FRASER INSTITUTE

2020

SECOND ESSAY

Financing the CANADA CHILD BENEFIT

Milagros Palacios and Jason Clemens

BETTER UNDERSTANDING THE CANADA CHILD BENEFIT

Essay Series

Chapter 2

Financing the Canada Child Benefit

By Jason Clemens and Milagros Palacios

Key points

- This essay examines the extent to which current versus future taxes (i.e., borrowing) are being used to finance the expanded Canada Child Benefit (CCB).
- Prior to the Liberals' introduction of the CCB in 2016, in 2015 the previous federal government had planned a major expansion of the predecessor programs to the CCB, increasing their collective cost from $14.3 billion to $18.0 billion in 2015-16, an increase of 25.9 percent.
- The CCB replaced existing programs with a single, tax-free payment to eligible parents with children under the age of 18. The benefits were increased for most families, particularly those with middle-income.
- In 2016-17 (the first full year of the CCB), the program cost $22.1 billion, 22.8 percent higher than the expected costs for the previous programs (post expansion). Between 2016-17 and 2019-20, the CCB has cost a cumulative $20.0 billion more than its predecessor programs.
- Using the 2015 budget as a baseline for federal finances, there was a transition from an expected cumulative $11.7 billion surplus over the 2016-17 to 2019-20 period to an actual cumulative deficit of $77.1 billion.
- The transition to deficits (borrowing) cannot be explained by lower revenues during the 2016-17 to 2019-20 period. The revenues collected during this period are almost exactly the same as in Budget 2015: $1.274 trillion versus $1.281 trillion. Put differently, the cumulative revenues collected by the Trudeau government are only $7.0 billion lower (0.6 percent) than were budgeted in 2015.

- The federal government has also benefitted from lower interest costs of $26.2 billion over this time.
- Simply put, the federal government financed the expansion of the CCB by deferring taxes (i.e., borrowing). Given the pre-recession expectation that the federal budget would not be balanced until at least 2040—which has worsened post-recession—future generations will bear the costs of the current CCB expansion.
- This effectively means that the children of the parents receiving the CCB transfer will bear the costs of the current transfer.

Introduction

The question of how the Canada Child Benefit is being financed is legitimate, given not only the size of the federal deficit but also the nature of the potential transfer(s). To determine the nature of the CCB's financing this essay examines the evolution and increasing costs of the CCB since 2015 and compares them to the federal government's overall budget balance. In particular, this essay focuses on establishing whether the CCB is being financed by current or future taxes. The latter option is of particular concern given the nature of the transfer implied by the use of deferred taxes.

Evolution of the Children's Benefit

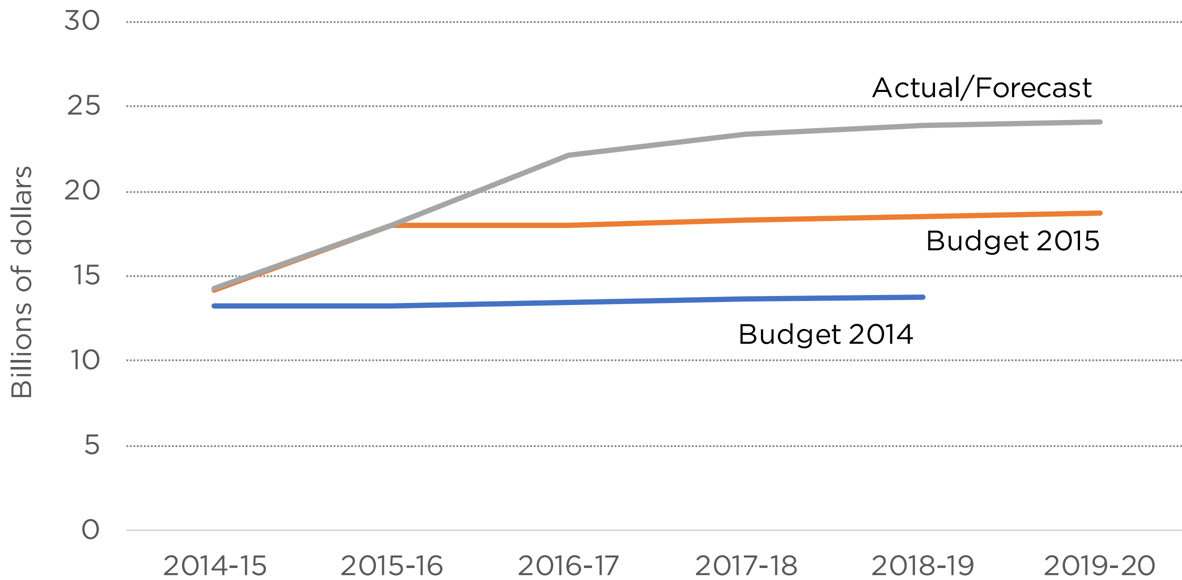
This essay uses the broad term "Children's Benefit" to encompass a number of programs aimed at transferring income to parents. The key period of analysis is 2015, the last year of the Harper Conservative government, through to 2019, the year before the COVID recession.

The Harper government introduced the Universal Child Care Benefit (UCCB) in 2006 (Department of Finance, 2006). It initially provided a $100 taxable benefit, paid monthly, to all families with children under the age of 6.

The UCCB, along with the pre-existing Canada Child Tax Benefit (CCTB) represented the core of the Children's Benefits going into 2015. The Chrétien government originally introduced the CCTB in 1997 (Department of Finance, 1997), which merged and reformed several existing programs. It was designed to provide a tax-free payment to lower-income families. The estimated cost for these two programs in 2014-15, the last full year of the Harper government, was $14.3 billion (Department of Finance, 2015a).

The Harper government's 2015 Budget proposed a major expansion and reform of the UCCB. The monthly benefit would be increased to $160 per month for each child under the age of 6 and a new benefit of $60 per

Figure 1: Cost of the Universal Child Care Benefit plus the Canada Child Tax Benefit versus the Canada Child Benefit, 2014-2019



Note that forecasted cost for the CCB for 2019-20 is from the *Fall Economic and Fiscal Update 2019*.

Sources: Department of Finance, 2014, 2015b, 2014 to 2019, 2019.

month for children ages 6 to 17 would be added (Department of Finance, 2015b). The old Child Tax Credit would be eliminated as part of the reform, lowering the net cost of the expanded UCCB.[2] The total estimated cost for the reformed program was expected to increase from $14.3 billion in 2014-15 to $18.0 billion in 2015-16, an increase of 25.9 percent, as illustrated in figure 1.

After the Trudeau Liberals were elected in the fall of 2015, they undertook a major overhaul of the UCCB and CTTB. Budget 2016 eliminated both programs and replaced them with a more generous benefit named the Canada Child Benefit (CCB). The initial program announced in 2016 provided a maximum tax-free benefit of up to $6,400 for children under the age of 6 and up to $5,400 for children between the ages of 6 and 17 (Department of Finance, 2016). As explained in the first essay in

2 According to Budget 2015, the gross cost of the expanded UCCB was forecast to be $4.37 billion in 2015-16, partially offset by the elimination of the Child Tax Benefit, which was estimated to save $1.75 billion, resulting in a net cost for the expanded UCCB of $2.62 billion in 2015-16 (table 4.1.3 from the 2015 Federal Budget).

this series (Sarlo, Clemens, and Palacios, 2020), the CCB increased the benefit paid to almost all families except for those with gross incomes over $180,000; those families saw their benefits decline. In addition, the CCB focused the increased spending towards middle-income families rather than those at the lower end of the income spectrum.

Figure 1 illustrates the budgeted costs for the reformed and expanded UCCB plus CCTB as outlined in Budget 2015 by the Harper Conservatives compared to the actual costs of the Canada Child Benefit (CCB) introduced by the Liberals.[3] There are two aspects of figure 1 worth noting. First, as noted previously, the total cost of the program increased markedly under the Harper Conservatives before the CCB was introduced in 2016.

Second, the actual cost of the new CCB was substantially higher than the expanded UCCB plus CCTB introduced by the Conservatives. Specifically, the CCB cost $22.1 billion in 2016-17, which is 22.8 percent higher than the expanded UCCB plus CCTB proposed by the Harper Conservatives. As of 2019-20, the CCB is $5.4 billion more expensive (a 28.9 percent higher cost) than what was proposed by the Harper Conservatives.

Understanding the financing of the CCB

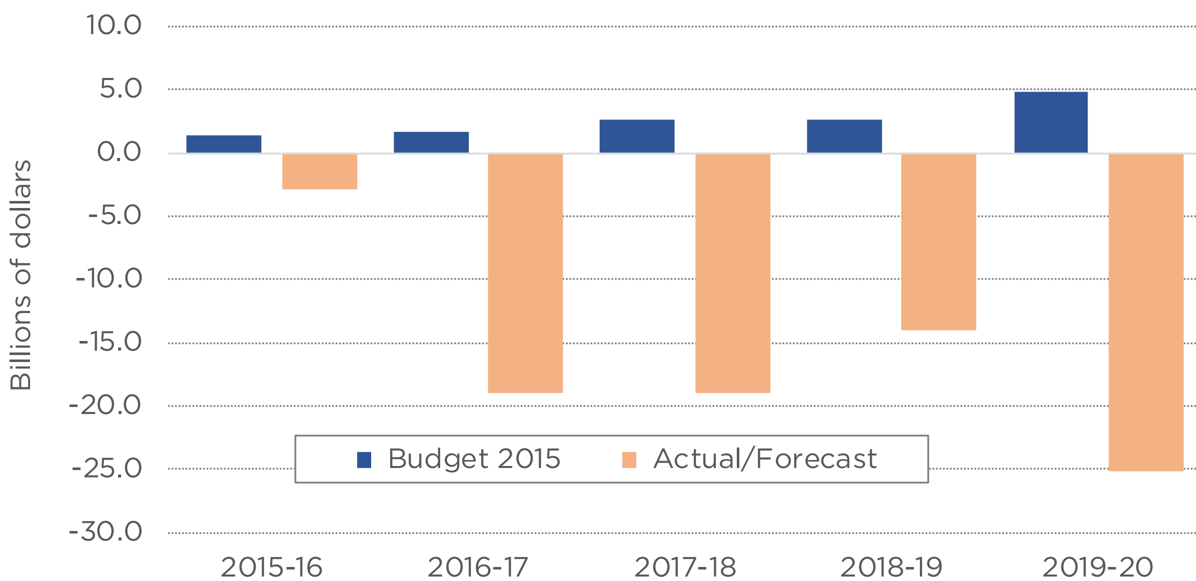
Deficits

The actual cost of the CCB is clearly higher than the expanded UCCB plus CCTB that the Harper Conservatives initially implemented. Indeed, from 2016-17 to 2019-20, the CCB cost a cumulative $20.0 billion more than the previous UCCB plus CCTB: $93.5 billion versus $73.5 billion. The focus of this essay is to determine how the expanded CCB was financed.

The first and perhaps most important question to ascertain is the degree to which the financing of the CCB has been done by current versus future taxes (i.e., borrowing). Figure 2 presents the federal government's projected budget balance as outlined in Budget 2015, the last budget of the Harper Conservatives, compared to the actual budget balance. Budget 2015 predicted small surpluses in 2016-17 through 2019-20, which again included the expanded UCCB plus CCTB. Over this time, the Harper government forecast a total cumulative surplus of $11.7 billion. This is not to assert that Budget 2015 spending, taxing, and borrowing plans would have come to fruition, but rather to establish them as the reasonable expectations that existed in 2015 and that form the baseline for subsequent analy-

[3] Note that the cost for 2019-20 is based on the Fall Economic and Fiscal Update (Department of Finance, 2019a).

Figure 2: Comparing Budget Balances (2015 Baseline vs. Actual/Forecast), 2015-2019



Note that the forecasted deficit for 2019-20 is from the *Fall Economic and Fiscal Update 2019*. This avoids entirely the effects of COVID and the recession on the deficit in 2020. Specifically, the federal government now expects the 2019-20 deficit to reach $34.4 billion rather than the $25.1 billion forecast in the fall of 2019.

Sources: Department of Finance 2015b, 2019a, 2019b.

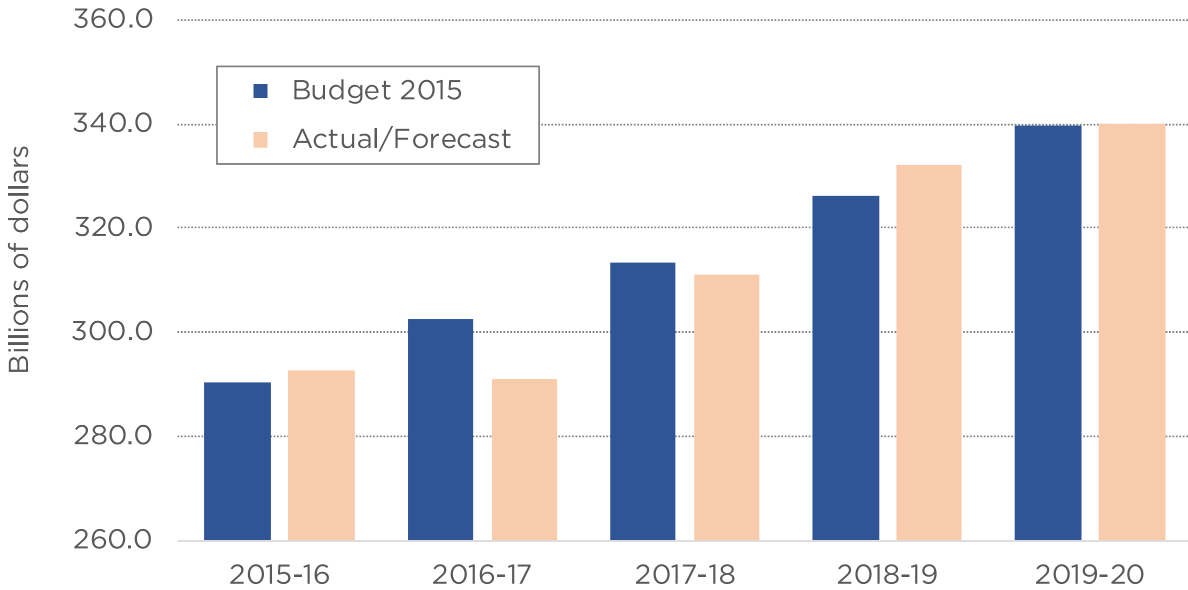
ses. The actual record of budget balances over this period is a cumulative deficit of $77.1 billion.

Revenues

The next question is about the source of the deficits. Figure 3 shows the federal government's total revenues between 2015-16 and 2019-20. Specifically, it contrasts the budget plan proposed by the Harper Conservatives in Budget 2015 compared to the actual revenues that the federal government collected over that period. The Trudeau government has made a number of tax changes, including lowering the middle-income personal income tax rate, adding a new, top high-income personal income tax rate, and eliminating a host of tax credits.[4] Despite these changes, the cumula-

[4] For a discussion and analysis of the net effects of the tax changes for middle-income

Figure 3: Budget 2015 Revenues Compared to Actual, 2015-2019



Note that the forecasted revenues for 2019-20 is from the *Fall Economic and Fiscal Update 2019*.

Sources: Department of Finance 2015b, 2019a, 2019b.

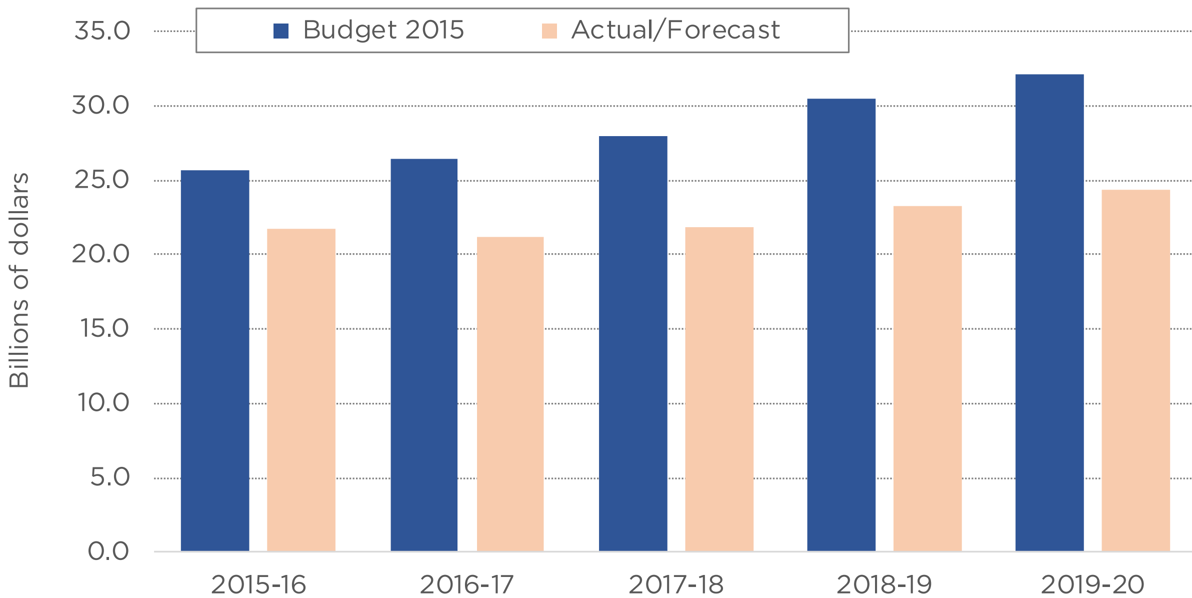
tive amount of revenue collected during this period is almost exactly the amount included in Budget 2015: $1.274 trillion collected versus $1.281 trillion forecast. Put differently, the Trudeau government collected only $7.0 billion less in revenue (a drop of 0.6 percent) than the Harper Conservatives budgeted for in 2015. The cumulative deficit of $77.1 billion over this time cannot be explained by revenues that were just $7.0 billion less than originally budgeted.

Interest costs

The Trudeau Liberals, however, actually had more resources available to them during this period than were anticipated in Budget 2015. The reason for the higher-than-expected resources is the lower-than-expected interest costs. Figure 4 presents the budgeted interest costs included in Budget

taxpayers please see Lammam, Palacios, and MacIntyre (2017a). In addition, for an assessment of the net effects of the tax changes on lower income families, please see Lammam, Palacios, and MacIntyre (2017b).

Figure 4: Budget 2015 Interest Costs Compared to Actual, 2015-2019



Note that the forecasted revenues for 2019-20 is from the *Fall Economic and Fiscal Update 2019*.

Sources: Department of Finance 2015b, 2019a, 2019b.

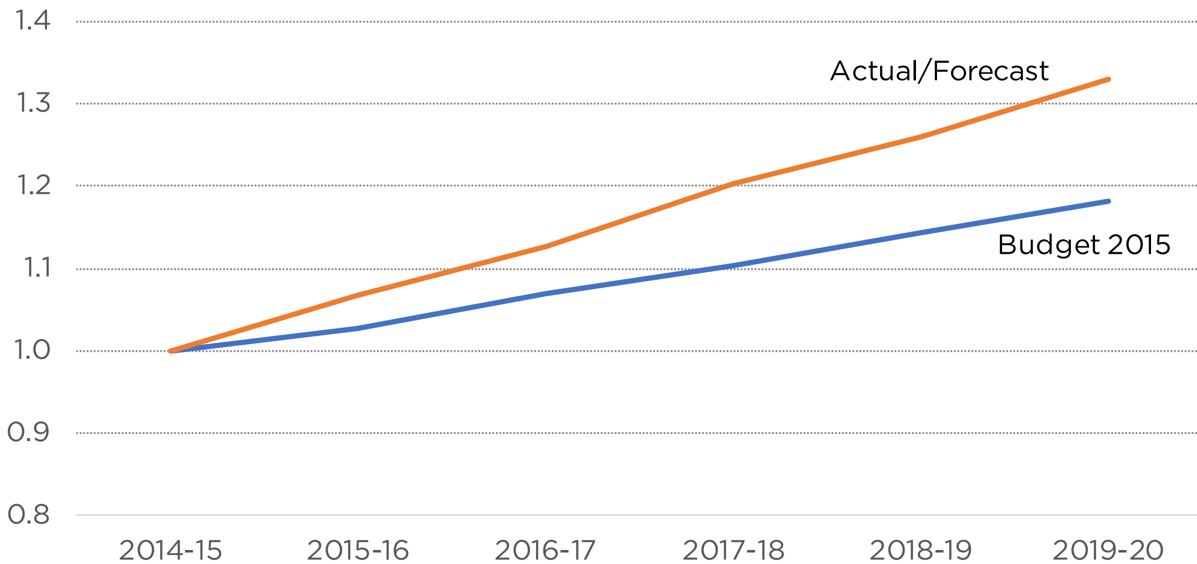
2015 compared to the actual interest costs. Over the 2016-17 to 2019-20 period, the Trudeau government enjoyed $26.2 billion lower interest costs (22.4 percent) than was originally budgeted in 2015. The interest cost savings exceed the drop in revenues by almost four times.

Program spending

The source of the deficits clearly comes from increased program spending. Figure 5 illustrates the program spending originally proposed in Budget 2015 versus the actual program spending over the 2015-16 to 2019-20 period as an index of 2014-15 actual program spending. In other words, figure 5 illustrates the percentage change in program spending relative to the base year of 2014-15 for both the planned program spending by the Harper Conservatives and the actual program spending done under the Trudeau government.[5] In total, the Trudeau government spent $118.4

5 Please note that a different base year (2015-16) is used in the spending analysis due to the fact that the Trudeau Liberals introduced year-end spending almost

Figure 5: Index of Budget 2015 Program Spending versus Actual Program Spending, 2014 to 2019



Note that the forecasted revenues for 2019-20 is from the *Fall Economic and Fiscal Update 2019*.

Sources: Department of Finance 2015b, 2019a, 2019b.

billion (8.4 percent) more than the Harper Conservatives had originally budgeted for over this period. Program spending grew from $256.3 billion in 2014-15 to $340.8 billion in 2019-20, an increase of $84.5 billion or 33.0 percent.

A recent study by Hill et al. examined the drivers of the federal program spending increases over the period up to 2019. It concluded that 5 of 34 categories of spending explain almost two-thirds (63.8 percent) of the total increase in federal program spending. The Children's Benefits, which is essentially the Canada Child Benefit, was the second highest source of increase, explaining 13.9 percent of the total increase in federal program spending (Hill et al., 2020). All of the new spending undertaken by the federal government since 2015 has been financed by deficits, which are simply taxes deferred to the future.

immediately after their election in the fall of 2015, which influenced program spending in that year.

Conclusion

The insight that the increased spending on the Children's Benefit starting in 2016 when it was changed to the CCB is entirely deficit-financed (i.e., deferred taxes) is important for two reasons. First, on a basic level, it means that today's increased spending to provide income transfers to eligible parents is being financed by future taxes rather than being paid for today.

Second, the nature of this intergenerational transfer is worrying since effectively the deferred taxes used to pay for today's transfer will be paid[6] by the children of the parents receiving the transfers.[7] Recall that only (eligible) parents receive the CCB, meaning that by definition, they have children who will bear the burden of taxes deferred into the future. Put differently, parents are receiving transfers today that the next generation, specifically their own children, will pay for. At the very least, the nature of this intergenerational transfer needs to be acknowledged, if not outright reconsidered.

6 The likelihood that current borrowing (i.e., deferred taxes) linked to the CCB are paid back by the current generation—the parents—is incredibly low given the current expectations for the budget balance of the federal government. In 2018, pre-recession, the federal department of finance estimated that given current revenue and spending projections and the expectations for economic growth, the federal budget would not be balanced until 2040. The COVID-recession in 2020 has significantly worsened the outlook for federal finances such that any reasonable projection would forecast a balanced budget much later than 2040. Put simply, there are no current reasonable expectations for the federal government to reach a balanced budget position over the next two generations. See Department of Finance (2018).

7 The intergenerational transfer can be mitigated for individual children to the extent that parents can use monies from the CCB monies to invest in their children's education to a greater extent than would occur without the CCB, resulting in higher income in the future than would otherwise be the case and/or if parents save the CCB monies and bequest the resulting savings plus earnings. There is, however, data suggesting that such investments are not being made to any meaningfully greater extent than before the introduction of the CCB. For instance, the cost to the federal government of the Registered Education Savings Plan (RESP) was $135 million in 2016, the year the CCB was introduced. It is estimated to cost $100 million in 2019 and $115 million in 2020. See Department of Finance (2020).

References

Canada, Department of Finance (1997). *Budget 1997: Building the Future for Canadians*. Government of Canada. <https://www.budget.gc.ca/pdfarch/budget97/binb/bp/bp97e.pdf>, as of September 21, 2020.

Canada, Department of Finance (2006). *Budget 2006: Focusing on Priorities*. Government of Canada. <https://www.budget.gc.ca/pdfarch/budget06/pdf/bp2006e.pdf>, as of September 21, 2020.

Canada, Department of Finance (2014). *Budget 2014: The Road to Balance: Creating Jobs and Opportunities*. Government of Canada. <https://www.budget.gc.ca/2014/docs/plan/pdf/budget2014-eng.pdf>, as of September 21, 2020.

Department of Finance (2014 to 2019). *Public Accounts of Canada.* Various years 2014 to 2019. Government of Canada.

Canada, Department of Finance (2015a). *Public Accounts of Canada, 2015.* Government of Canada.

Canada, Department of Finance (2015b). *Budget 2015: Strong Leadership, a Balanced Budget, Low-Tax Plan for Jobs, Growth and Security*. Government of Canada. https://www.budget.gc.ca/2015/docs/plan/budget2015-eng.pdf>, as of September 21, 2020.

Canada, Department of Finance (2016). *Budget 2016: Growing the Middle Class*. Government of Canada. <https://www.budget.gc.ca/2016/docs/plan/budget2016-en.pdf>, as of September 21, 2020.

Canada, Department of Finance (2018). *Update of Long-Term Economic and Fiscal Projections 2018.* Government of Canada. <https://www.canada.ca/en/department-finance/services/publications/long-term-projections/2018.html>, as of September 21, 2020.

Canada, Department of Finance (2019a). *Fall Economic and Fiscal Update 2019.* Government of Canada. <https://www.budget.gc.ca/efu-meb/2019/docs/statement-enonce/efu-meb-2019-eng.pdf>, as of September 21, 2020.

Canada, Department of Finance (2019b). *Fiscal Reference Tables*. Government of Canada. <https://www.canada.ca/en/department-finance/services/publications/fiscal-reference-tables/2019.html>, as of September 21, 2020.

Canada, Department of Finance, (2020). *Report on Tax Expenditures, 2020*. Government of Canada. <https://www.canada.ca/content/dam/fin/publications/taxexp-depfisc/2020/taxexp-depfisc20-eng.pdf>, as of September 21, 2020.

Hill, Tegan, Nathaniel Li, Milagros Palacios, and Jason Clemens (2020). *Explaining the Growth in Federal Program Spending Since 2015*. The Fraser Institute. <http://www.fraserinstitute.org/studies/explaining-the-growth-in-federal-program-spending-since-2015>, as of September 21, 2020.

Lammam, Charles, Milagros Palacios, and Hugh MacIntyre (2017a). *Measuring the Impact of Federal Personal Income Tax Changes on Middle Income Canadian Families.* The Fraser Institute. <https://www.fraserinstitute.org/studies/measuring-the-impact-of-federal-personal-income-tax-changes-on-middle-income-canadian-families>, as of September 21, 2020.

Lammam, Charles, Milagros Palacios, and Hugh MacIntyre (2017b). *Effect of Federal Income Tax Changes on Canadian Families Who Are in the Bottom 20 Percent of Earners*. The Fraser Institute. <https://www.fraserinstitute.org/studies/effect-of-federal-income-tax-changes-on-canadian-families-who-are-in-the-bottom-20-percent-of-earners>, as of September 21, 2020.

Sarlo, Chris, Jason Clemens, and Milagros Palacios (2020). How Targeted Is the Canada Child Benefit to Those in Need? In Chris Sarlo and Jason Clemens (eds.), *The Realities of the Canada Child Benefit: Collected Essays*. The Fraser Institute.

About the authors

Jason Clemens

Jason Clemens is the Executive Vice President of the Fraser Institute and the President of the Fraser Institute Foundation. He has an Honors Bachelors Degree of Commerce and a Master's Degree in Business Administration from the University of Windsor as well as a Post Baccalaureate Degree in Economics from Simon Fraser University. He has published over 70 major studies on a wide range of topics, including taxation, government spending, labor market regulation, productivity, and entrepreneurship, and over 300 shorter articles that have appeared in national and international newspapers.

Milagros Palacios

Milagros Palacios is the Associate Director for the Addington Centre for Measurement at the Fraser Institute. She holds a B.S. in Industrial Engineering from the Pontifical Catholic University of Peru and a M.Sc. in Economics from the University of Concepcion, Chile. Ms. Palacios has studied public policy involving taxation, government finances, investment, productivity, labour markets, and charitable giving, for over 15 years. Since joining the Institute, Ms. Palacios has authored or coauthored over 150 comprehensive research studies, 100 commentaries and four books.

Acknowledgments

The Fraser Institute thanks the Donner Canadian Foundation for their generous support for this publication. The contributing editors thank the unidentified reviewers for their helpful comments on an earlier draft. Any remaining errors are the sole responsibility of the authors. As the researchers have worked independently, the views and conclusions expressed in this paper do not necessarily reflect those of the Board of Directors of the Fraser Institute, the staff, or supporters.

Publishing information

Distribution

These publications are available from <http://www.fraserinstitute.org> in Portable Document Format (PDF) and can be read with Adobe Acrobat® or Adobe Reader®, versions 8 or later. Adobe Reader® DC, the most recent version, is available free of charge from Adobe Systems Inc. at <http://get.adobe.com/reader/>. Readers having trouble viewing or printing our PDF files using applications from other manufacturers (e.g., Apple's Preview) should use Reader® or Acrobat®.

Ordering publications

To order printed publications from the Fraser Institute, please contact:

- e-mail: sales@fraserinstitute.org
- telephone: 604.688.0221 ext. 580 or, toll free, 1.800.665.3558 ext. 580
- fax: 604.688.8539.

Media

For media enquiries, please contact our Communications Department:

- 604.714.4582
- e-mail: communications@fraserinstitute.org.

Copyright

Date of issue

October 2020

ISBN

978-0-88975-619-9

Citation

Christopher Sarlo and Jason Clemens (eds.) (2020). *Better Understanding the Canada Child Benefit: Essay Series*. Fraser Institute. <http://www.fraserinstitute.org>.

Supporting the Fraser Institute

To learn how to support the Fraser Institute, please contact

- Development Department, Fraser Institute
  Fourth Floor, 1770 Burrard Street
  Vancouver, British Columbia, V6J 3G7 Canada
- telephone, toll-free: 1.800.665.3558 ext. 548
- e-mail: development@fraserinstitute.org
- website: <http://www.fraserinstitute.org/donate>

Purpose, funding, and independence

The Fraser Institute provides a useful public service. We report objective information about the economic and social effects of current public policies, and we offer evidence-based research and education about policy options that can improve the quality of life.

The Institute is a non-profit organization. Our activities are funded by charitable donations, unrestricted grants, ticket sales, and sponsorships from events, the licensing of products for public distribution, and the sale of publications.

All research is subject to rigorous review by external experts, and is conducted and published separately from the Institute's Board of Trustees and its donors.

The opinions expressed by authors are their own, and do not necessarily reflect those of the Institute, its Board of Trustees, its donors and supporters, or its staff. This publication in no way implies that the Fraser Institute, its trustees, or staff are in favour of, or oppose the passage of, any bill; or that they support or oppose any particular political party or candidate.

As a healthy part of public discussion among fellow citizens who desire to improve the lives of people through better public policy, the Institute welcomes evidence-focused scrutiny of the research we publish, including verification of data sources, replication of analytical methods, and intelligent debate about the practical effects of policy recommendations.

About the Fraser Institute

Our mission is to improve the quality of life for Canadians, their families, and future generations by studying, measuring, and broadly communicating the effects of government policies, entrepreneurship, and choice on their well-being.

Notre mission consiste à améliorer la qualité de vie des Canadiens et des générations à venir en étudiant, en mesurant et en diffusant les effets des politiques gouvernementales, de l'entrepreneuriat et des choix sur leur bien-être.

Peer review—validating the accuracy of our research

The Fraser Institute maintains a rigorous peer review process for its research. New research, major research projects, and substantively modified research conducted by the Fraser Institute are reviewed by experts with a recognized expertise in the topic area being addressed. Whenever possible, external review is a blind process. Updates to previously reviewed research or new editions of previously reviewed research are not reviewed unless the update includes substantive or material changes in the methodology.

The review process is overseen by the directors of the Institute's research departments who are responsible for ensuring all research published by the Institute passes through the appropriate peer review. If a dispute about the recommendations of the reviewers should arise during the Institute's peer review process, the Institute has an Editorial Advisory Board, a panel of scholars from Canada, the United States, and Europe to whom it can turn for help in resolving the dispute.