Well-to-do families should not be receiving child care benefits [1]

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Right wing think tank Frontier Centre for Public Policy comments on the Universal Child Care Benefit.

EXCERPTS:

Canada's Universal Child Care Benefit is an unfocused universal program that should be reformed to target financial assistance to families that need the help.

As government revenues fell during the "Great Recession" and spending went up to provide economic stimulus, Canada's fiscal position deteriorated. The International Monetary Fund recently conducted an analysis of public finances in affluent countries and found that, unless Canada makes policy changes to either collect more revenue or spend less money, the country's public debt will rise to dangerous levels.

The government can begin the process of repairing Canada's finances by picking "low-hanging fruit," by which we mean identifying areas of public management where savings can be achieved relatively painlessly, and where spending reductions will not interfere with achieving the government's policy objectives. Using these criteria, an ideal first candidate for restraint-oriented reform is the federal government's childcare policy and, specifically, the Universal Child Care Benefit.

Under the childcare allowance, parents are given $1, 200 annually for each child under the age of six to help offset the costs of childcare arrangements. The universal benefit is poorly designed because it provides assistance in roughly equal measure to the affluent and the needy alike. Millionaire parents are given the same $100 cheque each month as a family living below the poverty line.

It is precisely this type of unfocused, undisciplined public spending that our difficult fiscal situation requires us to reform. Fiscal restraint will always require hard choices, but the process can begin relatively painlessly if we resolve to eliminate cash allowances for families that are least in need of help.

The United Kingdom currently has a child benefit that is similar to our childcare allowance (the major difference is that in the UK the benefit lasts until children turn 18). However, the British government has recognized that this type of universal benefit is no longer affordable, and recently announced plans to phase it out for high-income families.

Under the new rules, the benefit will remain the same for all families whose top earner brings home less than $78,000 per year (we have converted the thresholds, which are set in Sterling pounds, to Canadian dollars). At that point, the benefit is gradually reduced as the top earner's income rises, requiring families to pay back 1 per cent of the benefit for each additional $150 earned above the threshold. Once a family's top earner reaches $94,000 per year, the child benefit is eliminated immediately.

By ensuring continued support for low- and middle-income families and phasing out the benefit gradually to avoid disincentives to higher earning, the UK government is picking "low-hanging fruit" to save money relatively painlessly.

The Canadian government could generate meaningful savings through a similar reform. One recent analysis showed that of all the families currently receiving the universal benefit in Canada, 368,600 of them (22 per cent) enjoy an annual family income over $100,000. If the credit were removed for these families alone, the cost of the program would be reduced by over $400 million.

A fraction of these savings would be re-claimed by these high-income families as a result of slightly smaller tax bills (the benefit is considered taxable income), but the savings from means-testing the benefit would clearly be significant. Even if the government created a somewhat higher income threshold for large families, these numbers show that means-testing the benefit could deliver hundreds of millions of dollars in savings.

The Universal Child Care Benefit (then called the Choice in Childcare Allowance) was a central campaign promise during the Conservative party's first successful election campaign in 2006. Admitting that the program's design was somewhat flawed may be politically embarrassing, but the government can save face by noting that the recession has changed our fiscal position, and a policy that seemed affordable seven years ago may need to be tweaked in light of new budgetary realities.

This small reform to one government program will not solve Canada's budget problems, but it is an example of a sensible, relatively painless reform that can generate real savings and make the task of fixing Canada's finances somewhat easier. The UK reforms provide a useful model that Canada can follow, if we simply accept the principle that during tight fiscal times the government can't afford cash allowances for well-to-do families.

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