	9.3	35.3	6.1	62.2
<b>Social assistance**</b>				
yes	21.3	44.8	19.5	4.1
no	13.3	55.2	8.3	95.9

\* Total of weeks worked by either or both adults in family.

\*\* Whether a family received more than half of its income that year from social assistance.

Poor families account for only 13 percent of all Canadian families with children, but they account for 23 percent of all dropouts in the 16-17 year age group. Table 8 shows some of the characteristics of the families of the dropouts. The dropout *rate* for children from poor families (16.0 percent) is almost twice that of non-poor families (8.5 percent). Two characteristics are associated with especially high dropout rates among poor families: low level of schooling of the family head (21.5 percent) or spouse (23.9 percent); and the family receiving social assistance (21.3 percent). These characteristics are also associated with higher dropout rates for non-poor families.

In terms of the *distribution* of all poor dropouts in the 16-17 age group, the profile is somewhat different. For example, even though the dropout rate among poor children is lowest in large cities, still slightly more than one half (50.9 percent) of all dropouts come from large cities. Also, the dropout rate for families with less than 49 weeks of employment is not much above the rate for families recording a full year of employment, but over two-thirds (67.2 percent) of dropouts come from families with less than 49 weeks of employment. The dropout rate for poor children from families where the head of family has only a primary education greatly exceeds that of families where the head has more years of schooling, but these better educated families account for almost one-half of the dropouts.

In terms of numbers, poor dropouts tend overwhelmingly to come from urban areas; live in families who hold less than 49 weeks of employment each year; and when residing with an adult couple (of which at least one is a parent), the spouse's schooling is primary level only. In fact, the education of the spouse in poor families (which by tradition in these surveys will most frequently be recorded as the wife) appears to have an even stronger association with dropping out. This association prevails (but less strongly) in non-poor families as well.

The findings for female headed lone-parent families requires some elaboration. The dropout rate (14.8 percent) for these poor families is below the average for all poor families. Moreover, female lone-parent families account for only 8.3 percent of all Canadian families, yet they account for over one-third (34.3 percent) of all poor dropouts. The reason this relatively small dropout rate and population proportion produces high dropout numbers is because during the '80s approximately 30 percent of all poor families have been headed by lone-parent mothers. Therefore, while they do not make up a large proportion of total Canadian families, they are vastly over-represented among poor families, and poor families of all types have higher dropout rates.

It should be stressed that these results concerning the extent and composition of school dropouts applies only to 16 and 17 year olds still living at home. From the census data discussed in an earlier section, it has been estimated that the dropout rate for all school-age children is about 27 percent. Therefore, the dropout rate of 18, 19 and 20 year olds must be considerably higher than it is for 16 and 17 year olds; but it is not possible to know with certainty what the composition of these older dropouts would look like. In the absence of further information, or evidence and insights to the contrary, it may be assumed that the profile for all dropouts would more or less resemble that of the 16 and 17 year olds.

### III. SOME ECONOMIC IMPLICATIONS OF DROPPING OUT

This section looks at some of the direct costs of dropping out of school: lower lifetime incomes and productivity; reduced tax and premium contributions; and increased benefits paid out through certain income security programs.

#### a) LOWER LIFETIME INCOMES AND REDUCED PRODUCTIVITY

The information in Table 9 reveals a strong positive relationship between education level, employment and income. These relationships are stronger for women than men. Lifetime income for females with a university degree compared to that of dropouts with less than nine years of education is 3.5 times as great. For men the income differential is 2.4 times. In most provinces and for most students, 12 years of education will constitute high school graduation, and the lifetime income of these people is also considerably superior to that of dropouts. It is 1.8 times as great for females, and 1.4 times for males.

TABLE 9

ESTIMATES OF INDIVIDUAL LIFETIME INCOME, AND YEARS SPENT IN  
VARIOUS LABOUR FORCE STATES, BETWEEN THE AGES OF 25 AND 65 YEARS,  
BY EDUCATION LEVEL AND SEX, 1990 DOLLARS

	Education		
	0-8 years	12 years	Degree
<b>Male</b>			
income	\$1,100,000	\$1,500,000	\$2,600,000
years of employment	27.6	33.6	35.0
years of unemployment	5.8	2.7	1.3
years not in labour force	6.6	3.6	3.7
<b>Female</b>			
income	\$400,000	\$700,000	\$1,400,000
years of employment	14.0	24.0	29.6
years of unemployment	2.8	2.3	1.9
years not in labour force	23.2	13.8	8.4

Source: Tabulations based on Statistics Canada's Social Policy Simulation Database/Model, SPSPD/M. However, responsibility for the analysis lies with the authors. SPSPD/M is based on the Survey of Consumer Finances micro-data tape for 1986, the Family Expenditure Survey for 1986 and Revenue Canada Taxation Statistics for 1986. Survey values have been adjusted for under-reporting and are presented in 1990 dollars. Tax burdens are estimated based on the income tax and consumption tax systems in place in 1990.

The lifetime income data also reflect the economic value of worker productivity (output) in a market economy. Conventional economic wisdom holds that workers' earned incomes are closely related to their contributions to the economy's output.<sup>27</sup> Consequently, the figures in Table 9 can be loosely interpreted as dollar contributions to a nation's economic output, as well as reflecting the differential values of productivity resulting from different education levels.<sup>28</sup>



Another perspective on economic contribution and productivity can be gained by looking at the connection between education level and labour force status. Generally, the higher the level of education, the more years a person will spend employed and the fewer years unemployed or not in the labour force. As with lifetime income data, education level produces greater differences among women than men. This occurs principally because women dropouts are much more likely to be completely outside the labour force than are men. An average female dropout spends 23.2 (58.0 percent) of her 40 working years not in the labour force (a typical male dropout spends only 6.6 years — 16.5 percent — out of the labour force). Between the ages of 25 and 65, women with a university degree will be employed 2.1 times as many years as will women dropouts. For males the difference is only 1.3 times. Both men and women with less than nine years of education will spend considerably more time either unemployed or not in the labour force than those with 12 years of education or a university degree.

It should be emphasized that being out of the labour force does not imply people are not productive in other ways, for example by raising children and performing volunteer community work. It only means their direct dollar contribution to an economy's output, as measured by gross domestic product (GDP), is zero.

#### **b) REDUCED PUBLIC REVENUES**

Table 10 shows that the public purse receives smaller dollar contributions from dropouts than those with higher levels of education, and the difference is much greater for women. The average male with less than nine years of education will contribute less than one-third the amount of federal and provincial taxes as will the average male university graduate. For females, the difference is much greater because the average woman with less than nine years of education spends more time out of employment than males. These women contribute to federal and provincial taxes only slightly more than ten percent the amount that their female counterparts do with university degrees.

The picture is somewhat different for the more regressive consumption taxes (sales and excise taxes that proportionally affect the poor more than the rich). The average male dropout will contribute about 60 percent of the amount a university graduate will, while a female dropout contributes about 40 percent as much.

**TABLE 10**  
**ESTIMATES OF INDIVIDUAL LIFETIME TAX AND PREMIUM CONTRIBUTIONS**  
**MADE BETWEEN THE AGES OF 25 AND 65 YEARS, BY EDUCATION**  
**LEVEL AND SEX, 1990 DOLLARS**

	Education		
	0-8 years	12 years	Degree
<b>Male</b>	\$	\$	\$
federal income tax	133,000	220,000	447,000
federal consumption taxes	56,000	66,000	93,000
provincial income tax	92,000	134,000	281,000
provincial consumption taxes	56,000	64,000	91,000
U.I. contributions	14,000	19,000	22,000
<b>Female</b>	\$	\$	\$
federal income tax	26,000	72,000	195,000
federal consumption taxes	20,000	28,000	48,000
provincial income tax	18,000	45,000	134,000
provincial consumption taxes	19,000	28,000	48,000
U.I. contributions	4,000	10,000	17,000

Source: See Table 9.

The average male with less than nine years of education will contribute an estimated \$14,000 to the UI scheme over a 40 year working lifetime, compared to \$22,000 for a university graduate. For a woman dropout, her lifetime UI contribution will be \$4,000, compared to over four times the amount contributed by a university graduate (\$17,000).

### **c) INCREASED PUBLIC INCOME SECURITY BENEFITS**

People with less than nine years of education draw greater amounts of social assistance and unemployment insurance benefits during a forty year working lifetime. Table 11 shows that among both males and females, dropouts will receive well over three times the level of social assistance benefits as will those with a university degree. In fact, even having 12 years of education cuts down the reliance on social assistance considerably.

The lifetime income data also reflect the economic value of a worker's productivity (output) in a market economy. Conventional economic wisdom holds that workers' income is closely related to their contributions to the economy's output.<sup>22</sup> Consequently, the figures in Table 9 can be loosely interpreted as dollar contributions to a nation's economic output, as well as reflecting the differential values of productivity resulting from different education levels.<sup>23</sup>

TABLE 11

**ESTIMATES OF INDIVIDUAL LIFETIME INCOME SECURITY  
BENEFITS RECEIVED BETWEEN THE AGES OF 25 AND 65 YEARS,  
BY EDUCATION LEVEL AND SEX, 1990 DOLLARS**

	Education		
	0-8 years	12 years	Degree
<b>Male</b>	\$	\$	\$
social assistance	47,000	19,000	15,000
U.I. benefits	60,000	30,000	14,000
<b>Female</b>	\$	\$	\$
social assistance	41,000	13,000	12,000
U.I. benefits	21,000	21,000	20,000

Source: See Table 9.

Among male workers, the educational impact on UI benefits is even greater. Male dropouts draw over four times the level of benefits that university graduates draw. Completing 12 years of education helps reduce the reliance on UI, but not as much as it does for social assistance benefits. For women, education has little impact on the lifetime level of UI benefits received. This is mainly explained by the fact that women with lower education levels are almost four times as likely (Table 9) as men to be out of the labour force and, therefore, to have not contributed to UI.

#### IV. THE ECONOMIC COST TO SOCIETY OF DROPPING OUT DUE TO CHILDHOOD POVERTY

The preceding section provided estimates of the lifetime effect that different levels of education are likely to have on income, employment, contributions to various government revenues, and receipt of selected income security benefits. These were estimates of the impact on individuals with no reference to poverty. We have been asked to go a step further and estimate the proportion of lost incomes and revenue and increased program costs attributable to dropping out induced by poverty only. Then calculate the total costs for all such dropouts and estimate the costs that will be put in place by the year 2010. The purpose of extending it over time is that the costs of a poor education are cumulative and lifelong. Once people drop out, their lifetime labour force patterns and future incomes are pretty well set.

We are well aware of the problems of extrapolating data twenty years into the future. Many changes will occur that are now unforeseen which will throw off the estimates. In interpreting the estimates that follow, less confidence should be attached to the absolute value of the numbers and more to the relative values associated with the different education levels. This means, for example, that the estimate for lifetime earnings resulting from an average level of education will be less reliable than the *difference* between average income, and the income of a dropout. Thus, in interpreting what follows, the greatest emphasis should be placed on the relative, not absolute size of the estimates.

The first step in this estimation and projection exercise is to estimate the proportion of lifetime economic effects attributable to dropping out of school only due to poverty. The second step is to estimate the number of poor children expected to drop out of school between now and the year 2010. Combining the information in these two steps permits the development of a cost estimate representing some of the economic consequences to society of poor children dropping out of school.

In order to do this kind of estimation, a set of assumptions was required. Due to a lack of guiding data, some of these assumptions are judgmental. Where this has been the case, we have tried to err on the side of downplaying the costs of dropping out to society in order to produce the most conservative cost estimate.

The estimating procedure is fairly simple. Dropout rates of 27 percent overall and 45 percent for poor children have been assumed, based on the available evidence. These rates are then reduced by 15 percent, which is the proportion that will later achieve high school graduation. It is not assumed that all poor dropouts do so solely because of their state of poverty since non-poor students also drop out. Using the known differential dropout rates for poor and non-poor children, the number of dropouts in the absence of poor children has been estimated. The difference between this figure and the actual number of dropouts among all children represents the number of dropouts attributable to poverty only. It turns out that although 23 percent of all dropouts are poor, only 11 percent of all dropouts can fairly be attributed to poverty. The rest probably would have dropped out under any income circumstances. The final assumption, based on evidence, is that males and females drop out in roughly equal proportions.

Statistics Canada population projections have been used to arrive at the number of children predicted to be in the age group 15-19 years between 1990 and the year 2010. The actual numbers for this high-school age cohort vary between 362,000 and 380,000 per year over the next twenty years. Using the dropout assumptions listed in the above paragraph, we estimate there will be about 11,000 dropouts each year due to poverty alone. Over the twenty year period, this amounts to 220,000 dropouts, although it is estimated that 15 percent will go on later to complete their high school education — leaving 187,000 net dropouts.

In order to estimate the economic costs attributable to 187,000 dropouts, it is necessary to predict the level of education that might reasonably have been expected of them had they not been raised in poor families. That is, if they had not dropped out, what would their lifetime earnings have been, their employment record, level of taxes paid, amount of income security benefits received and so on?

For this purpose, it is assumed they would have achieved the average level of education completed by non-poor Canadians in the reference group aged 25-34 years (to include the education level of older Canadians in the reference group during a time of rising educational standards would be to accept too low a level of educational achievement applying to the future). The average educational achievement is slightly in excess of 13 years of schooling. This is the education benchmark used to compare the economic performance of the estimated 187,000 dropouts against what they likely would have achieved had they not dropped out.<sup>29</sup> The results are shown in Table 12.

Table 12 shows the likely outcomes in dollar terms had poverty induced dropouts achieved an average education level instead. It should be noted that the first two columns relating to individuals are in terms of hundreds and thousands of dollars, while the last three columns relating to total effects are in terms

of hundreds of millions and billions of dollars. In the "lifetime individual" columns it can be seen, for example, that male dropouts would have increased their lifetime incomes by \$149,000, and reduced their reliance on UI benefits by \$6,600. Multiplying these individual amounts by the 93,500 estimated male dropouts over the 1990-2010 period produces totals of \$14 billion of income that could have been gained, and \$620 million less paid out in UI benefits.

TABLE 12

**ESTIMATED INDIVIDUAL AND TOTAL SELECTED ECONOMIC GAINS  
RESULTING FROM THE ELIMINATION OF POVERTY INDUCED DROPPING OUT,  
COVERING THE PERIOD 1990-2010, BY SEX, 1990 DOLLARS**

	Lifetime Individual		Lifetime Total		Lifetime Total
	Male	Female	Male	Female	Combined
			('000,000)	('000,000)	('000,000)
<b>Income</b>	\$149,000	\$97,000	\$14,000	\$9,000	\$23,000
<b>Income taxes:</b>					
federal	33,000	17,000	3,100	1,500	4,600
provincial	17,000	10,000	1,600	1,000	2,600
<b>Consumption taxes:</b>					
federal	3,300	2,800	310	260	570
provincial	3,300	2,800	310	270	580
<b>U.I.:</b>					
contributions	900	1,500	80	140	220
benefits	-6,600	-420	-620	-40	-660
<b>Social assistance</b>	-3,800	-3,800	-360	-360	-710

Source: See Table 9.

The final column combines the hypothetical total benefits an average education would have bestowed on men and women dropouts over the next twenty years. Incomes (used as a rough measure of the contribution to Canada's total output) would be \$23 billion higher if poverty induced dropouts had gone on to complete an average level of education. Federal and provincial income taxes would rise by \$7.2 billion, and consumption taxes by \$1.15 billion. UI contributions would increase by \$220 million and benefits fall by \$660 million. Social assistance payments would be down by \$710 million.

The lost benefits to society are large. Just in terms of a partial public sector balance sheet the costs are considerable. If the public revenues that could be gained by eliminating poverty induced dropouts were added to the savings on the UI and social assistance programs it would amount to \$9.9 billion. And the \$23 billion of foregone contributions to the nation's output, measured by lost incomes, has to be somehow added to this. A rough estimate would suggest, therefore, a cost to society in the neighbourhood of \$33 billion (by comparison, a sum similar to the federal government's annual budget deficit).

Table 13 shows the likely effects that eliminating poverty induced dropping out would have on labour force status. The achievement of an average level of education by dropouts would increase the number

of years of employment for women by almost two years, and reduce the number of years spent outside the labour force by almost the same amount. For both sexes combined, the gain in employment over the next twenty years would be in excess of one-quarter million years (260,000), which for comparative purposes is equivalent to the number of employed people in New Brunswick.

TABLE 13

**ESTIMATES OF INDIVIDUAL AND TOTAL CHANGE IN LABOUR FORCE  
BEHAVIOUR, RESULTING FROM THE ELIMINATION OF POVERTY INDUCED  
DROPPING OUT, COVERING THE PERIOD 1990-2010, BY SEX**

	Lifetime Individual		Lifetime Total		Lifetime Total
	Male	Female	Male	Female	Combined
<b>Years of:</b>					
employment	0.9	1.8	88,000	172,000	260,000
unemployment	-0.6	-0.2	-56,000	-17,000	-73,000
out of labour force	-0.3	-1.6	-32,000	-155,000	-187,000

Source: See Table 9.

The total number of unemployed years would fall by 73,000. We have estimated that all dropouts contribute about an extra 1.4 percentage points to the national unemployment rate when it is in the 7%-8% range. Poverty induced dropouts contribute about 0.2 percentage points to the rate. The elimination of dropping out due to poverty would permanently reduce the national unemployment rate by something in the order of 0.2 percentage points.

In conclusion, it should be noted that we have restricted our study to an examination of the educational effects of poverty on dropping out behaviour only. We have not examined the possibility that, due to poverty, fewer poor children are likely to receive a post-secondary education.

#### V. THE NEED FOR A HIGHLY TRAINED LABOUR FORCE AND THE ADDED PRESSURE DUE TO THE AGING OF THE POPULATION

Around the turn of the century, it is not difficult to predict that the continued neglect of child poverty combined with a top-heavy age structure will exacerbate potential structural problems in Canada's economy. Some of these problems will be a relatively small and incompletely trained workforce; a lower standard of living; and grave concerns for the integrity of Canada's income retirement and health programs. These events will inevitably take place if current demographic trends and levels of child poverty are combined with the growing interdependency and competitiveness of world economies.

In a recent *Financial Post* editorial, the noted Harvard economist Robert Reich was quoted as saying:

"Every factor of production other than workforce skills can be duplicated anywhere around the world. Capital now sloshes freely across international boundaries, so much so that the cost of capital in

different countries is rapidly converging. State-of-the art factories can be erected anywhere. The latest technologies flow from computers in one nation...to computers in another nation. It is all interchangeable ...all except for one thing, the most critical part, the one element that is unique about a nation: its workforce".<sup>30</sup>

And how will Canada fare in this internationally competitive environment as the population ages? Population and labour force forecasts performed for the government show that the share of 0-19 year olds (our future workers), represented as a percentage of the labour force, will fall from 57.3 percent in 1986 to 43.6 percent by the year 2011, while the proportion of seniors will rise from 21.2 percent to 29.7 percent (see Table 14). And this imbalance will worsen in later years. Around the year 2025, the number of seniors in Canada will overtake those of young people, and thereafter outstrip it rapidly. In the year 2031, there will be one elderly person for only a fraction of a future worker (0.84), compared to 2.7 young people for every senior just a few years ago (1986).

From the standpoint of actual labour force participants, each elderly person was supported by almost five labour force members in 1986, but by the year 2011 this number will fall to four, and by 2031 to two. These dramatic shifts will occur in the relatively short time span of 40 years. The structural impact on Canada's future economy cannot be overstated.

TABLE 14

**CHILDREN AND ELDERLY AS A PROPORTION OF  
CANADA'S PROJECTED POPULATION AND LABOUR FORCE, 1986-2031**

Year	0-19 YEARS			65 YEARS AND OVER		
	No.	Percent of population	Expressed as percent of labour force	No.	Percent of population	Expressed as percent of labour force
1986	7,392	28.9	57.3	2,738	10.6	21.2
1991	7,389	27.6	53.7	3,154	11.8	22.9
2001	7,273	25.5	48.2	3,837	13.4	25.4
2011	6,717	22.7	43.6	4,578	15.4	29.7
2021	6,506	21.4	44.0	6,018	19.9	40.7
2031	6,262	20.7	44.5	7,383	24.5	52.4

Source: Adapted from Frank Denton and Byron Spencer, "Population Change and the Future Labour Force", January 1987. Background paper for the study recently completed under Health and Welfare Canada's Review of Demography and Its Implications for Economic and Social Policy. Note that numbers under the "percent of labour force" columns are not the projected shares these age groups will constitute of the labour force, but rather are simply the numbers represented as a percentage of the labour force.

What these shifts mean, combined with greater international competitiveness and the increasing inability to shield our society from international forces, is that a premium will be placed on achieving the very best education and human resource development for our children. Canada, and especially our retirement income and health systems, will simply not be able to afford around 16 percent of its children growing up poor with the consequences this has for low levels of education and an unskilled labour force.

Table 15 shows the expected costs per labour force member of three sets of programs strongly affected by an aging population: one set consists of tax financed elderly benefits provided by Old Age Security (OAS), the Guaranteed Income Supplement (GIS), and Spouse's Allowance (SPA); a second set consists of the employer/employee contributory Canada and Quebec Pension Plans (CPP/QPP); and the final set is our publicly funded health care programs.

The dollar figures in Table 15 have been constructed in such a manner as to show the expected costs for each labour force member in constant 1990 dollars. The total cost borne by each labour force member for the three sets of programs rises from \$4,500 in 1991 to \$8,300 in 2031. Consequently, if today's workers paid the same price that will be borne by their children, the cost today would be \$3,800 more per worker. In today's dollars the total cost of these three sets of programs will grow from about \$59 billion to around \$109 billion. This increased burden places an emphasis on making sure that all future labour force members are as productive as possible.

**TABLE 15**  
**COST OF SELECTED SOCIAL BENEFITS, CALCULATED FOR EACH LABOUR**  
**FORCE MEMBER, 1990 DOLLARS, FOR THE PERIOD 1991-2031**

Year	OAS/GIS/SPA	CPP/QPP	Health Care	Total
	\$	\$	\$	\$
1991	1,100	700	2,700	4,500
2001	1,300	900	2,900	5,100
2011	1,500	1,100	3,200	5,800
2021	2,000	1,300	3,700	7,000
2031	2,600	1,500	4,200	8,300

Source: Calculations by authors based on population and labour force projections from Denton and Spencer, *op. cit.*; CPP/QPP contribution rates are those legislated up to the year 2011, and thereafter increased to 11 percent in line with the figure recommended by pension experts; and total health costs projected by H. Messenger and B. Powell, "The Implications of Canada's Aging Society on Social Expenditures", in *Aging in Canada*, ed. V. Marshall, Markham: Fitzhenry and Whiteside, 1987.



## CONCLUSION

During the 1960's and 70's a concentrated effort was put in place to reduce the very high rates of poverty found among elderly Canadians. Much of this stimulus was provided by the Economic Council of Canada's annual report in 1968 highlighting the extent of poverty among the elderly.<sup>31</sup> In response to this report, the Senate established a special committee on poverty under Senator David Croll.<sup>32</sup> The widely publicized findings of this committee corroborated in greater detail what the Economic Council had discovered. Among many proposed improvements, the Senate committee recommended a form of guaranteed annual income to help overcome Canada's poverty problems.

A guaranteed income for all age groups has not come about in Canada, but the improvement of elderly benefits has allowed the rate of poverty among elderly households to decline from 37.8 percent in 1973 to 29.4 percent in 1988. By contrast, during this same period, the rate of poverty among all Canadian households barely improved, falling from 20.6 percent to 20.0 percent. Consequently, the elderly have considerably improved their economic lot relative to other Canadians.

Canada should now extend to its children the same kind of sustained support it has offered its elderly. If a sense of equity and justice is not sufficient to motivate most Canadians to support efforts to eliminate child poverty, then perhaps an appeal to economic self-interest will work. This self-interest is based on the recognition that continuing levels of child poverty will make it extremely difficult to sustain the requisite degree of economic competitiveness come the turn of the century. This will in turn make it impossible to maintain our retirement benefits and health care systems. Canada will no longer be able to waste its most important economic resource — its children. If by the year 2010, it is still failing to squeeze the maximum potential from its shrinking human resource base, it could be a country unable to compete on the world stage. It will also fail to provide those in retirement with the standard of living they have come to enjoy and expect.

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9. Much of the information on child health problems was taken from two compendiums of research results: Avard and Hanvey, *The Health of Canada's Children*, and the brief submitted to the Senate Committee studying child poverty, by the Canadian Coalition for the Prevention of Developmental Disabilities, April 3, 1990.
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26. The Survey of Consumer Finances is a major household survey conducted annually by Statistics Canada. The survey covers about 37,000 households. The major findings of this survey are published annually in *Income Distributions by Size in Canada*, but the more detailed analysis that follows is the result of calculations made using the micro-data tapes.
27. Technically, earned income is the variable to best monitor productivity with, and not total income. However, earned income comprises almost 90 percent of total income in Canada. Therefore, total income is a reasonable proxy for earned income and productivity.
28. One important note concerning our estimation procedure: the estimates for employment, income, public revenue contributions and income security benefits received are based on the employment behaviour experienced in 1986. The unemployment rate in 1986 was 9.5 percent, which compares with an average of 9.3 percent for the decade of the '80s. It is difficult to predict unemployment rates over the next twenty years. Knowing that dropouts will likely find employment more difficult to obtain when unemployment is high, if unemployment runs below the assumed 9.5 percent for the next twenty years, our estimates for income, employment and public revenue contributions for dropouts will be relatively low. On the other hand, if unemployment typically exceeds 9.5 percent over the next twenty years, the

estimates of these variables relating to dropouts will be overstated relative to more highly educated workers.

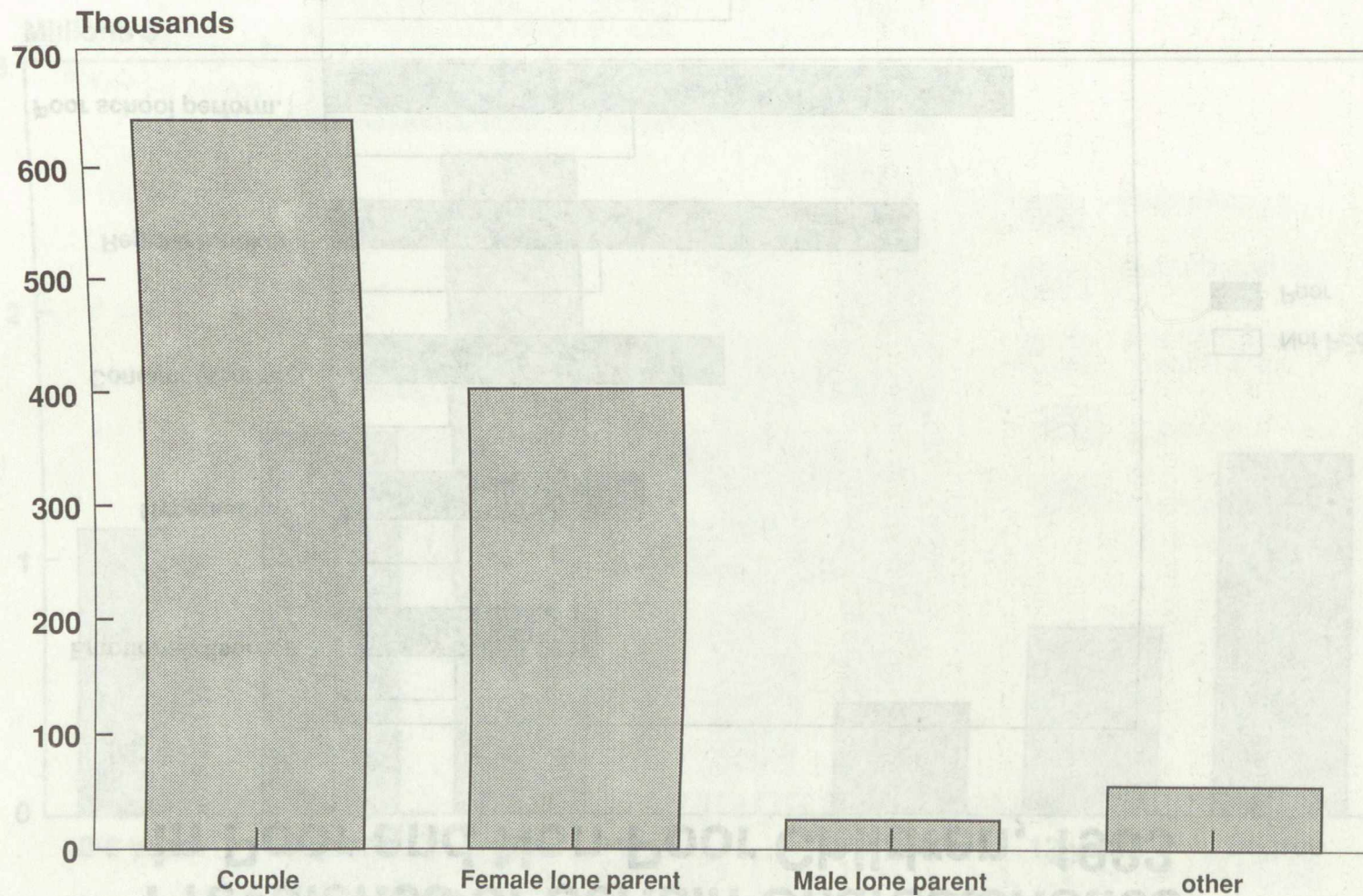
29. By limiting "lifetime" to the period 25-65 years, it may be thought that we are biasing the income and public revenue contributions against those with less education since they will devote slightly more years to the labour force than those with higher education. But, in fact, the reverse is true since the greater income of those with higher education overcome the longer years at lower incomes experienced by those with less formal education. For example, most high school graduates will be in the labour force between the ages of 18 and 23, compared to a high school dropout who enters the labour market between the ages of 16 and 18. However, the extra years of potential income for the dropout (marked also by more periods of unemployment) before the age of 25 do not offset the higher incomes of high school graduates during the years they are employed before age 25.

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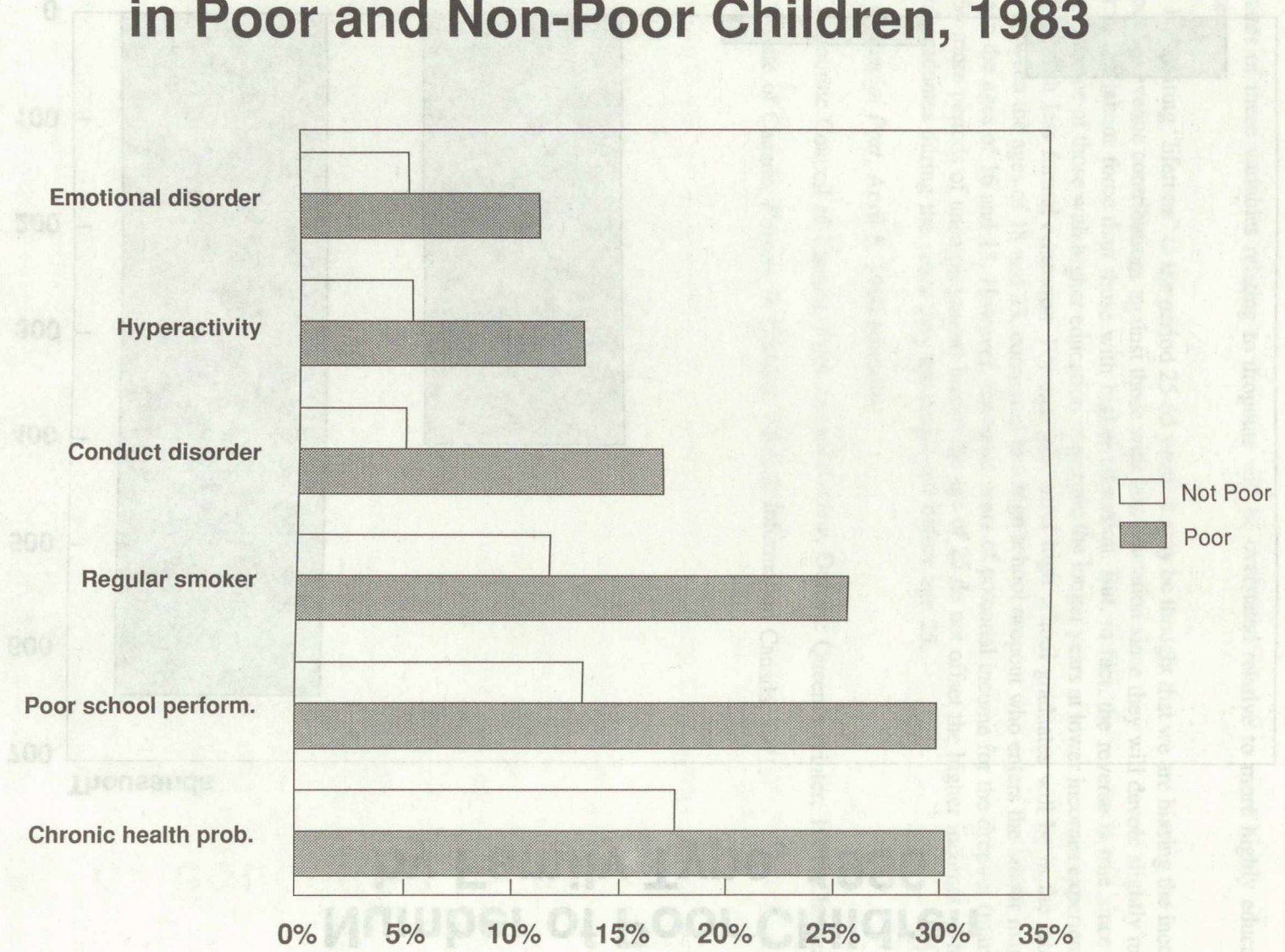
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# Number of Poor Children by Family Type, 1986

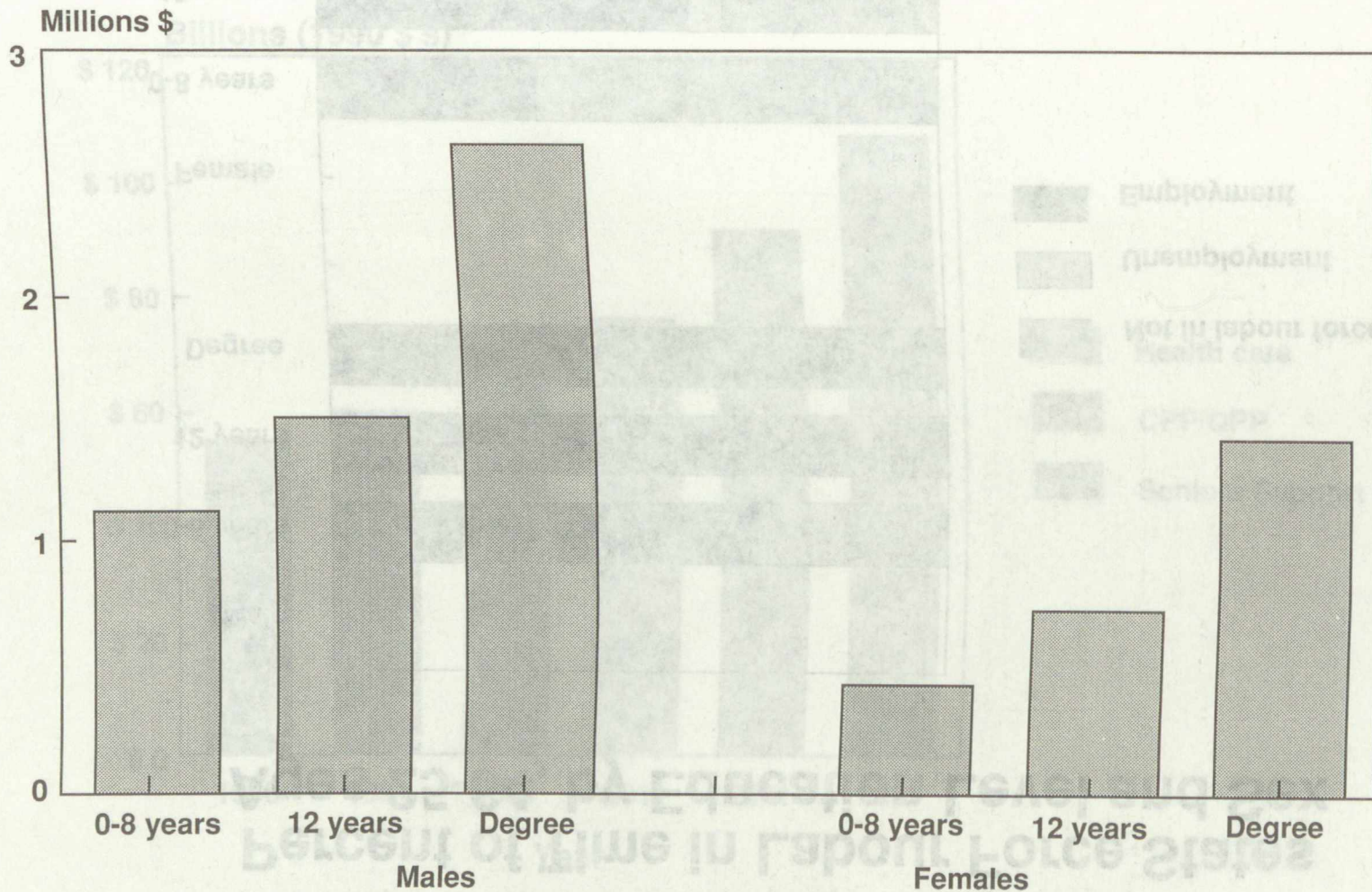


# Prevalence of Certain Characteristics in Poor and Non-Poor Children, 1983

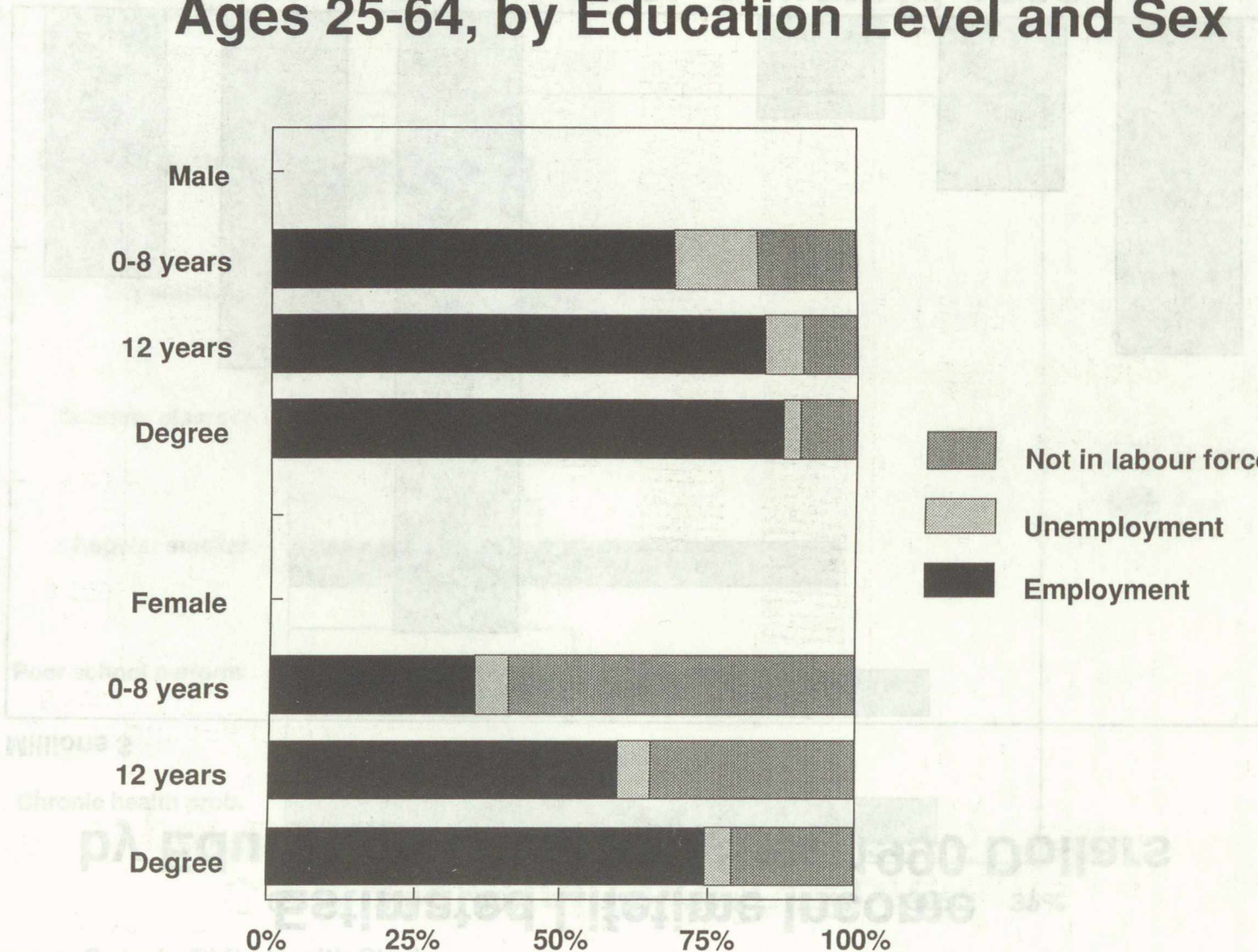


Source: Ontario Child Health Study

# Estimated Lifetime Income by Education Level and Sex, 1990 Dollars

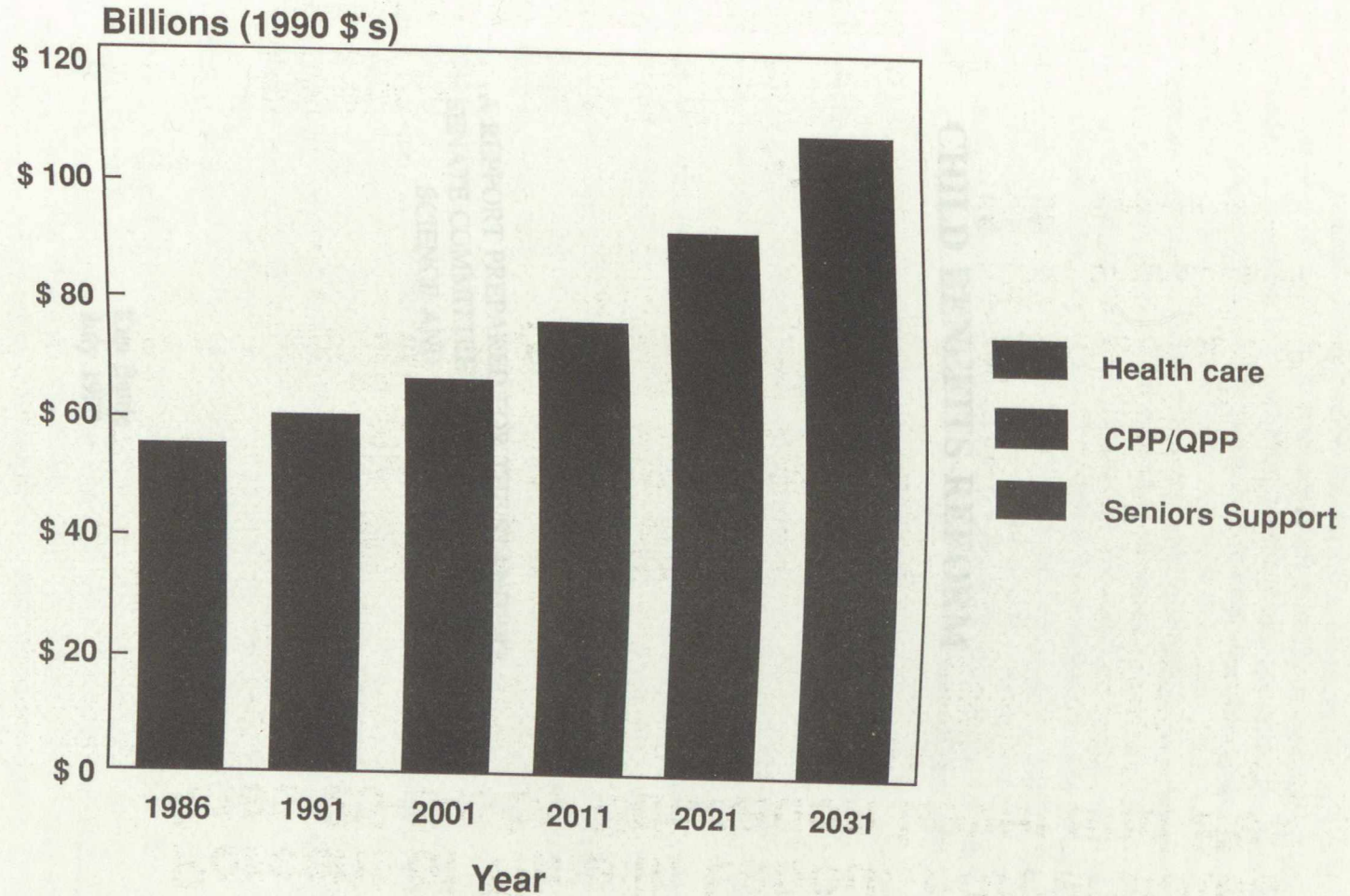


## Percent of Time in Labour Force States Ages 25-64, by Education Level and Sex





# Cost of Certain Social Programs per Labour Force Member, 1986 - 2031





This paper was prepared at the request of the Standing Senate Committee on Social Affairs and Science and Technology to assist in the preparation of its report on child poverty. The paper's purpose was to provide a comprehensive overview of the current child benefit system, its objectives, and its impact. The paper also examines the various child benefit programs and their effectiveness in reducing child poverty. The paper is intended as a resource for the Senate Committee and the public.

# CHILD BENEFITS REFORM

## Purposes of Child Benefits

While there are various reasons — political, social and economic — why Canada established its child benefit programs over the years, the system can be viewed as having four main objectives:

- a. parental recognition — to acknowledge the contribution that all parents make to society in raising their citizens, workers and taxpayers;
- b. horizontal equity — to help equalize the tax and social service burdens of the labour market and the home; and
- c. anti-poverty — to provide a minimum income for low-income families.

## A REPORT PREPARED FOR THE STANDING SENATE COMMITTEE ON SOCIAL AFFAIRS, SCIENCE AND TECHNOLOGY

The first three of these objectives are not sharply distinct and in fact are to some extent interrelated. The horizontal equity objective is in a sense a subcategory of the anti-poverty and parental recognition ones, in that the former realizes the latter in cash terms. The anti-poverty and horizontal equity objectives are essentially the same thing for lower-income families.

Ken Battle  
July 1990

While it is easy to make a list of objectives, it is quite another matter to secure them fully. Social programs are not as neatly organized as they may appear to be in theory. They rarely have only one purpose, but often have several, often in concert with other programs. Sometimes they have unwritten objectives which are just as important as their stated ones. Some social programs pursue ends which are at cross-purposes to those of other programs, or have multiple aims which do not mesh well.

Social programs often change over time, reflecting changing notions of their rightful purposes and shifting demands and resources. Such changes may alter or even divert their original aims, sometimes without the knowledge or consent of the public or the program's recipients. Some social programs

This paper was prepared at the request of the Standing Senate Committee on Social Affairs, Science and Technology to assist in the preparation of its report on child poverty. The paper's purposes are to review the objectives of the federal child benefits system, to analyze recent changes in federal child benefit programs, and to explore some options for reform.

The views expressed herein are those of the author and do not represent those of the National Council of Welfare, except where the paper cites the Council's reports or policy positions. The options examined are illustrative only, and are not intended as recommendations of either the author or the National Council of Welfare. Further technical work is required should the Senate Committee wish to propose detailed alternatives to the present child benefits system.

Richard Shillington of Tristat Resources undertook the modelling of the child benefit options and, with David Ross, helped me design the options.

## Introduction

Canada's federal child benefits system has undergone significant changes in recent years. Unfortunately, these measures are complex and not well understood. Few Canadians have an accurate idea of how the various child benefit programs operate and who gets what from them. Nor is there a clear sense of the original purposes of child benefits and whether these objectives are still valid as we move into the last decade of the twentieth century.

It is essential that we understand the current child benefits system before we contemplate reforming it. The first part of this paper reviews the purposes of federal child benefit programs; charts the changes that the federal government has made to them over the past five years; and assesses these changes in view of the various objectives of the system. The remainder of the paper presents some options for reform and discusses their implications for the different objectives of the child benefits system.

## Purposes of Child Benefits

While there are various reasons — political, social and economic — why Canada established its child benefit programs over the years, the system can be viewed as having four main objectives:

- a. **parental recognition** — to acknowledge the contribution that all parents make to society in raising future citizens, workers and taxpayers.
- b. **horizontal equity** — to help recognize the fact that parents have heavier financial demands than childless couples and single persons with the same (pre-transfer) incomes, since the labour market does not vary wages according to family size.
- c. **anti-poverty** — to supplement the incomes of lower-income families with children.
- d. **economic stimulus** — to put cash into the hands of parents and thus stimulate consumer demand and the economic benefits that follow.

The first three of these objectives are not sharply distinct one from the other and in fact are to some extent interrelated. The horizontal equity objective is in a sense a subcategory of the more general parental recognition aim, in that the former realizes the latter in cash terms. The anti-poverty and horizontal equity objectives are essentially the same thing for lower-income families.

While it is easy to make lists of objectives, it is quite another matter to secure them firmly to programs. Social programs are not as neatly logical in reality as they may appear to be in theory. They rarely have only one purpose, instead pursuing more than one end, often in concert with other programs. Sometimes they have unwritten objectives which are just as important as their stated ends. Some social programs pursue ends which work at cross-purposes to those of other programs, or have multiple aims which do not mesh well.

Social programs often change over time, reflecting changing notions of their rightful purposes and shifting demands and resources. Such changes may alter or even subvert their original aims, sometimes without the knowledge or consent of the public or the program's recipients. Some social programs

soldier on long after people remember why they were legislated in the first place, or pursue ends that a sizable group of the population does not support.

Federal child benefit programs fit the above characterization all too well. Nonetheless, we will attempt to relate the impact of recent changes in each program to its objective(s), as well as to examine the effects of such changes on the child benefits system overall.

### Family Allowances

Family allowances were legislated in 1944 and paid their first benefits in the spring of 1945. Family allowances were the first universal social program in Canada and the largest social expenditure at the time, costing more than all other social programs delivered by governments of the day.

The federal government was in part motivated by immediate political considerations, viewing family allowances as a potential vote-getter among parents and a way of staving off demands to lift its wartime wage controls. However, the program's stated aims were to recognize the contribution that all parents make to society, to supplement the incomes of families with children, and to help guard against a post-war recession by putting cash into the hands of Canadian mothers every month in the expectation they would spend it and thus stimulate the economy.

Family allowances' economic stimulus rationale is rarely mentioned these days. Their original anti-poverty purpose also tends to get lost in the tired old debate over whether all families — the affluent included — should benefit from them. But family allowances' proponents envisaged an important anti-poverty role for the program in supplementing the wages of the average family and meeting the minimal material needs of children. At the time, incomes were much lower than they are today: more than half of Canadian workers did not earn enough to meet their families' minimal nutritional requirements. Family allowances were to help fill the gap between wages and income needs for the average family.

Perhaps the most contentious rationale for family allowances is the one most often cited in defence of their universal nature — recognizing the contribution that all parents, regardless of income, make to society in raising children. One could support this purpose and still decide that society's recognition of well-off families does not have to take the form of a cash transfer, which might be better spent on poor families. At the risk of sounding facetious, family allowances' designers could have decided to restrict the program to low and middle-income families and mail affluent parents a Parental Recognition Certificate on the birth of each child.

Indeed, many Canadians do not support universal child benefits and believe instead that the money that would be saved by cutting off the affluent should go to deficit reduction or improving child benefits to lower-income families. It is evident from this debate that two of family allowances' objectives — supplementing the incomes of lower-income families and recognizing the contribution of all parents regardless of income — co-exist uneasily.

Defenders of universal family allowances marshal other arguments in their favour, which were summarized as follows in the National Council of Welfare's 1983 report *Family Allowances For All?* :

They regard universal programs such as family allowances, Old Age Security, the Canada Pension Plan ...as the indispensable and hard-won foundation upon which rest selective social programs geared to families and individuals in financial need. All Canadians, no matter where they live and what their income, benefit from universal programs at some point in their lives. Abandoning the principle of universality in so prominent a benefit as family allowances would weaken the foundation of Canada's social security system. Over time, taxpayers' support for social spending would decline and people who have to turn to selective programs for financial assistance would suffer as a result.

Universal programs serve all Canadians who share a commonplace characteristic which is not related to financial need. The family allowance goes to all families with children under the age of 18, Old Age Security to all men and women 65 and older, and unemployment insurance to all the unemployed. Canadians from different income levels share alike in these universal benefits. Therefore universal social programs unite Canadians and foster a sense of community...

Universal family allowances also have been defended on the grounds that they 'belong to women'. According to this popular argument, family allowances are the only source of income to which all Canadians mothers are entitled as a right. There are cases, even in affluent families, where husbands refuse to provide adequately for their wives and children. As long as matrimonial property laws deny married women an equitable share of their families' financial resources, it would be unreasonable to take away from them a long-standing right like family allowances on the assumption that their husbands' income is also their own.

The universality debate has now taken on an historical and theoretical air. The 1989 federal budget effectively did away with universal family allowances and old age pensions in proposing a clawback, which will tax back all of the benefits from higher-income parents and pensioners.

In order to comprehend the clawback, we first must understand how the old family allowance operated. Critics of universal family allowances often ignore the fact that, while families at all income levels receive the same amount for each child, poor families end up with larger benefits than do middle-income families and affluent families get the least. Since 1973, family allowances have been taxable in the hands of the father (changed a few years ago to the higher-income spouse, which still usually means the same thing).

For instance, a welfare poor family which pays no income tax kept the full family allowance payment (\$400 per child in 1990); a working poor one-earner family with income of \$20,000 paid back on average 26 percent of its family allowances through the income tax system, leaving it with a net (after-tax) benefit of \$295 per child or 74 percent of the gross payment; a middle-income (\$50,000) family ended up with \$239 per child or 60 percent of the gross payment; and an upper-income (e.g., \$75,000) family got \$220 or 55 percent of its family allowances.

Lower-income and (at first) most middle-income families with children will continue to receive the same after-tax family allowances. However, higher-income families now have their family allowances further reduced by an additional tax in the form of the clawback.

The clawback affects families in which the higher-income parent's net income is \$50,000 or more, taxing back family allowances at a rate of 15 percent for every dollar of income over that \$50,000 threshold. For example, families with two children will lose all of their family allowances once the higher-income parent's income exceeds \$55,240. (The clawback is being phased in by one-third in

1989, two-thirds in 1990 and fully in 1991; for the sake of illustration, we assume here that the mechanism was fully in place in 1989). Because the \$50,000 threshold will be only partially indexed (to the amount of inflation over three percent), it will fall steadily in real terms over time and will hit increasing numbers of families at lower and lower income levels. By 1995, the clawback will have fallen to an estimated \$41,886 in constant 1990 dollars. (The National Council of Welfare's 1989 report *The 1989 Budget and Social Policy* examined the clawback on family allowances and old age pensions in detail.)

The clawback affects the objectives of family allowances in two ways. First, it alters their traditional parental recognition rationale, in the sense that higher-income families no longer will get cash from the state for their children. Technically speaking, they will continue to receive benefits, but only for the year in which they are paid, since the next spring they must pay their family allowances back through the clawback. However, the clawback is not just a get-the-rich device: the partial indexation of the threshold means that in future more and more middle-income families will pay the clawback and so no longer will receive an income transfer in recognition of their parental contribution.

The clawback also significantly weakens the horizontal equity purpose of child benefits since it will cut family allowances for some higher-income families and eliminate them for others. As we will discuss in the next section, the move from the children's exemption to a non-refundable credit in 1988 already reduced the horizontal equity function of child benefits.

The other major change to family allowances came in 1986 when benefits were shifted from full indexation — which had been in effect since 1973 — to partial indexation (to the amount of inflation over three percent a year.) Perhaps a more accurate term is partial de-indexation, to emphasize the negative. This change means that the value of family allowance benefits is being steadily eroded by inflation. Family allowances are \$400 per child in 1990; under the old, fully indexed system in place from 1973 to 1984, they would have paid \$463 per child in 1990. By 1995, ten years of inflation will have reduced family allowances to \$428 compared to the \$573 they would have been under the old system. (These figures are in current, not constant, dollars).

### **Children's Tax Exemption/Non-Refundable Credit**

The children's tax exemption is Canada's oldest child benefit, dating back to 1918 and the birth of the income tax system. The children tax exemption's purpose was to use the tax system to ensure a measure of horizontal equity by recognizing that parents with children to support have heavier financial demands than their income counterparts without children.

Social policy groups criticized the children's tax exemption because it delivered its largest benefit (in the form of federal and provincial income tax savings) to parents in the highest tax bracket. Partly in response to these criticisms and partly to save money, the federal government froze the children's tax exemption at \$710 in 1984. The 1985 budget announced a phased reduction in the benefit to \$560 in 1987, \$470 in 1988 and an amount equal to the family allowance for 1989 onwards. At the same time, the refundable child tax credit was gradually increased, so the 1985 budget redirected resources from a regressive child benefit program to a progressive one. The 1988 income tax reform went further and converted the children's tax exemption to a non-refundable credit of \$65 per child, worth on average \$100 when provincial income tax savings are factored in; the credit was twice as large (\$130) for the third and each subsequent child.



The non-refundable child tax credit is partially de-indexed, like family allowances, by the amount of inflation over three percent a year. In 1990 the credit is \$68 for the first and second child and \$136 for the third and each subsequent child; adding in average provincial income tax savings, total benefits average \$105 and \$211, respectively.

The conversion of the children's tax exemption to a non-refundable credit marked a victory of vertical equity over horizontal equity. The credit is fairer than the exemption if we measure fairness in terms of progressivity (i.e., social benefits should vary according to income, with the largest benefit going to the poor and vice versa). Although the non-refundable credit pays the same amount to all families which owe income taxes, measured as a percentage of income it is in fact a progressive social benefit since it is worth more to lower-income taxfilers.

On the other hand, the non-refundable child tax credit provides smaller tax savings to middle and upper-income families. Because the credit was set so low (14 percent of what the exemption would have been, which was the lowest of all the conversions from deductions and personal exemptions to credits), even many working poor and lower middle-income families get less from the credit than they got from the exemption. For example, a middle-income one-earner family with two children and income of \$40,000 will get \$211 in average federal and provincial income tax savings from the non-refundable credit in 1990; if the exemption were still in effect, the family would save \$322 in income taxes. A one-earner family earning \$80,000 will see its tax bill reduced by \$211 by the credit, but would save \$360 if the exemption still existed.

With the advent of the clawback on family allowances, the non-refundable child tax credit is the only child benefit program available to all well-off parents. But at an average value in federal and provincial income tax savings of just \$105 for each of the first two children (which is as many as most parents have), the non-refundable child tax credit provides little more than symbolic recognition of child-rearing costs. Moreover, partial de-indexation is steadily reducing the value of this program each year. Canada's child benefits system now only feebly realizes the goal of horizontal equity.

### **Refundable Child Tax Credit**

The refundable child tax credit was created in 1978. It is geared to lower and middle-income families with children and thus serves the anti-poverty/income supplementation objective of child benefits.

The credit is a "diminishing" benefit, which means that the full amount goes to families with incomes below a set level (the "threshold"), above which benefits are reduced increasingly to the point where they disappear altogether for higher-income families. Families which owe income taxes deduct their child tax credit from their tax bill; families too poor to pay taxes receive their tax credit in the form of a cheque from the federal government, which is why the benefit is described as "refundable".

The refundable child tax credit has been substantially enhanced in recent years. The credit was raised from \$384 per child in 1985 to \$454 in 1986, \$489 in 1987 and \$559 in 1988; its threshold was lowered from \$26,330 to \$23,500 in 1986. In 1988, an additional \$100 was added to the maximum refundable child tax credit for children six and younger for whom families do not claim the child care expense deduction, and the supplement rose to \$200 in 1989.

In 1990, the maximum refundable child tax credit is \$778 for children six and under and \$575 for children aged seven to seventeen, and the net family income threshold for the maximum credit is \$24,769. A family with two children — one six or younger and the other seven or older — will receive the maximum credits of \$1,353 so long as its net income is under \$24,769. The credit is reduced by \$5 for every \$100 of income above this threshold. For example, a \$40,000 family with one child under seven and one child over seven will get refundable child tax credits totalling \$591; two-child families with incomes over \$51,828 do not qualify for benefits.

While the various increases in the refundable child tax credit have enhanced the anti-poverty/income supplementation power of the child benefits system, another change is working in the opposite direction and will diminish this function as the years go by. That mechanism is partial de-indexation.

Like the family allowance and non-refundable child tax credit, the refundable child tax credit and its threshold are only partially indexed (to the amount of inflation over three percent). Partial de-indexation will weaken the refundable child tax credit's anti-poverty/income supplementation capacity in two ways. First, the value of the credit will fall steadily over time. Secondly, the threshold will decline in real terms, which means that fewer and fewer low-income families will qualify for the maximum benefit — a benefit that in any case will fall in value over the years.

For instance, the maximum refundable child tax credit for families with two children (one children six or under and the other older than that) is \$1,353 in 1990, payable to families with net incomes up to \$24,769; the latter is 88 percent of the estimated \$28,061 low income line for a family of four living in a metropolitan area. By 1995, the maximum refundable child tax credit for such a family will be an estimated \$1,102 and the threshold will have fallen to \$20,184 or 72 percent of the low income level (these figures are expressed in constant 1990 dollars).

### **Equivalent-to-Married Exemption/Credit**

Single parents can claim a larger than normal tax break for one child. Until 1988, this tax assistance took the form of an equivalent-to-married exemption (\$3,700 in 1987); the 1988 tax reform converted this exemption to a non-refundable credit worth \$850 in federal income tax savings. However, the equivalent-to-married exemption was converted at a more generous rate than the children's tax exemption (23 percent as opposed to 14 percent), which improved its tax assistance. In 1990, the equivalent-to-married credit is \$877; adding in average provincial income tax savings, it totals \$1,359.

Single parent families — eight in ten are headed by women — are bunched on the lower rungs of the income ladder. Those with incomes below the taxpaying threshold did not qualify for the old equivalent-to-married exemption and will not get the credit either, since the latter is not refundable. Because the equivalent-to-married credit was set at 23 percent of the exemption (higher than the lowest income tax rate of 17 percent), most single parents who pay income tax enjoy larger tax savings from the credit than they got from the exemption.

However, like the other child benefits, the equivalent-to-married credit is partially de-indexed, so it will fall in value over time. This erosion will compromise both the income supplementation and horizontal equity objectives of this child benefit.

## Child Care Expense Deduction

There is disagreement over how to classify this social program. Some people consider it a child benefit, like those discussed above. Others view it as income tax assistance for work-related expenses.

As part of the national child care strategy proposed in 1987, the child care expense deduction was doubled from \$2,000 to \$4,000 for children aged six or under for whom child care receipts are available, and the previous \$8,000 family limit was removed. The maximum child care expense deduction remains \$2,000 for children aged seven to fourteen. This benefit is not indexed, not even partially.

Since it is an exemption, the child care expense deduction is regressive. Doubling the maximum deduction for young children boosted the program's horizontal equity power, although the failure to index the benefit will erode its value over time.

## A Leaner Federal Child Benefits System

To assess these numerous and varied changes, we will look at their overall impact on different types of families at different income levels. Our analysis compares the "old" federal child benefits system with the "new" one. The old child benefits system consisted of the family allowance, children's tax exemption, refundable child tax credit and child care expense deduction. By "new" child benefits system, we mean the family allowance-with-clawback, non-refundable child tax credit, refundable child tax credit and child care expense deduction; as noted above, the two latter benefits have been increased in recent years. The new child benefits system is partially de-indexed.

Figures A through F illustrate the child benefits system in 1984 (the old system) and the post-reform system as it will be in 1994. We chose 1994 in order to take into account the effect of a few more years of inflation on the partially indexed child benefits system. All figures have been converted to constant 1990 dollars in order to show real changes over time. One child is six years of age or younger and the other child is seven or older.

**Figure A** shows federal child benefits for four one-earner couples, each with two children. The welfare poor family has no earnings and receives family allowances and the refundable child tax credit. The working poor family earns \$20,000 in 1990 and receives three child benefits — family allowances, the refundable child tax credit and the non-refundable child tax credit (which was an exemption in 1984). The middle-income family earns \$40,000 and also gets family allowances and the refundable child tax credit. The upper-income family earns \$100,000 and receives family allowances (although the clawback takes them all away in 1994) and the non-refundable child tax credit, but not the refundable child tax credit.

The welfare poor family's federal child benefits will be fractionally higher in 1994 (\$1,896) than they were in 1984 (\$1,855). The family's loss from the partial indexation of family allowances and the refundable child tax credit is more than made up for by the substantial increase in the latter benefit between 1985 and 1989, as explained above.

All the other families will receive smaller child benefits in 1994 than in 1984. The working poor family will end up with \$1,833 in 1994 or \$241 less than they got in 1984; its child benefits fall from

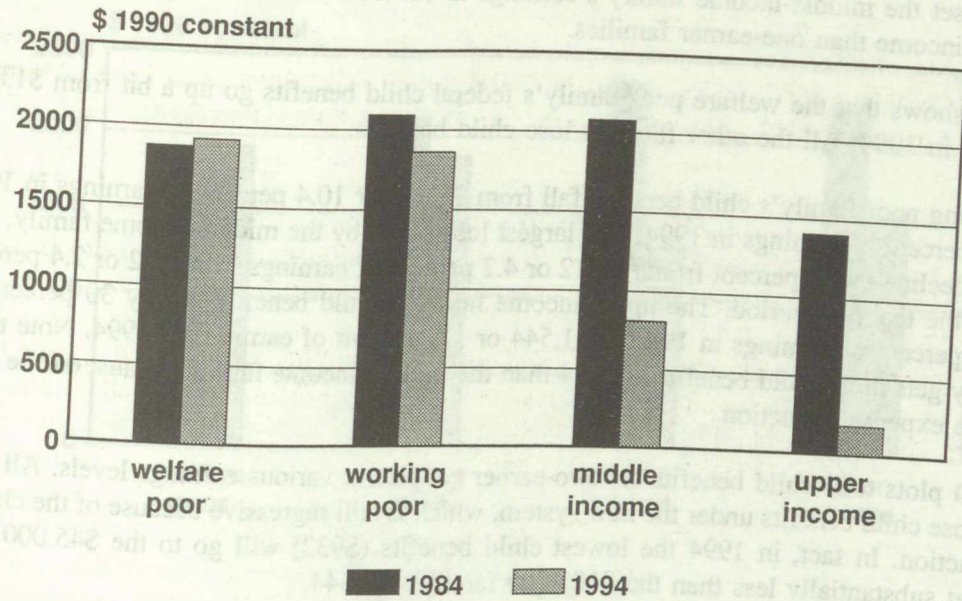
10.4 percent of earnings in 1984 to 7.8 percent in 1994. While the family's refundable child tax credit is higher in 1994, its losses from the partial de-indexation of family allowances and the non-refundable child tax credit as well as the conversion of the old exemption to a credit more than offset the gain from the refundable child tax credit.

The middle-income one-earner couple's child benefits fall from \$2,066 or 5.2 percent of earnings in 1984 to \$806 or 1.7 percent of earnings in 1994. The family will lose benefits from all three programs, including the refundable child tax credit as a result of the falling threshold.

The upper-income couple loses most. Its total child benefits plunge from \$1,408 or 1.4 percent of earnings in 1984 to a mere \$180 or 0.2 percent of earnings in 1994. The clawback removes family allowances, leaving the family with just one program — the non-refundable child tax credit — which is worth considerably less to them than the child tax exemption which it replaced.

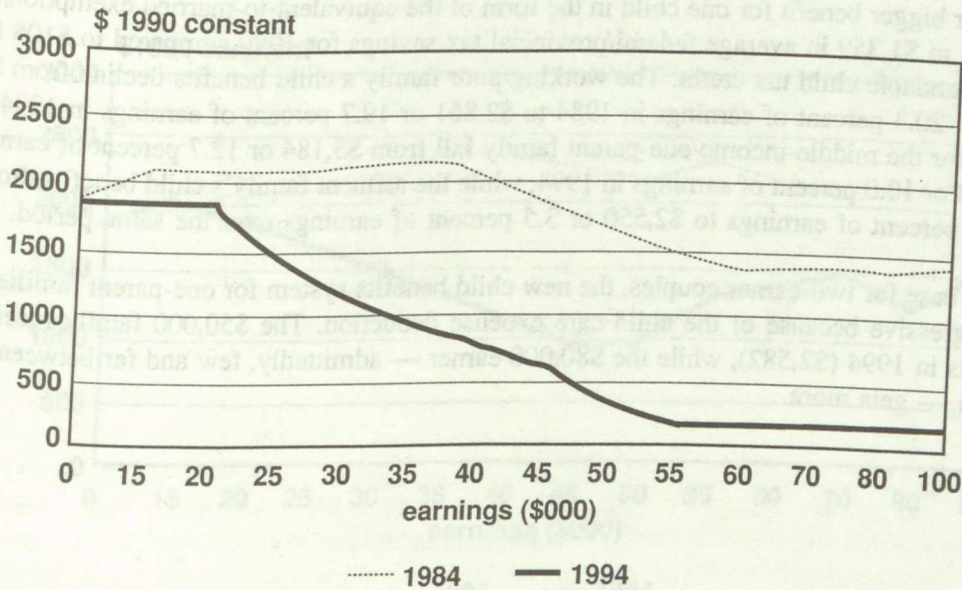
**Figure B** broadens the picture to include a wider range of earnings. The decline in child benefits shows up dramatically. The new child benefits system is certainly progressive, but all but the poorest families will receive smaller child benefits in 1994.

**CHILD BENEFITS, ONE-EARNER COUPLES WITH TWO CHILDREN, BY INCOME GROUP, 1984 AND 1994**



**Figure A**

**CHILD BENEFITS, ONE-EARNER COUPLES WITH TWO CHILDREN, BY EARNINGS, 1984 AND 1994**



**Figure B**

In calculating the child benefits for two-earner couples, we treat the child care expense deduction as part of the child benefits system and assume that the middle and upper-income families claim a child care deduction for their younger child. The earnings levels are the same as for the one-earner families, except that we set the middle-income family's earnings at \$55,000 since two-earner families have a higher average income than one-earner families.

**Figure C** shows that the welfare poor family's federal child benefits go up a bit from \$1,855 in 1984 to \$1,896 in 1994. All the other families lose child benefits.

The working poor family's child benefits fall from \$2,081 or 10.4 percent of earnings in 1984 to \$1,833 or 9.5 percent of earnings in 1994. The largest loss is felt by the middle-income family, whose child benefits decline by 45 percent from \$2,312 or 4.2 percent of earnings to \$1,272 or 2.4 percent of earnings over the ten year period. The upper-income family's child benefits fall by 30 percent from \$2,218 or 2.2 percent of earnings in 1984 to \$1,544 or 1.6 percent of earnings in 1994. Note that the well-off family gets more child benefits in 1994 than the middle-income family because of the regressive child care expense deduction.

**Figure D** plots total child benefits for two-earner couples at various earnings levels. All but the poorest will lose child benefits under the new system, which is still regressive because of the child care expense deduction. In fact, in 1994 the lowest child benefits (\$932) will go to the \$45,000 family, which will get substantially less than the \$100,000 family's \$1,544.

**Figures E and F** illustrate the child benefits for one-parent families with two children. The working poor parent earns \$15,000, the middle-income parent \$25,000 and the upper-income parent \$80,000. Child benefits include the equivalent-to-married tax exemption/credit and the child care expense deduction for the younger child, as well as family allowances and the refundable child tax credit.

Single-parent families with taxable income receive larger child benefits than two-parent families because of their bigger benefit for one child in the form of the equivalent-to-married exemption/credit, which amounts to \$1,359 in average federal/provincial tax savings for 1990 compared to \$105 for the regular non-refundable child tax credit. The working poor family's child benefits decline from \$3,046 or a substantial 20.3 percent of earnings in 1984 to \$2,861 or 19.7 percent of earnings in 1994. Total child benefits for the middle-income one-parent family fall from \$3,184 or 12.7 percent of earnings in 1984 to \$2,413 or 10.0 percent of earnings in 1994, while the affluent family's child benefits drop from \$4,212 or 5.3 percent of earnings to \$2,550 or 3.5 percent of earnings over the same period.

As is the case for two-earner couples, the new child benefits system for one-parent families is not smoothly progressive because of the child care expense deduction. The \$50,000 family receives the lowest benefits in 1994 (\$2,582), while the \$80,000 earner — admittedly, few and far between among single parents — gets more.

### CHILD BENEFITS, TWO-EARNER COUPLES WITH TWO CHILDREN, BY INCOME GROUP, 1984 AND 1994

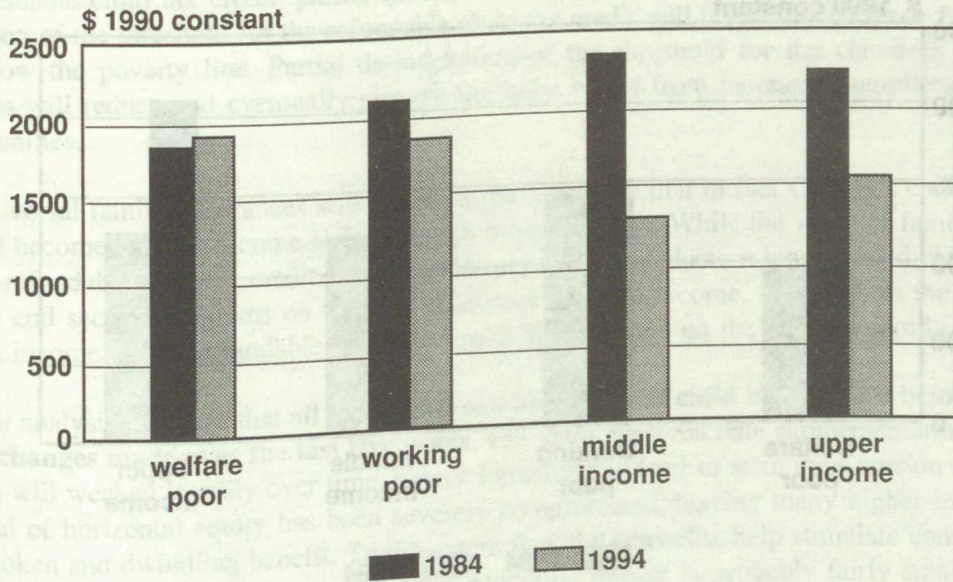


Figure C

### CHILD BENEFITS, TWO-EARNER COUPLES WITH TWO CHILDREN, BY EARNINGS, 1984 AND 1994

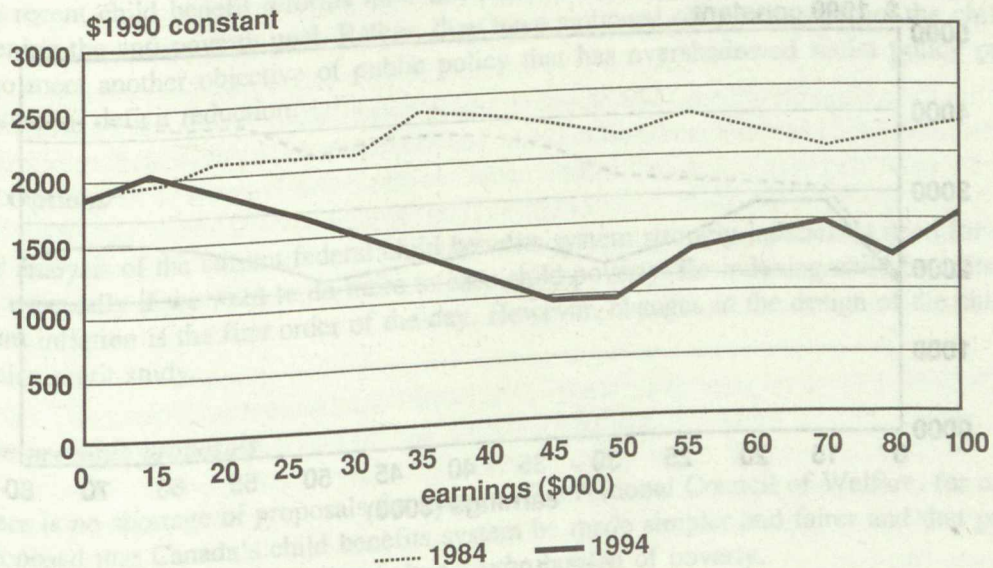


Figure D

**CHILD BENEFITS, SINGLE PARENTS WITH TWO CHILDREN, BY INCOME GROUP, 1984 AND 1994**

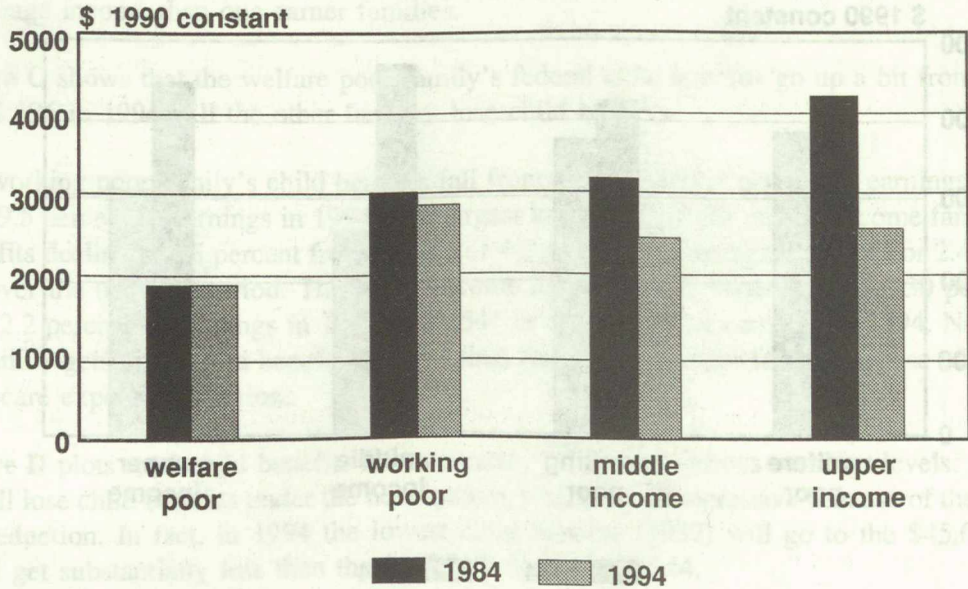


Figure E

**CHILD BENEFITS, SINGLE PARENTS WITH TWO CHILDREN, BY EARNINGS, 1984 AND 1994**

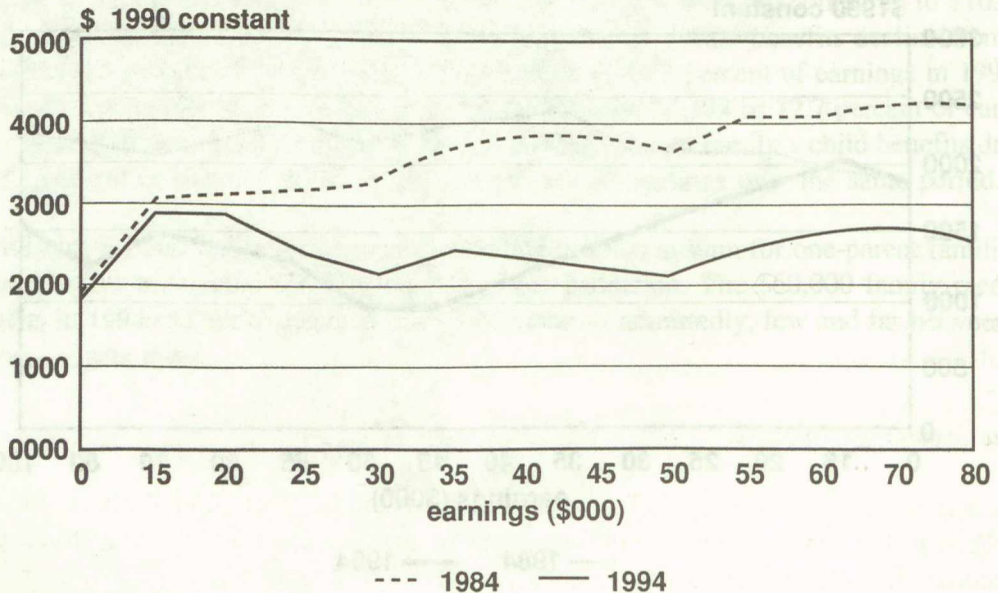


Figure F



## Summary

It is clear from these findings that **the various changes made during the latter half of the 'eighties have significantly altered the federal child benefits system.** Despite the improvement in the refundable child tax credit, partial de-indexation is eating away at all child benefits. Partial de-indexation of the threshold for the refundable child tax credit will target this program further and further below the poverty line. Partial de-indexation of the threshold for the clawback on family allowances will reduce and eventually remove the baby bonus from increasing numbers of middle-income families.

Universal family allowances will disappear next year, so that in fact Canada's child benefits system will become entirely income-tested, though imperfectly so. While the value of family allowances, the non-refundable child tax credit and the child care expense deduction hinge on individual income — the first and second programs on the higher-income parent's income, the third on the lower-income parent's income — the refundable child tax credit is calculated on the basis of family income.

Our analysis indicates that **all the traditional objectives of child benefits are being jeopardized by the changes made over the last five years.** The antipoverty/income supplementation role of child benefits will weaken steadily over time, unless something is done to stem their erosion from inflation. The goal of horizontal equity has been severely compromised, leaving many higher-income families with a token and dwindling benefit. To the extent that child benefits help stimulate consumer demand — the available evidence indicates that their economic impact is probably fairly small — it can be argued that their erosion will further reduce this effect as well.

The savings that are being realized through the partial de-indexation of child benefits are massive albeit hidden from public view. We estimate that more than \$3.5 billion will be removed from the child benefits system between 1986 and 1991. These savings are being applied to deficit reduction and are not being redistributed to low-income families.

The recent child benefit reforms have not traded off the goal of horizontal equity in favour of strengthening the anti-poverty goal. Rather, they have siphoned off resources from the child benefits system to meet another objective of public policy that has overshadowed social policy purposes in recent years — deficit reduction.

## Reform Options

Our analysis of the current federal child benefits system strongly indicates a need for alternative reforms, especially if we want to do more to ease child poverty. Re-indexing child benefits to protect them from inflation is the first order of the day. However, changes in the design of the child benefits system also merit study.

### a. *some previous proposals*

There is no shortage of proposals for change. The National Council of Welfare, for one, has for years proposed that Canada's child benefits system be made simpler and fairer and that payments to lower-income families be increased to help ease the burden of poverty.

In 1978, the National Council of Welfare proposed that the three child benefits that existed at the time (family allowances, the children's tax exemption and a small children's credit which helped middle-income families only) be replaced by a single child benefit program made up of two parts — a diminishing refundable credit for low and modest-income families paid through the income tax system (pegged at \$200 in 1978), and a \$300 minimum credit paid monthly (\$25 per month) in the same fashion as family allowances to families at all income levels. Lower-income families would have received in total \$500 per child or \$200 more than they then got from family allowances. In effect, the Council's proposed scheme would have amounted to a refundable tax credit along with a non-taxable family allowance.

That same year, the federal government brought in a refundable child tax credit which was financed by eliminating the \$50 children's credit and reducing family allowances from \$25 to \$20 per month. However, Ottawa kept the children's tax exemption in place.

The National Council of Welfare's most recent child benefit proposals follow closely its 1978 approach, though it takes into account the various changes made in recent years. The Council would do away with the non-refundable child tax credit and use the resulting savings to increase the refundable child tax credit. Family allowances would remain a truly universal benefit taxed under the regular tax system, as they were from 1973 to 1988, and there would be no clawback. The child care expense deduction would be converted to a credit and then removed altogether when a better child care system was put in place.

The National Council of Welfare's reform would simplify the child benefits system — there would be only two basic programs, family allowances and a larger refundable child tax credit — and would pay larger benefits to poor families. The child benefits system would be fully indexed in order to protect benefits from inflation and to ensure that all low-income families continue to receive the refundable child tax credit. This reform would put more emphasis on the anti-poverty/income supplementation goal of child benefits than those of horizontal equity and parental recognition, although the latter objectives would fare better than they do under the existing system. The child benefits system would have a universal base, as it did before the clawback on family allowances.

The Canadian Council on Social Development put forward a child benefit reform scheme in 1983 that was essentially the same as the National Council of Welfare's 1978 proposal. Family allowances, the children's tax exemption and the refundable child tax credit would be recombined into a "family assistance allowance" which would pay (in 1983) \$900 per child for families with incomes up to \$30,000, above which benefits would be reduced by 15 percent until they reached a floor of \$360 (the amount of the family allowance at that time). This child benefit would be non-taxable. Single-parent families would receive an additional equivalent-to-married credit for one child, worth \$1,050.

The Child Poverty Action Group advocates a "universal child income credit" which would pay (in 1986) a maximum benefit of \$3,600 for the first child and \$3,000 for each additional child. These amounts were chosen to equal the estimated cost of raising children in Metropolitan Toronto. While the Child Poverty Action Group did not specify design features for its proposal, it had in mind a progressive program in which benefits would decline to no lower than one-half the maximum amount for higher-income families.

The Senate Committee on Social Affairs, Science and Technology issued a report on child benefits in 1987 which recommended replacing existing federal child benefits with a "guaranteed family income supplement" geared to lower-income families. However, the report was vague on the design of this scheme. Some committee members wanted to keep a universal family allowance, which would require an infusion of new money into the child benefits system in order to help finance the proposed guaranteed family income supplement.

The *Transitions* report of the Ontario Social Assistance Review Committee (SARC) released in 1988 proposed a radically targeted child benefit in the form of a diminishing refundable tax credit of \$3,300 per child for families with incomes up to \$15,000, above which payments would be reduced by 25 percent of additional income. Families with two children would get nothing once their income exceeded \$41,400. This cut-off point is well below average income, which was \$59,928 for an Ontario family of four in 1988.

The SARC proposal would create a simple, single child benefit program dedicated solely to improving the incomes of lower-income families with children. The system would exclude not only affluent, but many middle class families as well.

One intriguing aspect of the SARC proposal is that it would sweeten the child benefits pot by folding in provincial (Ontario) spending on children through social assistance (welfare) as well as provincial and federal sales tax credits for children. However, there is not much that is new under the social policy sun. The classic 1943 *Report on Social Security for Canada* written by Leonard Marsh proposed a family allowance that would replace all current federal and provincial child-related payments, although the family allowance program that actually came into being the following year did not follow Marsh's advice in this regard.

#### **b. federal/provincial child benefit options**

At the request of the Senate Committee, we threw all the federal child benefits money into one pot (except for the child care expense deduction, since its status as a child benefit is open to debate) along with federal and provincial spending on children under the social assistance provisions of the Canada Assistance Plan. Because it is virtually impossible to arrive at an accurate estimate of the amount of money that the welfare system devotes to children — Canadian social assistance data being appallingly sparse and limited — we examined the welfare rate structures in every province (which vary considerably) as well as the national breakdown of recipients according to family type and, for the sake of argument, assumed that 20 percent of social assistance spending goes to children. All in all, expenditures on federal child benefits and child-related social assistance came to an estimated \$5.7 billion for 1990.

Our calculations did not include provincial child-related programs in the three provinces which provide them (Saskatchewan, Manitoba and Quebec) because, if we did so, we would in effect be redistributing part of this money to the other provinces. Quebec in particular spends substantial amounts on its various child-related income security programs; the most recent Quebec budget projected its child-related expenditures at close to \$2 billion for 1990. Nor have we included the cost of the child care expense deduction.

It is important to understand that our options are based on current spending on child benefits and so start with a smaller pot of money than was available in the pre-1985 child benefits system. The various changes noted earlier — partial de-indexation above all — have taken a considerable slice out of the child benefits system. In 1991, the federal child benefits system will pay out about \$1.7 billion less than it would under the old system.

(i) *two illustrative options: targeted versus universal*

For the sake of discussion, we have drawn up two quite different reform options and compared them to the current child benefits system in 1990. In portraying the existing child benefits system, we have assumed that the clawback on family allowances is fully in place, whereas in fact it was only two-thirds implemented in 1990.

One reform option is a **targeted child benefit**. It replaces the current child benefits with a single, refundable child tax credit paying \$3,075 per child for families with incomes under \$16,500, above which benefits are reduced by 25 percent of other income. This option is based on the SARC proposal; we adjusted the threshold for inflation, kept the 25 percent reduction rate and determined the amount of the maximum benefit according to the resources available as described above.

The other reform option is a two-part **universal child benefits** scheme which is simpler than the existing system. The universal program is a taxable family allowance, as all Canadian families received before the clawback, worth \$400 per child in 1990 (i.e., the current rate without the clawback). The other program is a refundable child tax credit paying \$1,400 per child for families with incomes under \$10,000, above which the credit is reduced by 5 percent of additional income.

**Neither of these options is meant to be a proposal of the author or the National Council of Welfare.** Rather, the two options were chosen to exemplify two quite different philosophies on the design of child benefits. One approach concentrates resources on lower-income families and excludes families with average incomes and above, while the other serves families at all income levels. However, both deliver their largest payments to poor families.

**Figure G** illustrates child benefits for two-earner couples with two children under the existing system and the two options. The dashed line depicts the status quo, the thin solid line the universal option and the solid line with small boxes the targeted option.

The dashed line marking the current system represents total benefits from family allowances and the refundable and non-refundable child tax credits. The large difference in the benefits for families with zero or little income and those with \$15,000 or more requires explanation.

We assume that the family with no employment earnings is on welfare. In order to provide a valid comparison between the current system and the two options, we have counted provincial social assistance benefits as part of the welfare family's child benefits, because the options we are considering fold in social assistance payments on behalf of children.

Welfare benefits include allowances for children, but vary from one province to another and according to such factors as the age of children and type of family. For the sake of argument, we assume

that each child is worth \$1,800 in annual social assistance payments, a rough estimate provided by the economist David Ross based on research he conducted for the Ontario Social Assistance Review Committee. This figure is for Ontario's long-term welfare program (Family Benefits Assistance) and would not be the same in other provinces. It does not include discretionary special needs benefits for children such as special diets or medication. We added \$3,600 to the \$800 in family allowances and \$1,353 in non-refundable child tax credits to arrive at a grand total of \$5,753 for the welfare families with two children under the existing system. Again, this is an estimate used for illustrative purposes only: the actual amount of child-related social assistance benefits vary considerably from one family and province to another.

**CHILD BENEFIT OPTIONS, TWO-EARNER COUPLES WITH TWO CHILDREN, BY EARNINGS, 1990**

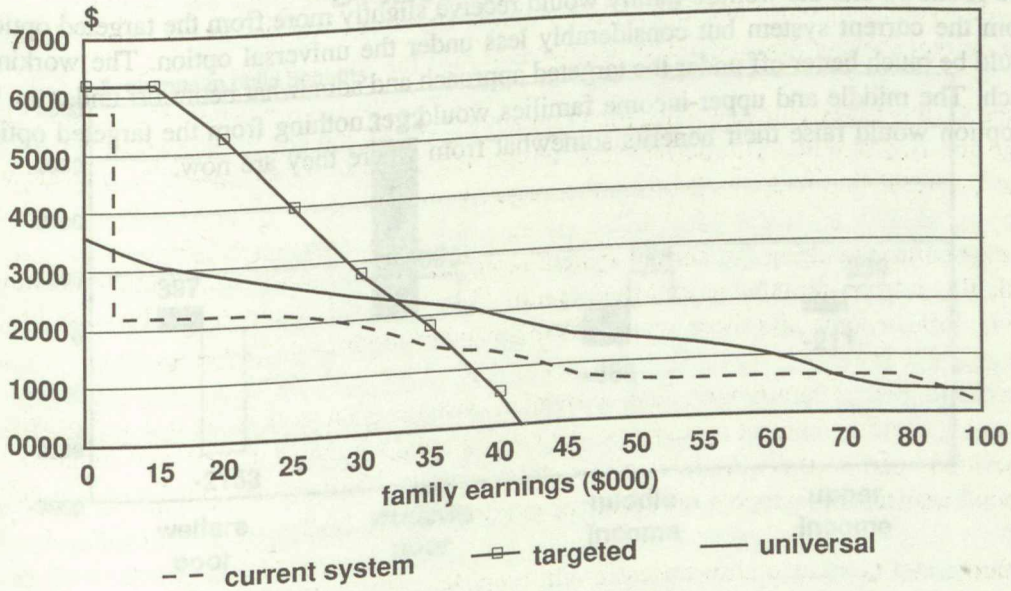


Figure G

The working poor families represented on Figure G by the \$15,000 and \$20,000 levels receive only the three federal child benefits. Total benefits for the working poor families amount to \$2,153 under the existing system, which accounts for the steep drop in the line from the zero earnings families (with total child-related benefits totalling \$5,753) to those at \$15,000.

The targeted option drawn by the boxed line would pay its maximum benefit (\$3,075 per child or \$6,150 for two children) to families with incomes under \$16,500. Above this income level, benefits would decline rapidly, disappearing at \$41,100 for families with two children. Poor and lower-middle income families would be better off than they are under the present system, but those with average incomes or above would no longer receive child benefits.

The universal option's maximum benefit of \$1,800 per child or \$3,600 for two children, payable to families with incomes under \$10,000, would leave welfare families a good deal worse off than they are under the current system. Working poor, middle-income and most upper-income families would be better off than they are now.

To illustrate the effects of the two options, we looked at families at four different income levels — welfare poor families (those with no earnings), working poor families (\$20,000), middle-income families (\$55,000) and upper-income families (\$100,000). The working poor, middle and upper-income families have two earners. In all families, one child is aged six or younger and the other child is seven or older.

**Figure H** compares child benefits under the two options with the current system. **Figure I** shows the change in benefits that would arise from each reform option (i.e., we subtracted each family's benefits under the present system from what they would get from the targeted option and from the universal approach). Bars which are above the line show increases in child benefits, while those which are below the line indicate losses.

Figure H shows that the welfare family would receive slightly more from the targeted option than it does from the current system but considerably less under the universal option. The working poor family would be much better off under the targeted approach and somewhat better off under the universal approach. The middle and upper-income families would get nothing from the targeted option; the universal option would raise their benefits somewhat from where they are now.

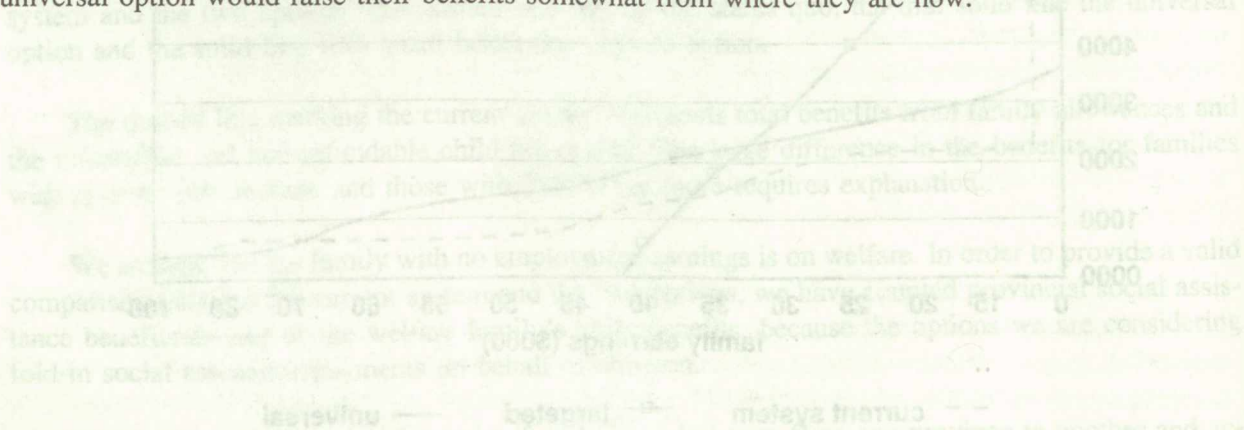


Figure G

### CHILD BENEFITS, TWO-EARNER COUPLES WITH TWO CHILDREN, BY INCOME GROUP AND OPTION, 1990

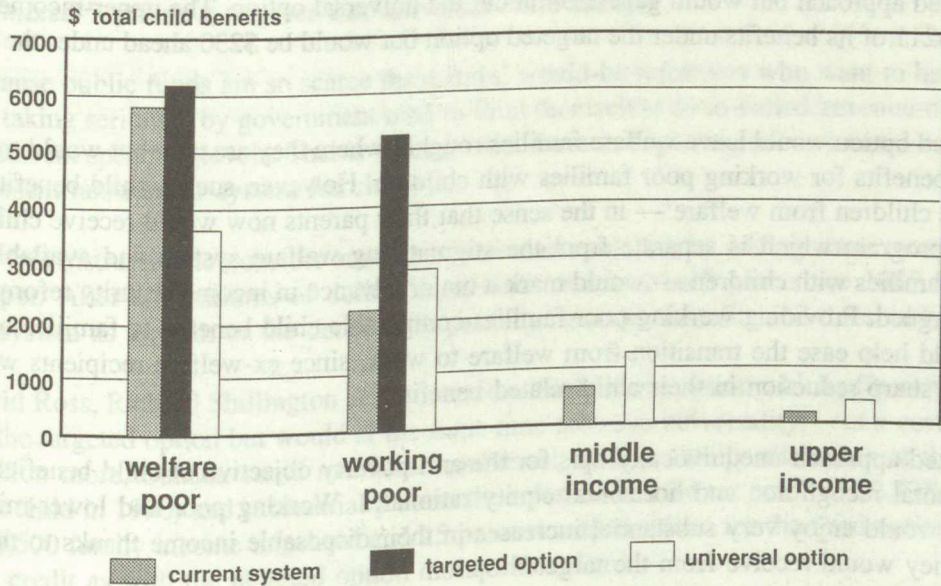


Figure H

### IMPACT OF CHILD BENEFIT OPTIONS ON TWO-EARNER COUPLES WITH TWO CHILDREN, BY INCOME GROUP, 1990

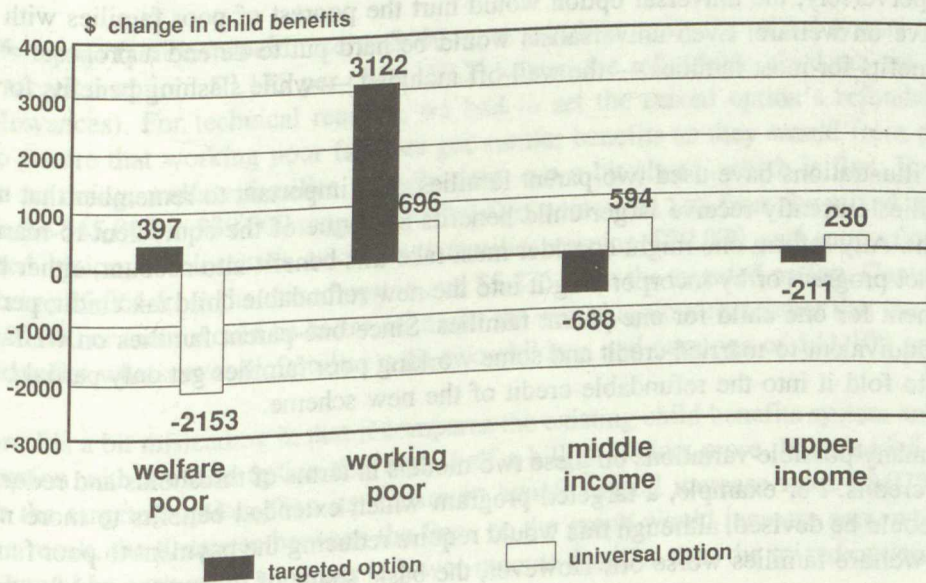


Figure I

Figure I illustrates the effects of the two options. The welfare family would gain \$397 from the targeted option but would lose a sizeable \$2,153 under the universal approach. The working poor family would enjoy a substantial \$3,122 boost in its child benefits under the targeted scheme as opposed to \$696 from the universal option. The middle-income family loses \$688 — all of its present benefits — under the targeted approach but would gain \$594 under the universal option. The upper-income family would lose all \$211 of its benefits under the targeted option but would be \$230 ahead under the universal scheme.

The targeted option would leave welfare families roughly where they are now but would markedly improve child benefits for working poor families with children. However, such a child benefit reform which removed children from welfare — in the sense that their parents now would receive child benefits through a program which is separate from the stigmatizing welfare system and available to all lower-income families with children — would mark a major advance in income security reform, as the SARC report argued. Providing working poor families comparable child benefits to families on social assistance would help ease the transition from welfare to work, since ex-welfare recipients would no longer suffer a sharp reduction in their child-related benefits.

The targeted approach unequivocally opts for the anti-poverty objective of child benefits and rejects their parental recognition and horizontal equity rationales. Working poor and lower-middle income families would enjoy very substantial increases in their disposable income thanks to the larger child benefit they would receive from the targeted option.

The universal option produces mixed results. On the one hand, it would raise the benefits of the working poor by a significant amount (the \$20,000 family with two children would see a \$696 increase) and also would preserve the universal nature of Canada's child benefits system. Middle and upper-income families would get somewhat more than they do now, so the horizontal equity purpose would be somewhat better served. Universalists would like this aspect; those who believe that the state should not pay child benefits to well-off parents would not.

However, perversely, the universal option would hurt the poorest of poor families with children — those who live on welfare. Even universalists would be hard put to defend a proposal which improved child benefits for most families — the well-off included — while slashing benefits for families on welfare.

While our illustrations have used two-parent families, it is important to remember that taxpaying one-parent families currently receive larger child benefits by virtue of the equivalent-to-married non-refundable credit. Any reform one might consider must take this benefit into account, either by retaining it as a distinct program or by incorporating it into the new refundable child tax credit, perhaps as a special supplement for one child for one-parent families. Since one-parent families on welfare do not qualify for the equivalent-to-married credit and some working poor families get only partial benefits, it might be wise to fold it into the refundable credit of the new scheme.

There are many possible variations on these two models in terms of thresholds and reduction rates for refundable credits. For example, a targeted program which extended benefits to more middle-income families could be devised, although this would require reducing the payment to poor families and so could leave welfare families worse off. However, the basic shape of the curves and the differences



between them would remain much the same so long as we compare a sharply targeted program with a universal one funded out of existing resources devoted to federal child benefits and provincial social assistance paid on behalf of children.

(ii) a "mixed" option: a targeted-but-universal child benefit

Because public funds are so scarce these days, would-be reformers who want to have any chance of being taken seriously by government tend to limit themselves to so-called 'revenue-neutral' options built on current spending levels. That is what we did above in exploring our two equal-cost alternatives to the present tax/transfer system for children.

But it is instructive to consider another option made possible by adding some money to the child benefits pot. After all, millions of dollars have been removed each year since 1985 from the child benefits system as a result of the decision to partially de-index benefits and thresholds.

David Ross, Richard Shillington and I devised a third reform option which offers the same advantages as the targeted option but would at the same time preserve universality — at a cost. By spending \$500 million more, Canada could maintain a universal, taxable family allowance at the current rate (\$400 per child in 1990) and substantially boost the refundable child tax credit to \$2,775. (We used the same \$16,500 family income threshold and 25 percent reduction rate for the third option's refundable child tax credit as with the targeted option discussed earlier.)

Figure J compares this third, "mixed" option with the targeted option and the current system. We designed the mixed extra-cost option, illustrated by the line with crosses, so that it closely matches the targeted option for poor and lower-middle income families. However, unlike the targeted approach, the mixed option ensures that middle and upper-income families receive child benefits, although most would get somewhat less than they do from the current system. In pictorial terms, the mixed option resembles a targeted-with-a-tail approach, in that it pays large benefits to lower-income families but still provides some benefits to all middle and upper-income families.

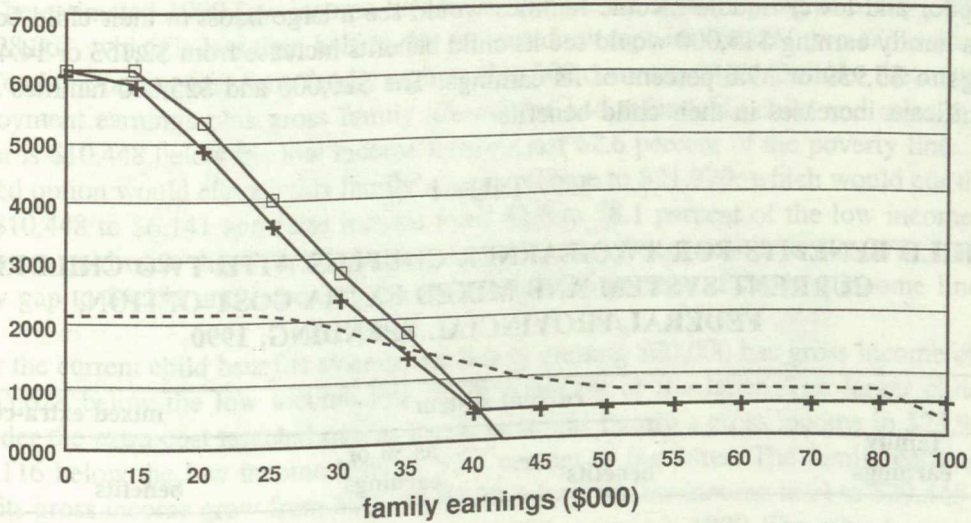
Welfare poor families would receive \$100 more per child under the mixed system than they would from the targeted option — \$3,175 per child (\$2,775 from the refundable child tax credit and \$400 in family allowances). For technical reasons, we had to set the mixed option's refundable credit high enough to ensure that working poor families got similar benefits as they would from the targeted approach; in so doing, welfare families actually came out a bit ahead, which is fine. Even so, families earning in the \$15,000 to \$39,000 range still would get somewhat less from the mixed option than from the targeted option; for instance, two-earner families earning \$20,000 and supporting two children would receive \$5,064 from the mixed option and \$5,275 from the targeted option. Conversely, families earning \$40,000 or more would be better off under the mixed option; remember that the targeted option pays no benefits whatsoever to families with two children and earnings of \$41,100 or more.

Figure J is a bit misleading in that it compares the existing child benefits system and an equal-cost targeted option with a mixed option that costs half a billion dollars more. If we added the same \$500 million to the targeted option, then its maximum benefit would increase from \$3,075 to \$3,250 per child. As a result, the distances between the lines on the graph would increase somewhat; the targeted approach would be even more generous to lower-income families than the mixed option, since an extra

half billion dollars could pay for a higher benefit. However, the overall shape of the curves would not change much, as indicated in Figure K. In any case, the point of the extra-cost option was to illustrate how much it would cost to gain the same advantages as the targeted approach yet maintain universality in Canada's child benefits system.

If we added the same \$500 million to the targeted option to create an extra-cost targeted option, maximum benefits would increase from \$6,150 to \$6,500 for two children. **Figure K** compares the two extra-cost options — targeted and mixed. The picture is similar to that shown in Figure J.

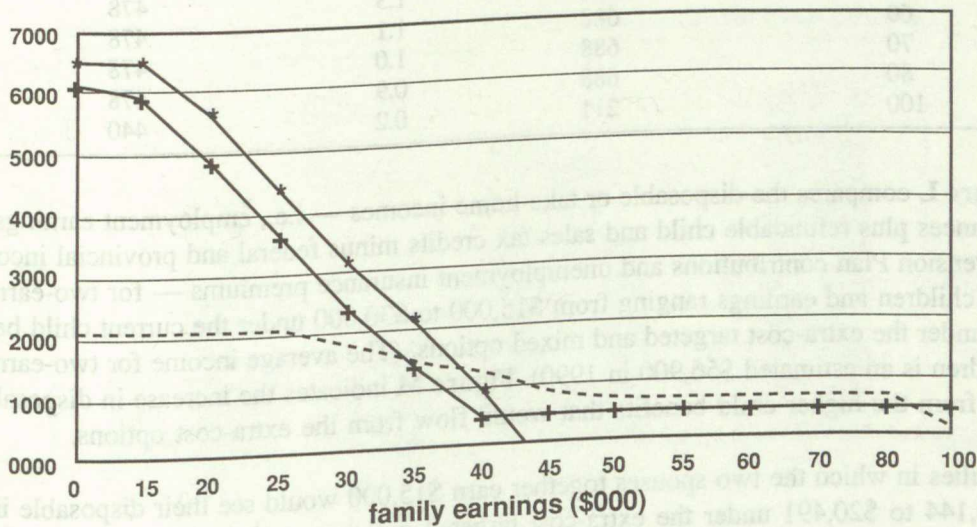
### CHILD BENEFIT OPTIONS, TWO-EARNER COUPLES WITH TWO CHILDREN, BY EARNINGS, 1990



--- current system    □ targeted    + mixed extra cost

Figure J

### EXTRA COST CHILD BENEFIT OPTIONS, TWO-EARNER COUPLES WITH TWO CHILDREN, BY EARNINGS, 1990



--- current system    \* targeted extra cost    + mixed extra cost

Figure K

The important thing to note is that the mixed option, like the targeted option which it so closely resembles, would improve child benefits for working poor and lower-middle income families to a very significant extent — enough to provide a sizable supplement to their incomes. **Table 1** compares child benefits for two-earner couples with two children under the current system and under the mixed option. Working poor and lower-middle income families would see a large boost to their child benefits. For instance, a family earning \$15,000 would see its child benefits increase from \$2,153 or 14.4 percent of its earnings to \$5,939 or 39.6 percent of its earnings. The \$20,000 and \$25,000 families also would enjoy significant increases in their child benefits.

**Table 1**  
**CHILD BENEFITS FOR TWO-EARNER COUPLES WITH TWO CHILDREN,**  
**CURRENT SYSTEM AND MIXED EXTRA-COST OPTION,**  
**FEDERAL/PROVINCIAL SPENDING, 1990**

family earnings (\$000)	current system		mixed extra-cost option	
	benefits	as % of earnings	benefits	as % of earnings
0	5,753	—	\$6,350	—
15	2,153	14.4	6,139	40.9
20	2,153	10.8	5,064	25.3
25	2,101	8.4	3,814	15.3
30	1,851	6.2	2,564	8.5
35	1,450	4.1	1,573	4.5
40	1,247	3.1	589	1.5
45	851	1.9	478	1.1
50	725	1.4	478	1.0
55	688	1.3	478	0.9
60	688	1.1	478	0.8
70	688	1.0	478	0.7
80	688	0.9	478	0.6
100	211	0.2	440	0.4

**Figure L** compares the disposable or take-home incomes — i.e., employment earnings plus family allowances plus refundable child and sales tax credits minus federal and provincial incomes taxes, Canada Pension Plan contributions and unemployment insurance premiums — for two-earner couples with two children and earnings ranging from \$15,000 to \$30,000 under the current child benefits system and under the extra-cost targeted and mixed options. (The average income for two-earner couples with children is an estimated \$56,900 in 1990). **Figure M** indicates the increase in disposable income resulting from the higher child benefits that would flow from the extra-cost options.

Families in which the two spouses together earn \$15,000 would see their disposable income rise from \$16,144 to \$20,491 under the extra-cost targeted option — a very large \$4,347 increase. The \$20,000 family would be \$3,512 ahead, the \$25,000 family \$2,314 in the black and the \$30,000 family \$1,174 better off under our the extra-cost targeted child benefits option. The mixed option would raise

the disposable income of the \$15,000 family by \$3,979 over the present system, the \$20,000 family by \$2,904, the \$25,000 family by \$1,706 and the \$30,000 couple by \$706.

These are substantial increases, especially for the working poor families earning \$15,000 and \$20,000. The estimated 1990 low income line for a four-person family living in a city of 500,000 or larger is \$28,061, which is less than half of the estimated average income for two-earner couples with children. Total pre-tax income for a family earning \$15,000 comes to \$17,573 under the current system (i.e., employment earnings plus gross family allowances and refundable child and sales tax credits); this amount is \$10,448 below the low income level or just 62.6 percent of the poverty line. The extra-cost targeted option would elevate this family's gross income to \$21,920, which would cut the poverty cost targeted option would elevate this family's gross income to \$21,920, which would cut the poverty gap from \$10,448 to \$6,141 and raise income from 62.6 to 78.1 percent of the low income line. The mixed option would raise this \$15,000-earning family's total gross income to \$21,770, thus reducing the poverty gap to \$6,291 and increasing its income to 77.6 percent of the low income line.

Under the current child benefits system, the family earning \$20,000 has gross income of \$22,433, which is \$5,628 below the low income line or 79.9 percent of the latter. The larger child benefits payable under the extra-cost targeted option would raise this family's gross income to \$25,945, which is only \$2,116 below the low income level or 92.5 percent of the latter. The family earning \$25,000 would see its gross income grow from \$27,131 (\$930 below the low income line) to \$29,445 or \$1,384 above the estimated low income line for a city of 500,000 or more in 1990. The mixed approach would produce similar, though smaller, improvements. **Figure N** illustrates the impact of the extra-cost targeted and mixed options on the poverty gap as measured in dollars, while **Figure O** shows incomes before and after the two options as a percentage of the low income line.

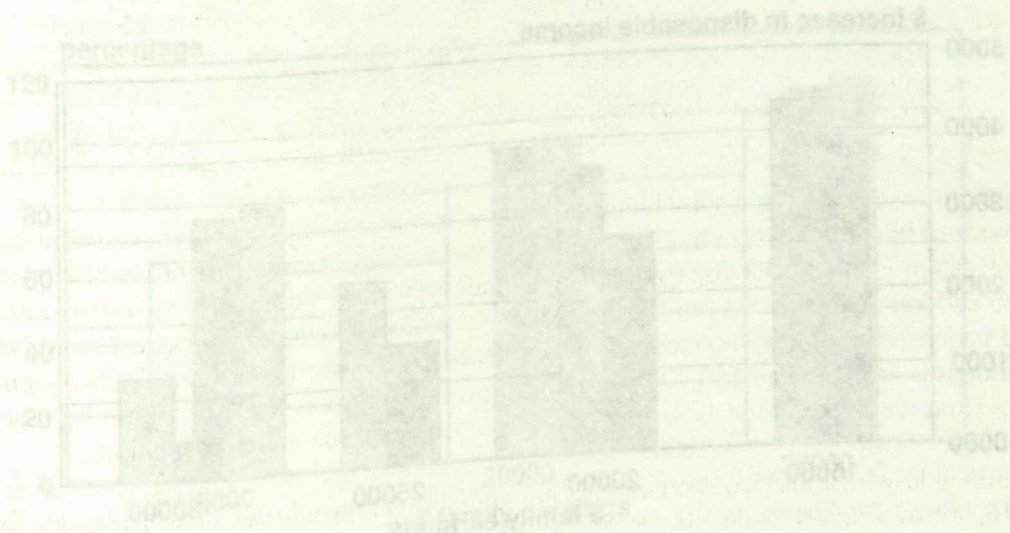


Figure M

Figure O

**DISPOSABLE INCOME, TWO-EARNER COUPLES WITH TWO CHILDREN, CURRENT SYSTEM AND EXTRA COST OPTIONS, 1990**

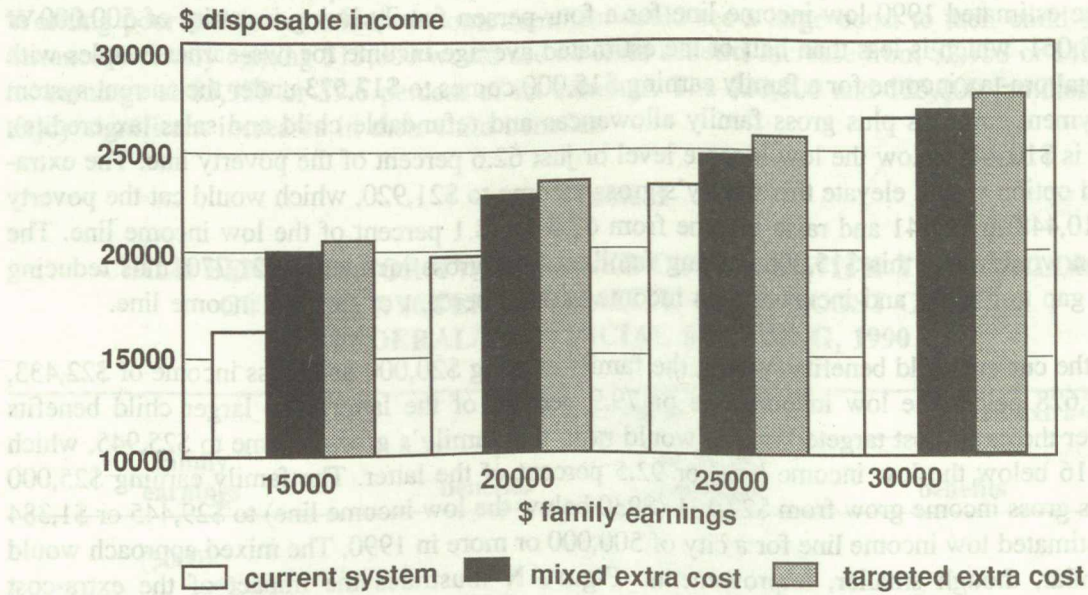


Figure L

**INCREASE IN DISPOSABLE INCOME FROM EXTRA COST OPTIONS, TWO-EARNER COUPLES WITH TWO CHILDREN, 1990**

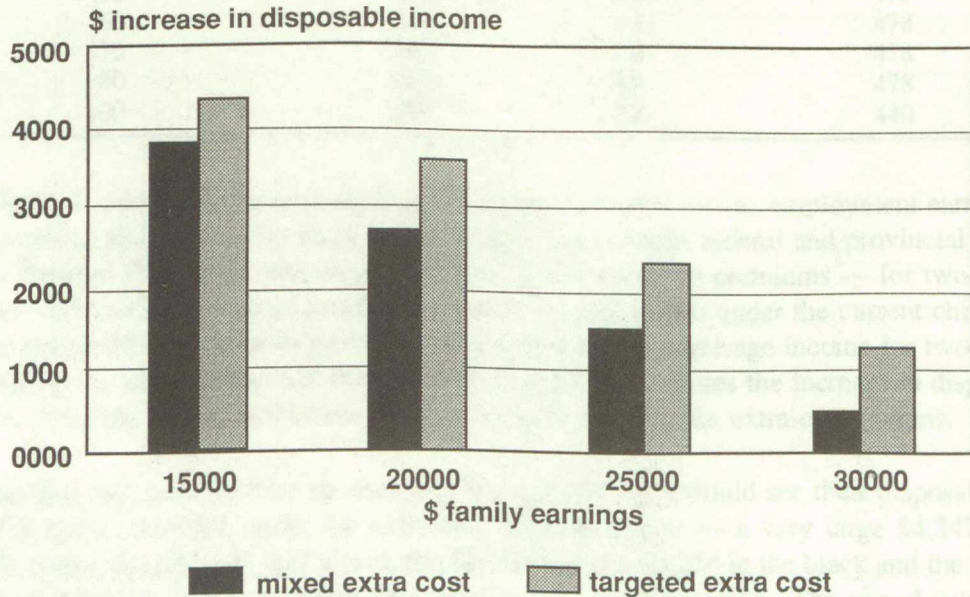
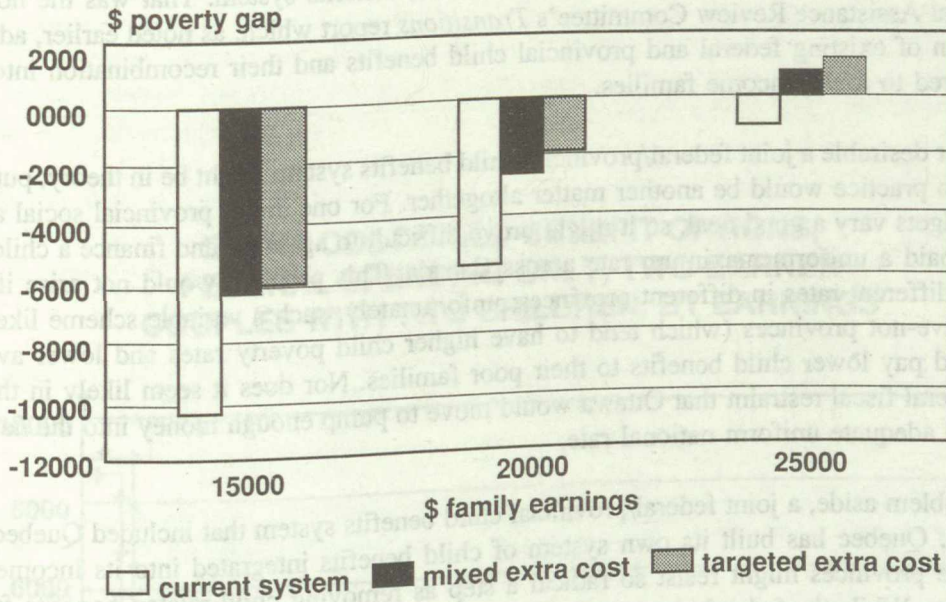


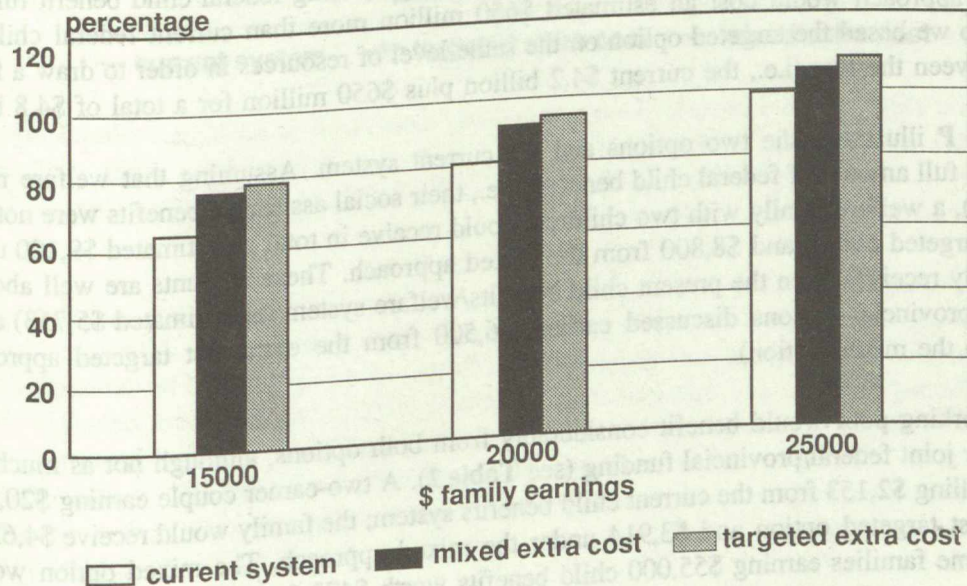
Figure M

**POVERTY GAP, TWO-EARNER COUPLES WITH TWO CHILDREN, CURRENT SYSTEM AND EXTRA-COST OPTIONS, 1990**



**Figure N**

**INCOME OF TWO-EARNER COUPLES WITH TWO CHILDREN AS % OF LOW INCOME LINE, CURRENT SYSTEM AND EXTRA-COST OPTIONS**



**Figure O**

c. *federal-only child benefit options*

The options discussed above assume that the federal and provincial governments could agree to pool their child-related resources and create a joint child benefits system. That was the hope of the Ontario Social Assistance Review Committee's *Transitions* report which, as noted earlier, advocated a rationalization of existing federal and provincial child benefits and their recombination into a single program geared to lower-income families.

However desirable a joint federal/provincial child benefits system might be in theory, putting such a scheme into practice would be another matter altogether. For one thing, provincial social assistance rates and budgets vary a good deal, so it might prove difficult to agree on and finance a child benefits system that paid a uniform maximum rate across Canada. This problem would not arise if the new system paid different rates in different provinces; unfortunately, such a variable scheme likely would mean that have-not provinces (which tend to have higher child poverty rates and lower average incomes) would pay lower child benefits to their poor families. Nor does it seem likely in the current period of federal fiscal restraint that Ottawa would move to pump enough money into the new system to finance an adequate uniform national rate.

This problem aside, a joint federal/provincial child benefits system that included Quebec seems a dim prospect. Quebec has built its own system of child benefits integrated into its income security system. Some provinces might resist so radical a step as removing child-related benefits from their welfare system. While the federal government could try to negotiate a joint child benefits scheme with the other nine provinces, the prospects for a new national social program look pretty bleak in 1990.

What would our child benefit options look like if we only have federal expenditures on child and elderly benefits to work with? Not so different from those funded from federal and provincial money, as it turns out.

We compared the mixed option with the targeted option, using federal child benefit funds only. The mixed approach would cost an estimated \$650 million more than current federal child-related spending, so we based the targeted option on the same level of resources in order to draw a fair comparison between the two (i.e., the current \$4.2 billion plus \$650 million for a total of \$4.8 billion).

**Figure P** illustrates the two options and the current system. Assuming that welfare recipients received the full amount of federal child benefits (i.e., their social assistance benefits were not reduced accordingly), a welfare family with two children would receive in total an estimated \$9,100 under the extra-cost targeted option and \$8,800 from the mixed approach. These amounts are well above what such a family receives from the present child benefits/welfare system (an estimated \$5,753) and from the federal/provincial options discussed earlier (\$6,500 from the extra-cost targeted approach and \$6,150 from the mixed option).

The working poor would benefit considerably from both options, although not as much as they would under joint federal/provincial funding (see **Table 2**). A two-earner couple earning \$20,000 gets benefits totalling \$2,153 from the current child benefits system; the family would receive \$4,625 under the extra-cost targeted option and \$3,914 under the mixed approach. The mixed option would pay middle-income families earning \$55,000 child benefits worth \$478 for two children compared to the



\$688 they get from the present system. The well-off \$100,000 family would get \$440 in child benefits from the mixed option, which is more than it does now (\$211). Middle and upper-income families would receive no child benefits from the targeted approach.

**EXTRA COST CHILD BENEFIT OPTIONS,  
FEDERAL SPENDING ONLY, TWO-EARNER  
COUPLES WITH TWO CHILDREN, BY EARNINGS**

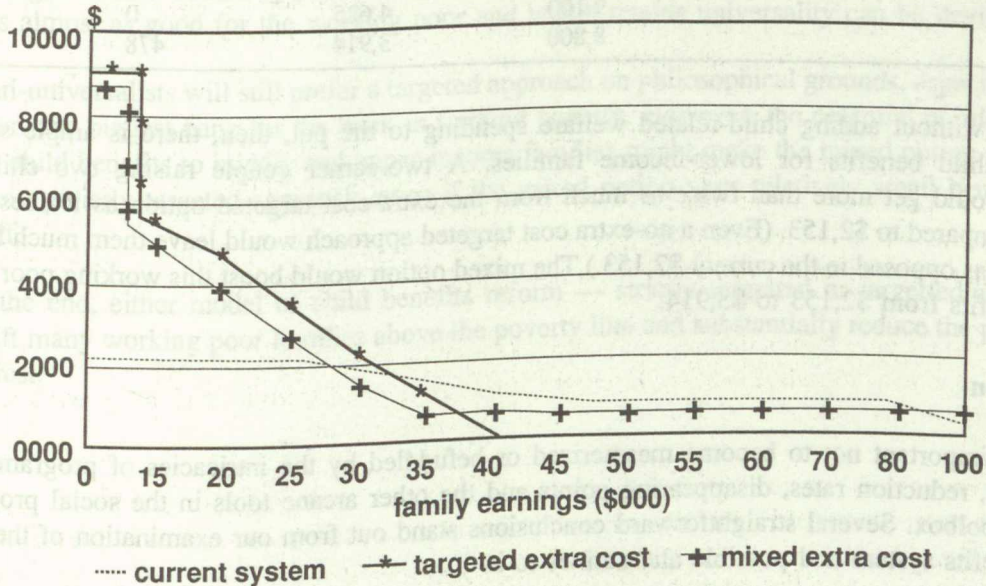


Figure P

Table 2

**CHILD BENEFITS, TWO-EARNER COUPLES WITH TWO CHILDREN,  
CURRENT SYSTEM AND EXTRA-COST OPTIONS, 1990**

	welfare poor	working poor	middle income	upper income
	(in dollars)			
<b>federal/provincial</b>				
current	\$5,753	\$2,153	\$688	\$211
targeted	6,500	5,625	0	0
mixed	6,150	4,864	478	440
<b>federal only</b>				
targeted	9,100	4,625	0	0
mixed	8,800	3,914	478	440

Even without adding child-related welfare spending to the pot, then, there is ample scope for boosting child benefits for lower-income families. A two-earner couple raising two children on \$20,000 would get more than twice as much from the extra-cost targeted option as it does now — \$4,625 compared to \$2,153. (Even a no-extra cost targeted approach would leave them much better off — \$4,125 as opposed to the current \$2,153.) The mixed option would boost this working poor family's child benefits from \$2,153 to \$3,914.

### Conclusion

It is important not to become mesmerized or befuddled by the intricacies of program options, thresholds, reduction rates, disappearing points and the other arcane tools in the social program designer's toolbox. Several straightforward conclusions stand out from our examination of the existing child benefits system and possible alternatives to it.

First, the child benefits system is withering away because it is no longer adequately protected from inflation. Whether one sticks with the current system or dreams up a better mousetrap, child benefits must be fully indexed. This proviso applies to the threshold for the refundable child tax credit as well as child benefit rates.

Our exploration of several options funded by recombining existing federal and provincial child-related spending shows that a targeted approach which protects the benefits of welfare families and gives large increases to working poor and lower-middle income families could be devised using current resources, although middle and upper-income families would no longer receive benefits. This option would simplify the child benefits system, which would serve one very worthwhile purpose — easing poverty by supplementing the incomes of lower-income families with children. It also would remove one of the barriers facing parents who try to get off welfare and find and keep a job — the loss of their child-related social assistance benefits. However, the targeted option would deny child benefits to middle and upper-income families.

For half a billion dollars more, we can come up with a child benefits scheme that is targeted but still universal. Doubtless, those who do not believe in universal child benefits will regard such a mixed option as undesirable, preferring instead to save the extra money or use it to further improve child benefits for the poor. Universalists will have to ask themselves whether the additional half a billion dollars — no small sum — is justifiable in view of the fact that it would provide a relatively modest payment (\$220 per child, or a mere 0.2 percent of a \$100,000 family's income) to high-income families. By the same token, one might ask why the current child benefits system bothers to pay well-off parents the non-refundable children's tax credit, since it amounts to just \$105 per child on average.

While the precise figures differ, child benefit reforms which use federal resources only also can significantly improve the incomes of lower-income families. Even without provincial involvement, then, the federal government could change the child benefits system so that it boosted benefits to poor families.

A targeted child benefit system clearly would help poor families most. However, a mixed option which is almost as good for the working poor and which retains universality can be devised.

Anti-universalists will still prefer a targeted approach on philosophical grounds, especially since it also offers the biggest bang for the buck in fighting poverty. However, the potential political costs of denying child benefits to middle and upper-income families might make the mixed option more palatable than a strictly targeted approach, even if the mixed option pays relatively small benefits to the better-off.

In the end, either model of child benefits reform — strictly targeted or targeted/universal — would lift many working poor families above the poverty line and substantially reduce the poverty gap for the rest.



