Flawed finance memo a perfect fit for tories' family narrative [1]

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EXCERPTS

"Increases in real family income have made children relatively more affordable than they were 15 years ago, and more so for lower income families." This is the conclusion of a recently released Department of Finance briefing note. It fits a particular political narrative: Conservative tax cuts have made life better for Canadian families. But the numbers behind it are flawed.

Finance calculated affordability by comparing a family's incomes to the cost of meeting a child's basic needs. The cost estimates have been criticized for being unrealistic. Shelter costs, for example, are based on the average difference in rent between a one- and two-bedroom apartment in Winnipeg.

Yet even with better cost numbers, the Finance approach would not capture the basic calculations parents make. "Can I afford children?" is not a question of meeting their basic needs. It means, "Can I give my children a good life?" Moreover, "How much am I willing to sacrifice?" Any study of affordability that ignores opportunity costs, such as the substantial motherhood penalty in earnings, misses the point.

Finance also errs by comparing the costs raising children to the average incomes of people who already have kids [see Behind the Numbers below]. No study of housing affordability looks only at the incomes of home owners; to do so would miss those who are priced out of the housing market. The same principle applies to children. Canada's labour market is becoming polarized. Real wages of men in the bottom half of the earnings distribution have fallen. Men who are marginalized in the labour market tend to be marginalized in the marriage market as well. Where is the evidence that children are now "relatively more affordable" for low-skill, low-education men?

The Finance study contains a kernel of truth. Over the past 15 years, the number of Canadian children living with low incomes has been cut in half. Jean Chrétien's Liberal government started this dramatic turnaround. They put billions of dollars into the Canada Child Tax Benefit program, much of which was targeted directly to low-income families. They worked with the provinces to develop programs to encourage low-income parents to enter the workplace. The results were stunning. The employment rate of female lone parents rose 20 percentage points during the Liberals' time in office. A strong job market and other factors helped, but sound policy can take part of the credit.

Stephen Harper's Conservative government has also been good to families with children, with billions of dollars worth of widely-advertised tax cuts and spending initiatives. I welcome this newfound generosity to families. For many years, Canada spent less than most other OECD countries on cash, services and tax breaks for children. It was time for a change. But I question politicians' methods (especially the family tax cut) and their motives. Why parents? Why not students? Or singles? Or people with disabilities?

It's noteworthy that spending on families with children has risen as the number of children in Canada has stagnated, and the percentage of the Canadians who are under the age of 18 has dropped. The larger a group, the more it costs to buy its votes. Parents are the new seniors: a group of who are perceived as worthy of support; a voting block small enough to target effectively and affordably, and large enough to matter politically.

Some in political and policy circles believe that people have a fairly hazy idea of how Canada's tax system works. The average taxpayer doesn't actually know how much he or she pays in taxes. The Children's Fitness Tax Credit, for example, doesn't make a material difference to the typical family's financial situation. But it validates people's sense of identity; that makes them feel recognized for who they are. The story here is not the affordability of children. It's about people feeling that they are valued and supported as parents - and about earning their votes.

Behind the numbers

According to the Department of Finance briefing note, the costs of raising a child from infancy to age 18 were $216,325, or $11,386 annually, as of 2013. The note estimates that this works out to 13.5 per cent of the median after-tax income for "families with two or more individuals," and 31 per cent of the income of a family in the lowest-income quintile. A couple of quick calculations reveals that the Department of Finance was working off a median after-tax family income of $84,000 per year, and an income of a family in the lowest-income quintile of $37,000. CANSIM table 202-0605, which is referenced in the briefing note, reports that median after-tax income of a two-parent family with children in 2011 was $83,600, suggesting that the affordability estimates are based on the average incomes in that group. I could not track down the source for the income of a family in a lowest-income quintile.
Region: Canada [2]

Links
[1] https://childcarecanada.org/documents/child-care-news/15/05/flawed-finance-memo-perfect-fit-tories%E2%80%99-family-narrative [2] https://childcarecanada.org/taxonomy/term/7864