

CANADIAN FAMILY VIEWS

INSTITUTE OF MARRIAGE AND FAMILY CANADA

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TITLE: FAMILY POVERTY IN CANADA: RAISING INCOMES AND STRENGTHENING FAMILIES

EXECUTIVE SUMMARY



The family is the primary economic unit in Canada and an appropriate basis for studying poverty in this country. Family poverty has largely been a good news story over the past decade, with substantial declines in single-parent and elderly family rates of low income. Two-parent family poverty is low in comparison to single-parent family rates and marriage appears to exert a powerful influence in reducing poverty. However, two-parent families have not experienced a similar decline in rates of low income over the past decade as have other groups, perhaps due to policy inattention.

The issue of family poverty in 2007 in Canada thus presents two main policy objectives: to maintain the current decline in poverty rates among single-parent families, and to achieve greater reductions in the rate of poverty for two-parent families.

Creating appropriate incentive structures is the key to successful anti-poverty programs. This paper advocates incentives that will make work pay, encourage asset building, strengthen family structures and recognize the importance of marriage in reducing poverty.

Continued reductions in single-parent poverty may be attained by either reducing the rate of single parenthood or increasing the work effort of single parents. Reducing the prevalence of single parenthood is an objective of the Healthy Marriage Initiative in the U.S. This combines a public service message campaign with on-the-ground counseling services for low income unmarried couples. The program's US\$500 million budget signals a unique government commitment to supporting marriage. It holds the promise of boosting marriage satisfaction rates and creating positive feedback on the benefits of marriage for the rest of society. Canada should pay close attention to outcomes from the Healthy Marriage Initiative when they become available.

The Working Income Tax Benefit (WITB), based on the highly successful Earned Income Tax Credit (EITC) in the U.S., is designed to 'make work pay' for low income Canadians by compensating them for high marginal tax rates, or what is called the "welfare wall." The WITB will be rolled out for the 2007 tax year and should assist low income Canadians entering the work force. The initial size of the WITB, however, is disappointing.

Two-parent families in low income deserve recognition of the extra costs they face due to the presence of two adults in the family. Benefits directed at low income families, such as the National Child Benefit, are based solely on the number of children without regard to the number of parents in the family, which creates a disadvantage for two-parent families. It must be remembered that child poverty and family poverty are synonymous terms. Children in poverty exist within families in poverty.

The U.S.'s EITC includes additional payments for married couples in recognition of the positive impacts of marriage within and outside the family, as well as the extra costs faced by two-parent families. Creating a marriage bonus within Canadian social programs, such as the WITB or the National Child Benefit, would acknowledge the important contribution two-parent families make to society, as well as compensate them for the additional costs they face. Moving to a family-based tax system that includes joint filing and income splitting would constitute further recognition by government of the importance of the family.

Asset promotion is an anti-poverty concept with potential long-term benefits for single- and two-parent families. Assets can serve as cushions against income loss, a means to earn additional income and may provide important lessons in financial management. However, welfare rules that prevent recipients from accumulating assets can block these benefits. Programs such as Learn\$ave encourage low-income families to save through incentive contributions.

INTRODUCTION



Despite Canada's status as a wealthy nation, poverty is an issue that receives considerable attention in this country. Poverty is the primary focus of numerous organizations and lobby groups as well as a regular topic of media, political and academic attention.

Federal government research has identified five demographic groups most at risk of poverty in Canada. These include: single mothers, recent immigrants, the disabled, unattached adults aged 45 to 64 and aboriginals living off-reserve (Hatfield, 2004). Organizations such as Campaign 2000 or Canada's Association for the Fifty-Plus seek to draw attention to different groups at risk of poverty, such as children or seniors. The purpose of this paper is to examine the recent history and impact of poverty on Canadian families, to identify which family groups are most at risk and to offer solutions which both reduce poverty and strengthen the family unit in this country.

PART 1: AN OVERVIEW OF FAMILY POVERTY



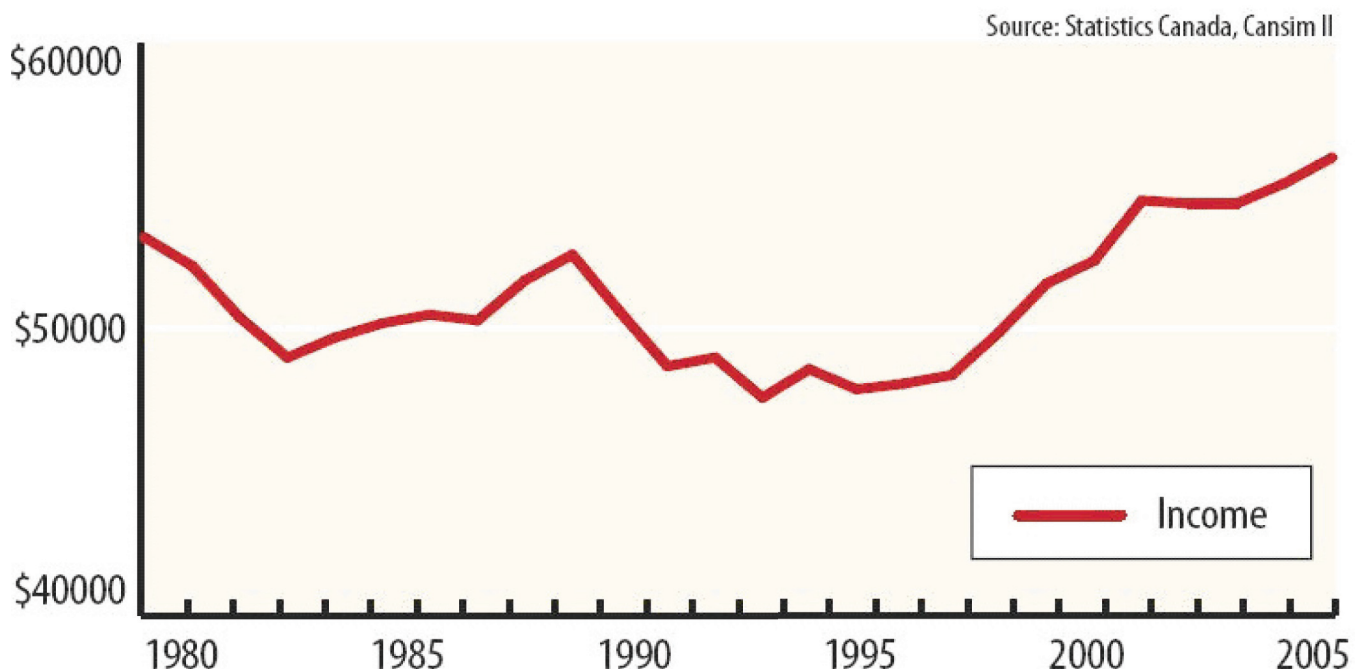
UNDERSTANDING POVERTY MEASUREMENT IN CANADA

Any discussion of poverty must first begin with a definition of what it means. Canada does not produce a conventional basket-measure of poverty, as is the case in the United States and some European countries. Instead Statistics Canada publishes Low Income Cut-Off rates. LICO is a measure of relative income inequality based on the spending patterns of average families. It is a complicated, and rarely helpful, calculation. Statistics Canada discourages the use of LICO as a measure of poverty, claiming instead that it is an indicator of “straitened circumstances,” the meaning of which is open to a broad range of interpretations. While the federal government recently produced an alternative market basket measure (MBM) of poverty, this is not available on an historical basis. In the absence of useful options and despite their flaws, LICO rates have been widely cited in this country as a proxy for poverty.

A RECENT HISTORY OF CANADIAN FAMILY INCOMES

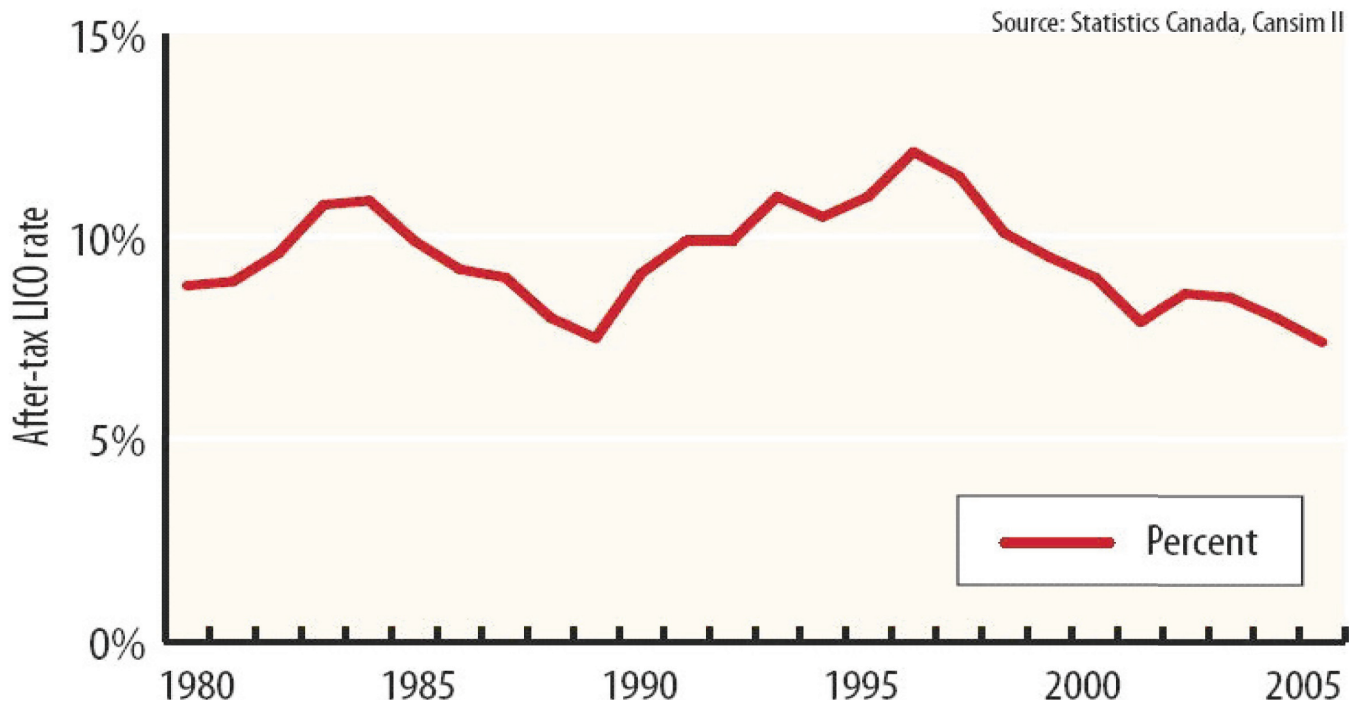
A family is defined by Statistics Canada as any grouping comprised of two or more Canadians living together who are related by blood, marriage, adoption or in common law. As Figure 1 shows, Canadian families taken as a whole have experienced steady growth in their after-tax, inflation-adjusted income over the past decade. In 2005 the median Canadian family saw an increase of 1.6 per cent in their after-tax income over the previous year, to \$56,000. This represents a gain of almost \$10,000 over the past ten years and a new all-time high for family income. While it is frequently claimed that rising income inequality is a major problem in this country, Canadians across all income brackets experienced income gains over the period 1980 to 2005 (StatsCan, 2007b).

Fig. 1: Median after-tax income, all Canadian families



As family incomes rise, it is to be expected that the incidence of low income among Canadian families will similarly decline. This is indeed the case, as can be seen from Figure 2. The declines are most obvious in the last decade, when the LICO rate for families fell from 12.1 per cent to 7.4 per cent, a reduction of more than a third. The long-term trend reveals a distinct cyclical nature in rhythm with the economy, but the recent shift is downward and current figures are again at historic lows.

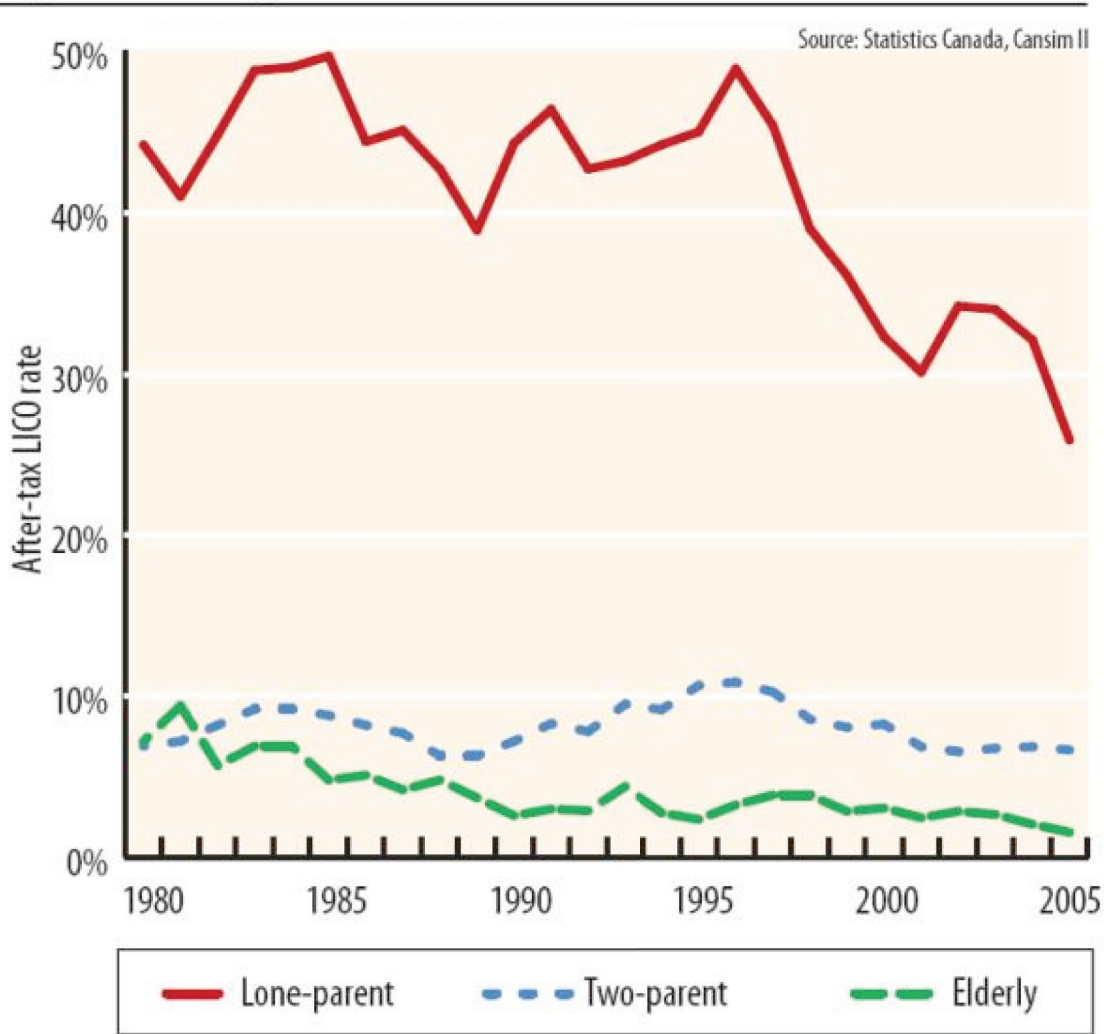
Fig. 2: LICO rate, all families



Statistics Canada’s generic definition of families includes considerable diversity in family type and outcome. To fully understand family poverty requires a deeper understanding of the relationship between family type and family poverty. Figure 3 contains both good and bad news in this regard.

First, the good news. Among elderly Canadian families, poverty has been all but wiped out. The LICO rate for married seniors is currently at 1 per cent, having fallen from 7 per cent in 1980. This rate of low income is among the lowest ever recorded by Statistics Canada for any demographic. Such success is due in equal parts to greater personal savings and a reliable income floor created by government transfers such as CPP, OAS and GIS. While unattached senior poverty rates are higher, these categories have also seen dramatic decreases over the past decade. In total, there were 242,000 seniors living in low income in Canada as of 2005. In 1980 this figure was 462,000 (StatsCan, 2007b). The sharp decline in senior poverty across the board in Canada is one of the truly great achievements of modern Canadian public policy.

Fig. 3: LICO rate, selected families



The two other significant family groupings: two-parent and single-parent families reveal markedly different trajectories for low income.

Lone-parent families have traditionally had the highest rates of poverty among Canadian families, and this is readily apparent from Figure 3. Between 1980 and the mid-1990s, LICO rates for this group have trended between 40 per cent and 50 per cent. Beginning in the mid-1990s, however, the low-income rate broke through this long term trend and began moving significantly downwards. It currently stands at 26 per cent and has fallen by nearly half in the past decade. This too should be considered a great achievement, although single-parent families still demonstrate high levels of poverty compared to other demographics.

The bad news refers to the recent performance of two-parent families, the largest segment of the Canadian family population. This group does not appear to have made consistent gains in poverty reduction over the past two-and-a-half decades. This group is the only family category not at an historic low in 2005. Over the past five years, while other groups experienced sharp declines, the LICO rate for two-parent families held steady between 6.7 per cent and 6.9 per cent, the same range experienced in 1980.

FAMILY AND CHILD POVERTY IN DEPTH

It is often said that society's greatest responsibility lies with children, particularly in regards to poverty. Children are the only participants in society who lack the means or ability to improve their own situation – poverty is thrust upon them due to the circumstances of their family. In this way, the study of child poverty is really the study of family poverty. This is confirmed by Figure 4 which reveals a rate and path that closely mirrors the pattern seen in Figure 3.

Fig. 4: LICO rate, children

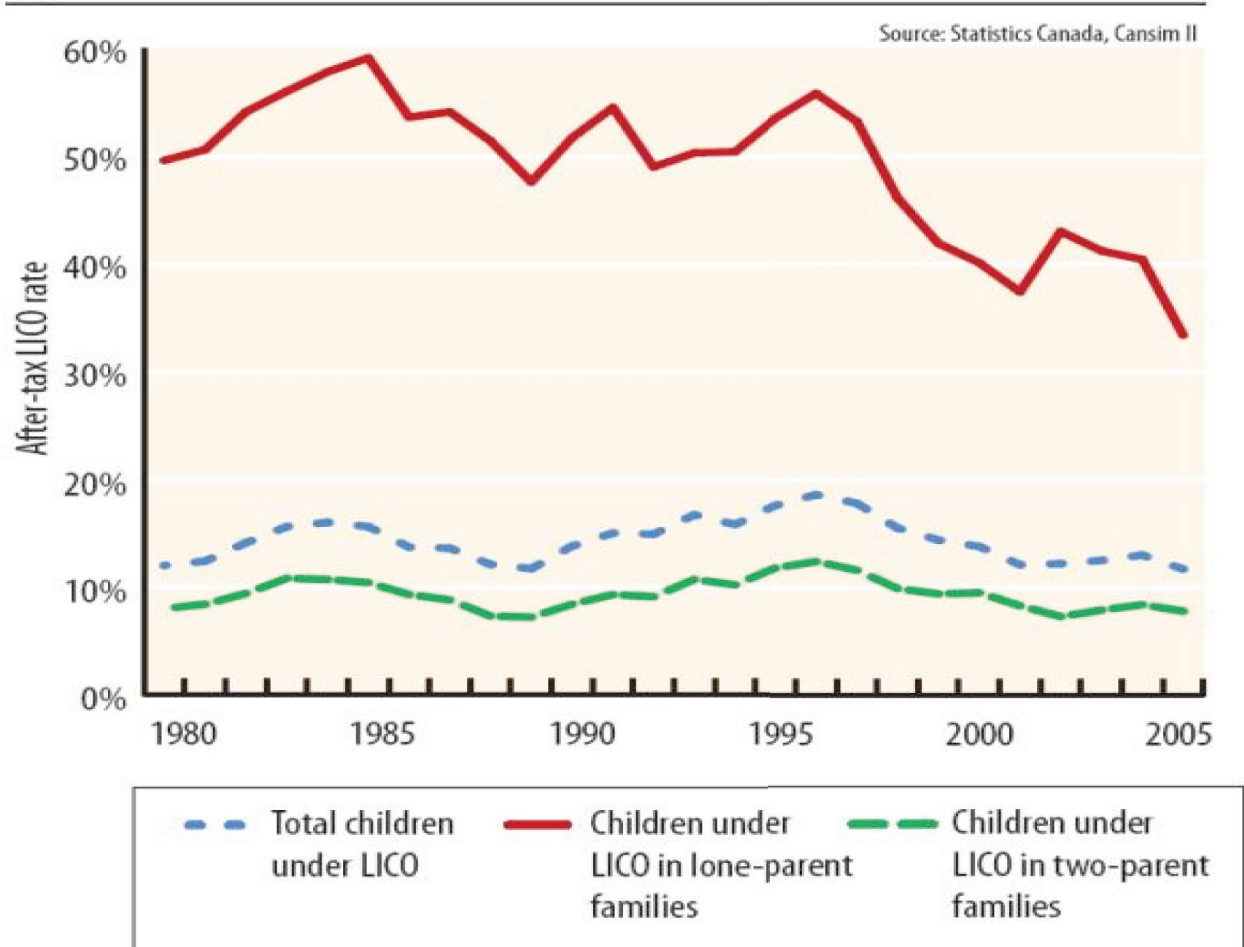


Table 1 examines the distribution of children in low income by family characteristic. Children in single-parent families display the highest risk of poverty, at 33.4 per cent. For children in two-parent families, the rate is 7.8 per cent. Both two-parent and lone-mother families are home to significant numbers of children in low income, although two-parent families bear the majority share. Table 2 shows the distribution of family types. Lone-mother families represent a small minority of families within Canada.

Child and family poverty are clearly inseparable issues. Child poverty cannot be tackled without a clear focus on the issue of family structure and performance. Both single-parent and two-parent families require attention from policy-makers.

Table 1: Children in low income, 2005

	Total Number	Per cent
Two-parent families:	420,000	7.8%
Single-parent families:	320,000	33.4%
Other families*:	48,000	11.8%
All Families	788,000	11.7%

*Includes one father families, foster children and children living with other relatives

Source: Statistics Canada, Cansim II

Table 2: Census families in Canada, 2006

	Number of families	Per cent of total families
Couple families		
Married	6,105,910	68.6%
Common law	1,376,865	15.5%
Total	7,482,775	84.1%
Lone-parent families		
Mother	1,132,290	12.7%
Father	281,775	3.2%
Total	1,414,065	15.9%
Total	8,896,840	100%

Source: Statistics Canada, 2006 Census

EXAGGERATING POVERTY IN CANADA

Child poverty is an important issue. However, the importance of the issue does not obviate the need for accuracy or honesty in reporting the size and scale of the problem.

In particular, it has become commonplace for anti-poverty groups to claim that “more than one million children, or nearly one child in six, still live in poverty in Canada.”

Statistics Canada produces both before-tax and after-tax LICO figures. Before-tax rates ignore the impact of the progressive income tax system on relative incomes.

Because of this, before-tax figures inevitably understate the relative income of low income Canadians and thus overstate relative poverty.

After-tax LICO rates present a far more accurate picture of low income and Statistics Canada explicitly favours this measurement. In its most recent income report, the government agency stated that it “prefers the use of the after-tax LICOs. The before-tax rates only partly reflect the entire redistributive impact of Canada’s tax/transfer system.” (StatsCan 2007a)

And yet some anti-poverty groups prefer the use of before-tax LICO rates because this makes the problem look bigger than it is in reality. The correct, after-tax figures, for child poverty in Canada are that one child in 8.5 is below LICO, not one child in six. The absolute number of children in this group is 788,000, not 1.1 million. These numbers are still large enough to deserve government attention, but the issue of child poverty in Canada is not improved by deliberate attempts to mislead Canadian.

POVERTY DYNAMICS

The dynamics of poverty sheds additional light on the incidence of family poverty. Research by Queen’s University academics Ross Finnie and Arthur Sweetman on Canadian poverty dynamics lays bare the crucial links between family structure and poverty (Finnie and Sweetman, 2005).

In examining the period from 1992 to 1996, Finnie and Sweetman found that two-thirds of all Canadian lone mothers were poor for at least one year out of the five studied. Nearly a quarter of the total was poor for the entire duration of the study. By comparison, the percentage of attached mothers who experienced at least one year of poverty was just 27 per cent. The vast majority of married or cohabiting mothers thus had no experience with poverty during the five years.

In terms of entry into poverty, the study found that single parents – both lone mothers and lone fathers – were the most likely group to find themselves entering poverty in any particular year. (Lone fathers comprised a very small component of the 1990s study.)

For an unattached woman who became a single mother in a given year, the odds of her being poor in that year rose from 5.8 per cent to 30.4 per cent. Conversely, a lone mother who got married in a particular year saw her chances of exiting poverty rise from 29 per cent to 84 per cent. This further suggests that single motherhood is a reliable predictor of family and child poverty and reflexively, that marriage is an important poverty-fighting institution.

SINGLE-PARENT POVERTY ISSUES

The prevalence of low income among single-parent families – as well as the relative decline in poverty for this group over the past decade – signals a need for further investigation into the phenomenon of single parenthood.

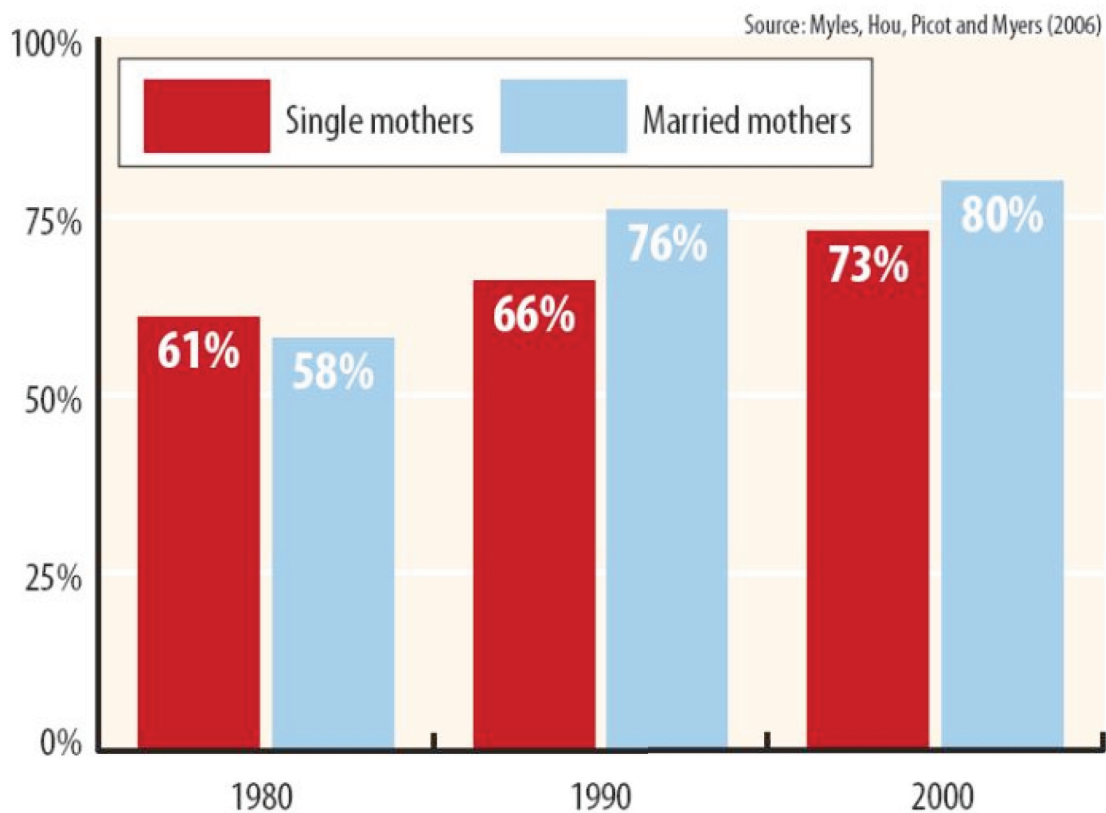
There are 1.4 million single-parent families in this country (see Table 1), which include 2.2 million children under the age of 18. This comprises 16 per cent of all families in the country. The vast majority (80 per cent) of single-parent families are headed by a mother. In terms of low income, over 90 per cent of all single-parent families below LICO are headed by a mother (StatsCan 2007b).

Research by John Myles, Feng Hou, Garnett Picot and Karen Myers for Statistics Canada provides a useful comparison of the demographics of single mothers between the 1981 and 2001. While single mothers have always tended to be younger and less well-educated than their peers in marriages, this gap has been closing. For instance, the percentage of single mothers who have not completed high school fell by half between 1981 and 2001. There has also been a noticeable increase in the number of single mothers who have never been married (1981: 16 per cent, 2001: 38 per cent), although it is still the case that the vast majority of single mothers are divorced or separated (Myles, Hou, Picot and Myers, 2006).

In terms of work effort, single mothers have a lower employment rate as compared to married mothers, although this was not always the case.

Throughout the 1970s single mothers had higher employment rates. The situation reversed itself in the 1980s as welfare became increasingly attractive. In the 1990s welfare reform likely caused an increase in employment rates for lone mothers; however, a significant gap in employment rates still exists between married and single mothers.

Fig. 5: Single- and Married-mother employment rates



The gap in employment and earnings between single and married mothers extends to other aspects of finances and wealth. For instance, single mothers are less likely to own their own home than single fathers or married couples (StatsCan, 2006).

TWO-PARENT POVERTY ISSUES

Despite the fact that single-parenthood presents a special case of poverty, two-parent families are not immune to low income. A childless couple who gives birth or adopts in a particular year will see their risk of low income more than double. “Young couples with

children thus have both higher rates of entering low income and lower rates of leaving than do older ones,” Finnie and Sweetman observe. This makes intuitive sense, given the attendant expenses and loss of income associated with a newborn. The researchers ascribe this situation to the limited value of social assistance programs targeted at the young-and-married demographic plus reduced job market opportunities for young parents as compared to older, more established parents and workers.

Changes to parental leave regulations in 2000 lengthened to one year the amount of time available for mothers and fathers to stay at home with a new child while receiving a reduced salary. This change nearly doubled the time taken by parental leave benefit recipients between 2000 and 2001. While extra time at home is clearly a great advantage in establishing the parent-child bond, the reduction in earnings this produces will reduce income among young families (StatsCan, 2003).

The presence of a new child makes obvious demands on family resources while simultaneously depriving a young couple of the ability to increase their work effort. Society has a distinct interest in reducing the risk of poverty for all families with children – single-parent and two-parent.

Nationally-available child benefits such as the new Universal Child Care Benefit, Canada Child Tax Benefit and National Child Benefit provide payments based on the number of children in the family; some involve family income calculations as well. None distinguish between single-parent and two-parent families, which may disadvantage two-parent families. Low-income two-parent families obviously face greater expenses due to the presence of two adults in the family.

PART 2: CLOSING THE GAP BETWEEN SINGLE-PARENT AND TWO-PARENT FAMILIES



BUILDING MARRIAGES

One of the most striking features of the above review of family poverty is the power of marriage as a poverty-fighting institution. Poverty rates are significantly lower and the duration of poverty is shorter for married couples with children than for single-parent families with the same number of children. Statistics Canada’s income figures further show that a working age Canadian adult will see his or her odds of being in low income fall from 30 percent to 6.4 percent the day he or she gets married (StatsCan, 2007b). This might be considered marriage’s wedding gift to the bride and groom. Marriage is also a substantial benefit to children, specifically in regards to poverty reduction. As previously described, the risk that a child in a single-parent family will face low income is 33.4 per cent, as compared to 7.8 per cent in a two-parent family.

The role of marriage in reducing the prevalence of poverty is well established and documented. Married adults have consistently been proven to be happier, healthier, wealthier and less prone to depression than their unmarried or divorced peers (Lerman, 2002; Gardner and Oswald, 2004; StatsCan, 2007c). The children of married families also tend to perform better in school, and experience higher earnings and display fewer emotional and legal problems later in life (Wilcox, 2005).

The possibility of two income earners in a household is an obvious and clear benefit to total family income. And two-parent families also have the ability to share or divide chores and other non-pecuniary family duties, an option not available to single parents. If marriage is desirable from society’s point of view, as well as by the majority of Canadians, it therefore makes sense that public policies should encourage – or, at the very least, cease to discourage – two-parent families.

No government can or should push men and women into unproductive or inappropriate marriages. Society's goal should be to keep existing marriages together wherever possible and mutually acceptable and offer suitable incentives for unmarried couples who are expecting or already have children to solidify their relationship into marriage for the benefit of themselves and their children.

The Bush administration in the United States is unique in the world for having made marriage promotion a specific domestic policy priority. The U.S. government's 2005 budget provided for a US\$500 million, five-year program called the Healthy Marriage Initiative. An additional US\$250 million was committed to a five-year program called Responsible Fatherhood. Some states have engaged in similar efforts. For example, Oklahoma has made it a state goal to reduce its divorce rate and promotes marriage through its OK Marriage program. If single parenthood leads to poverty, then it seems logical that a reduction in single parenthood should lead to a concomitant reduction in family poverty.

The approach of the Healthy Marriages Initiative is two-fold. Part of the funds are distributed for general advertising campaigns and high school courses that promote the positive impact marriage has on a variety of societal, household and personal issues, including income, wealth, health and sex life.

The second stream establishes counseling programs at the state and municipal level for low-income married and unmarried couples to help build their communication, conflict resolution and family finance skills. In many instances, marriage-building courses previously offered to middle class couples through churches and other civic institutions are being adjusted to meet the needs of low-income families. These programs are commonly offered in conjunction with pre-natal classes at hospitals. An alternative delivery mechanism is to offer reconciliation services for couples filing for divorce.

Since the Healthy Marriages Initiative has only been distributing grants since 2006 there is an absence of independent academic research on either short-term or long-term outcomes. Thus it is too early to comment on its success or failure. There is, however, a larger body of work available on previous models of marriage preparation courses with generally positive results cited for most programs (Carroll and Doherty, 2003). When results from the Healthy Marriages Initiative do become available – and it is a topic closely followed by academics and policy-makers – marriage promotion techniques will be a very interesting area for public policy discussion. Further attention is warranted here.

REPLACING WELFARE WITH WORK

As discussed previously, Canada witnessed a sharp decline in low income rates for single-parent families over the past decade. The reasons behind this change can be seen after disaggregating lone-mother income statistics. As Table 3 shows, the improvement between 1995 and 2005 in total income has come from gains in market earnings. The over-\$10,000 increase in market earnings for lone mothers (while government transfers decreased slightly) coincides with the previously noted decrease in the LICO rate for single parents. All figures are inflation adjusted.

Table 3: Average earnings by source, lone mothers: 1995 vs. 2005

	1995	2005
Market earnings	\$20,300	\$30,900
Government Transfers	\$9,800	\$9,200
Income taxes	(\$3,300)	(\$4,100)
Total	\$26,900	\$36,000

*Totals may not be exact due to averaging
Source: Statistics Canada, Cansim II

One conclusion that follows from this evidence is that further improvements in poverty reduction may be possible through encouraging greater work effort among lone mothers. This argument is bolstered by the fact that there remains a significant gap in participation rates between single and married mothers. (See Figure 5.) Of course the decision by a single mother to return to work is not as simple as that of an unattached individual, for it also depends on issues of child care and available family support. (See related sidebar.)

It seems clear that increasing welfare rates is not a solution to low income among single parents. There is good evidence that such a policy could put the gains of the past ten years at risk – raising the rate of low income rather than reducing it. Overly generous welfare rates create a disincentive effect that can leave single parents worse off. An investigation into the impact of rising social benefits on work effort of single parents by the federal government in the 1990s found that for every \$1,000 increase in annual social benefits, there was a 2 per cent reduction in the employment rate among single parents (Kapsalis, 1996). Raising welfare rates without regard to workforce participation can thus be expected to result in less employment among single mothers, reduced market earnings and a subsequent increase in LICO rates.

Evidence that work is preferable to welfare in reducing single-parent poverty can be found outside Canada as well. A 2006 OECD study involving 26 member countries found that the rate of relative poverty was 20 per cent for single-parent families in which the parent worked, and 60 per cent where the parent did not (OECD, 2006).

SCALING THE WELFARE WALL

Any policy that deals with work effort and welfare among low-income Canadians must inevitably confront the issue of the “welfare wall.” This term refers to the various disincentives that an individual or family on welfare faces when they choose to seek work.

A single mother (or anyone else for that matter) may lose access to specific or in-kind benefits such as subsidized housing or drug benefits when she leaves welfare for work. And as her market income increases, federal and provincial benefits such as the National Child Benefit are clawed back. This is in addition to the taxes to be paid on market earnings as well as additional expenses incurred by working. Taken together, the clawbacks and taxes can create effective tax rates of 50 per cent or more for a single-parent family

UNIVERSAL CHILD CARE AND SINGLE PARENTS

The issue of child care is relevant to any debate that discusses encouraging single mothers to enter the work force. Single mothers who chose to work and have young children at home will need some form of non-parental care for their children. And yet the oft-cited solution of publicly-provided, unionized, universal child care is inappropriate in many ways. Evidence from Quebec, which operates a universal \$7-per-day daycare system at an annual cost to taxpayers of approximately \$1.5 billion, reveals that such a system is an extremely blunt and expensive method of helping single mothers. In fact the main beneficiaries of Quebec’s heavily-subsidized daycares are middle and upper income families (Lefebvre, 2004).

Instead of a poorly-targeted universal child care system, it would make more sense to provide single mothers with

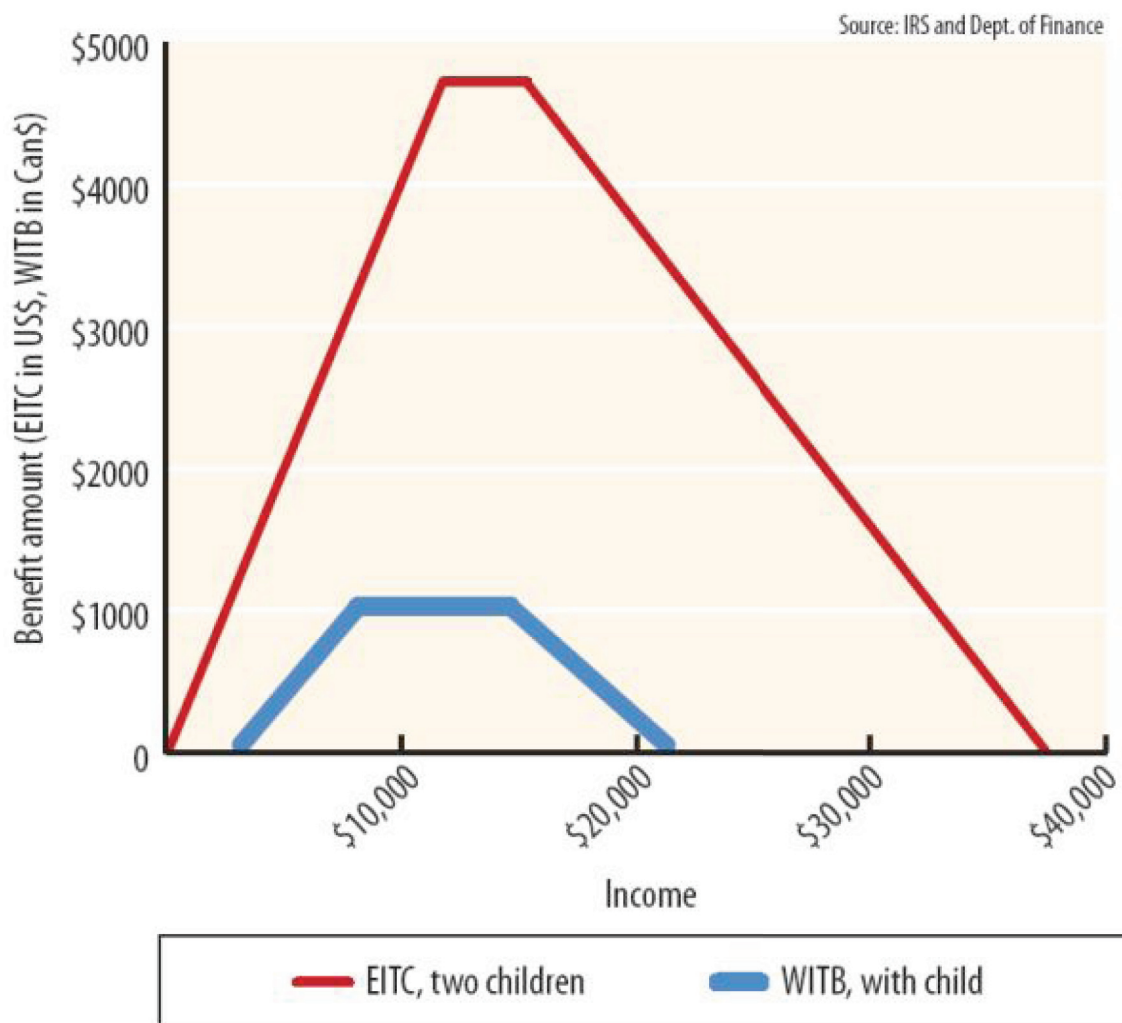
greater choice in child care options. Most municipalities and provinces outside of Quebec already target single mothers for the bulk of their available child care subsidies. However, these subsidies are typically tied to formal child care centres. Research has shown that formal child care centres are one of the least popular options for families requiring non-parental care (StatsCan, 2006b; Vanier Institute, 2005). Care by relatives and care by neighbours in a non-formal setting are both more popular options. Given this real world evidence, it seems that broadening child care subsidies to permit their application to other family members (grandparents, for instance) or neighbours would be more satisfying for single mothers than the creation of a misdirected universal child care scheme.

across the broad \$20,000 to \$40,000 income range (Richards, 2007). For some narrow income ranges, the rate can be as high as 78 per cent (Finance, 2005). In other words, for every dollar earned, 78 cents is taken in taxes and lost benefits. The existence of this welfare wall acts to discourage welfare recipients from entering the work force and may partially explain the employment rate differential between single and married mothers as previously discussed. For single mothers who wish to enter the workforce, this welfare wall must be scaled. Governments can play a role.

Arguably the most successful program in the world aimed explicitly at reducing the disincentive effects of leaving welfare for work is the U.S.'s Earned Income Tax Credit. This is a refundable tax credit that compensates low income families who choose to work. It delivers benefits to approximately 20 per cent of all American families. The maximum EITC payment for a single parent with two or more children is US\$4,716. This level is reached when earnings hit US\$11,790 and is clawed back at income above US\$15,390. The EITC payment is reduced to zero for single parents with annual income greater than US\$37,783 (IRS, 2007). The EITC directly targets the disincentive effects of welfare wall because it is only available to working families.

The US\$40 billion paid out annually to American families via the EITC makes it the most significant anti-poverty program provided by the U.S. government. It has been estimated that the number of U.S. children below the poverty level would be 25 per cent greater

Fig. 6: EITC vs. WITB, single parent benefits



without EITC payments (Holt 2006). Congressional Budget Office calculations also suggest that the EITC is far more effective at targeting low-income families than potential increases in the minimum wage. (CBO, 2007a). Additionally, the program has been proven effective in reducing income inequality, as seen by the 35 per cent gain in real income achieved by the bottom fifth income bracket of American families with children between 1991 and 2005 (CBO, 2007b). The EITC is clearly a powerful family poverty reducer.

The EITC also has an intriguing political history. It was initiated by the Nixon Administration in 1975 but was greatly expanded by President Bill Clinton during his welfare reform of the mid-1990s. Thus both Republicans and Democrats claim ownership of the idea, which gives it useful bipartisan support.

Other jurisdictions have similar in-work benefits that follow on the EITC's success. Britain offers a Working Families' Tax Credit. In Canada, seven of ten provinces have some form of program that subsidizes low-income working families in the general manner of the EITC (Richards, 2007).

Federally, Ottawa is in the process of establishing its own version of the EITC, to be called the Working Income Tax Benefit. It too has an interesting political history. The WITB was first proposed in the November 2005 Economic Update of the Liberal government of Paul Martin. It was subsequently reaffirmed, albeit on a smaller scale, by Stephen Harper's Conservative government in its 2007 budget and is to be implemented for the 2007 tax year. The WITB thus enjoys similar cross-party support as the EITC does in the U.S. And yet the WITB is considerably more modest than the EITC, as Figure 6 demonstrates.

The WITB's maximum benefit is \$1,000 for both single-parent and two-parent families. And it is fully clawed back at \$21,167 in family income. The total cost of the WITB over its first three years is estimated at \$1.2 billion, a far cry from the annual US\$40 billion EITC. And despite Ottawa's promises to co-ordinate the WITB with provincial programs, this has not occurred.

The WITB is open to criticism for its modest size, as well as the lack of integration with the provinces. Given the highly successful record of the U.S.' EITC, the federal government's initial WITB proposal seems tentative and overly modest. A much more significant WITB payment schedule is easily supportable based on national and international evidence. However, the logic of providing an incentive-based solution to the welfare wall is solid. The WITB will support low-income Canadians, and especially single parents, who wish to return to the work force by reducing the impact of the welfare wall. It can be considered a good policy that could be made better through expansion.

PART 3: SUPPORTING TWO-PARENT FAMILIES



While single-parent families represent the most visible and highest-risk form of family poverty, there are more children living in low income in Canada in two-parent families than in single-parent families. (See Table 1.) And two-parent families have not experienced as sustained and sharp a decline in poverty rates as has been case for elderly couples and lone mothers. Further, recall that young couples with a newborn represent a group particularly vulnerable to low income (Finnie and Sweetman, 2003).

There are thus several arguments to be made for paying greater attention to two-parent families in low income. First, it would address the needs of the 420,000 children in low income in this family group. Second, by crafting policies that specifically address married couples with children, governments can compensate those families for the extra costs they face. Finally, policies that support two-parent families send an important message that society recognizes the many benefits of marriage.

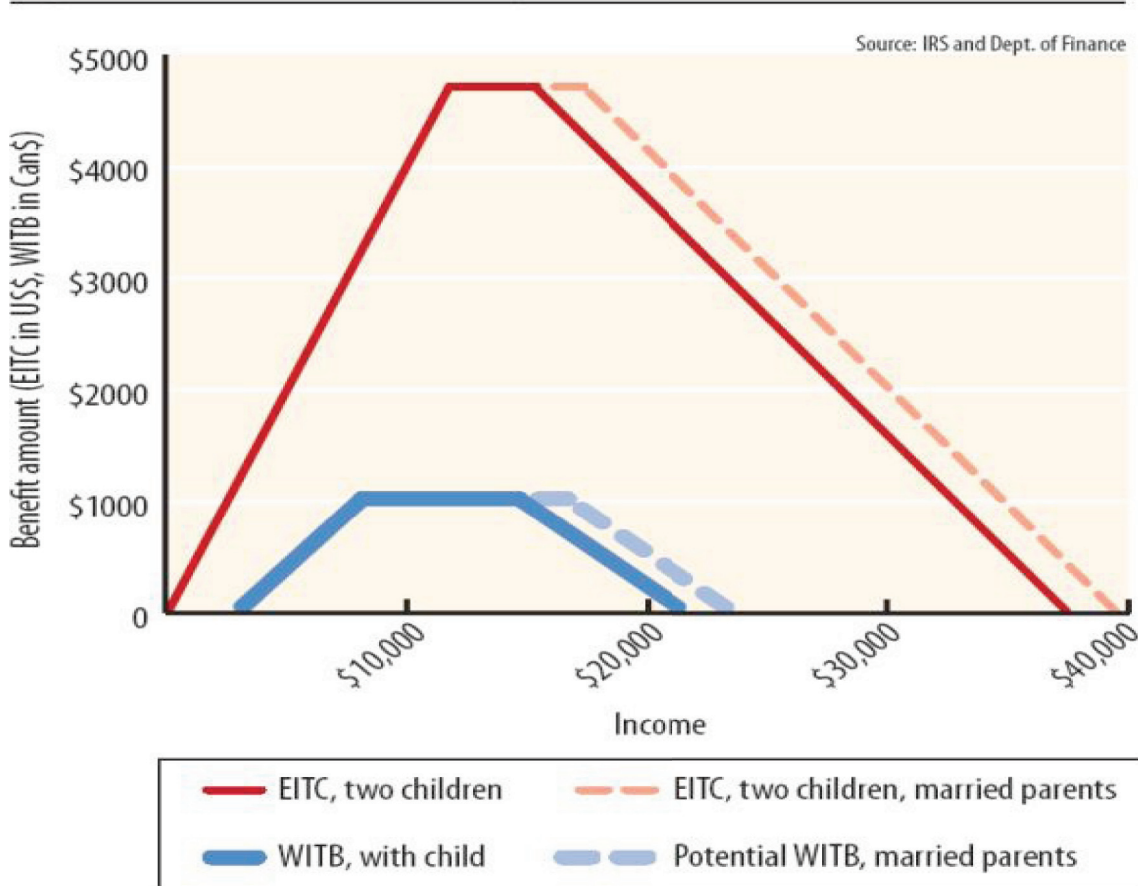
IMPROVING THE WITB FOR TWO-PARENT FAMILIES

As discussed in the previous section, the WITB will take effect for the 2007 tax year in Canada. Unlike the U.S.' EITC, however, the WITB does not recognize two-parent families.

The EITC provides an explicit marriage bonus that is worth examining in detail. While its maximum payout for married couples is the same as that for single-parent families (US\$4,716), the clawback phase is extended by US\$2,000 for married couples. A married family with children thus receives the full EITC payment at a higher income level, and receives benefits longer during the reduction phase, as compared to a single parent with a similar number of children. This is intended to compensate couples for the greater expenses inherent in a two-parent family as well as ameliorate any marriage penalties that might arise. A potential marriage penalty is created if a working single parent married and found that her/his EITC benefit was reduced due to the resulting higher combined family income of both spouses. This could create a disincentive to get married. The marriage bonus alleviates such a situation.

A married couple with two children and a combined income of US\$30,000 would receive US\$1,753 from EITC. A single-parent family with the same income and two equivalent children would receive US\$1,332. This US\$421 difference is the EITC marriage bonus.

Fig. 7: EITC vs. WITB, married parent benefits



The current WITB does not distinguish between married and single-parent families and contains no marriage bonus. Its maximum benefit is capped at \$1,000 and applies to both married and single parents with at least one child. This constitutes a potential marriage penalty in the same manner as the EITC. A low income unmarried couple could be pushed above the cut-off limit upon

marriage if their combined incomes exceeded \$21,167. The maximum payout does not recognize the extra costs inherent in a two-parent family as compared to a single-parent family with the same number of children.

Adding a marriage bonus to the WITB could be accomplished in a similar fashion to the EITC. Single-parent families would continue to receive their benefits at the previously described rate, but two-parent families would benefit from a modest enhancement to their benefits. If, for example, a marriage-sensitive WITB extended the maximum benefit cut-off and zero benefit limits by \$2,000 for married couples, this would provide an extra \$300 annually for two-parent families during the reduction phase. In this way the government would be recognizing the beneficial aspects of marriage for low-income Canadians and making compensation for the unique situations of two-parent families. This example is provided in Figure 7.

MAKING THE TAX SYSTEM FAIRIER

There are many other ways in which the Canadian tax system ignores marriage. Federal benefits provided through the tax system, such as the GST credit or the National Child Benefit, are calculated on the basis of family income. However, calculation of taxes payable relies solely on individual income. In other words, while the family unit is central to benefits paid, it is irrelevant to taxes owing.

Other countries do not impose this sort of structural oddity on their tax system. In the U.S., France and Germany, married couples file their income tax jointly and the family unit is a crucial component of tax calculations. Many other countries permit additional forms of income splitting, including Belgium, Greece, Luxembourg, Iceland, Ireland, Norway, Spain and Poland (Library of Parliament, 2006). A similar recognition of the family as the basic economic and taxation unit in Canada would be beneficial for Canadian families as well.

Joint filing and income splitting would result in lower taxes for families generally and help to raise after-tax incomes among the lowest income bracket. According to research from the Library of Parliament, 31 per cent of two-parent families below \$30,000 in annual income would benefit from income splitting. The average benefit would be \$215 annually (Library of Parliament, 2006). As with the EITC's marriage bonus, the size of the benefit might be considered of secondary importance. Of greater significance is the fact that married couples are being explicitly recognized by their government. This would once again send an important message to Canadian families about the benefits of marriage. And marriage, we repeat, is a proven poverty fighter.

It can be argued somewhat optimistically that the Canadian tax system is slowly evolving towards a family-based tax structure. In addition to the benefits that are currently calculated on the basis of family income, in 2006 the federal government announced that pension income could be split between spouses for tax purposes (Dept. of Finance, 2006). While this measure only applies to seniors receiving pensions, it can be seen to represent a 'thin edge of the wedge' in policy terms. If income splitting is appropriate for elderly Canadian families, then it can and should be argued that it's appropriate for the other remaining Canadian families as well. Recall that senior couples have the lowest rate of low income of all demographic groups.

ASSET PROMOTION

An often overlooked area of long-term poverty reduction is asset building. Savings and assets are typically seen as a mark of wealth and affluence. But an emerging field of social policy research suggests that providing low-income families with opportunities and incentives to save can play an important role in changing the trajectory of poverty. (Mills, 2005).

Having assets such as a bank account, GICs or other forms of capital can allow low-income Canadians to seek out new sources of income or access education. Savings can also serve as a safety net to cushion the climb out of poverty and sudden income loss. And owning assets can play an important role in teaching low-income Canadians about financial management. If marriage is an insurance policy against poverty, so are assets.

Acquiring assets is doubly difficult for low-income Canadian families. Living in low income obviously limits a family's ability to save. And governments impose additional barriers to asset accumulation on Canadians receiving welfare. Welfare applications in all provinces require some form of asset test. In Ontario, for instance, a welfare recipient can have no more than \$1,457 in liquid assets. There are further restrictions on the value of a car and other capital assets that can be owned (Robson, forthcoming). These rules are aimed at preventing people from fraudulently claiming welfare at taxpayers' expense. But as a result, legitimate families in low income have little opportunity to save.

Asset-building policies are well established in other countries. The U.S. has operated a widespread system of Individual Development Accounts since the 1990s. IDAs are bank accounts for low-income individuals in which personal savings are matched by money from sponsors, such as government agencies or charities. Participants are often required to attend financial education classes and there can be restrictions on withdrawals, limiting the funds to uses such as education, purchasing a house or starting a business. A review of IDAs by the Center for Social Development found strong evidence of increased savings and home ownership among participants as compared to their peers. Overall, the IDAs promoted household economic stability, decreased the risk of intergenerational poverty and improved the health and happiness of participants (Mills, 2005; CSD, 2007).

In Canada a pilot project called Learn\$ave was established in 2000 based on the success of IDAs. Participants in Learn\$ave see every dollar of their personal savings matched by \$2 to \$3 from the program sponsor, the non-profit organization Social and Enterprise Development Innovations (SEDI). The maximum amount that can be saved is \$6,000 and it is locked in, only to be withdrawn for education or self-employment. An interim progress report on this program is expected before the end of 2007.

Learn\$ave promises to be an important innovation in Canadian social policy and may hold further lessons for family poverty. A potential link between marriage and asset promotion was made by U.S. Senator Sam Brownback. His Marriage Development Account was to be a US\$3 million program aimed at rewarding marriage in Washington D.C., where family structure is extremely weak among low-income residents. Every dollar deposited by selected families into the MDA would be tripled by the government funding agency up to a \$9,000 limit – far more generous terms than with standard IDAs. This money could only be withdrawn to buy a house, pay for education or embark on self-employment. Additional cash payments were also to be made when a low-income couple got married or took a marriage course. While the pilot program was approved with funding in 2005, in 2007 its budget was cut before preliminary results became available. (Brownback, 2007)

While no quick fix to poverty, asset promotion holds the promise of breaking the poverty cycle over the long term by allowing and encouraging parents to save for their future, as well as setting a positive example of financial knowledge for their children.

CONCLUSION



Family poverty is an important policy issue for all Canadians. The recent record on family poverty in this country allows for some optimism. There have been dramatic improvements over the past decade in low income rates among elderly families and single-parent families. A review of poverty figures also reveals the power of marriage in fighting poverty. Two-parent families experience poverty at much lower rates and for a shorter duration than do single-parent families. However, two troubling features of family poverty remain apparent. The single-parent poverty rate is still substantially higher than the overall family rate, and the rate of low income among two-parent families has not fallen in pace with other groups.

This presents two main policy objectives regarding family poverty: bring down the rate of low income among single-parent families to rates experienced by two-parent families; and produce a permanent lowering of the low income rate among two-parent families.

Improving the situation for single parents requires multiple approaches. The poverty-fighting attributes of marriage cannot be ignored. Because of this, society clearly has an interest in promoting marriage when and where appropriate. In Canada this could take a form similar to the US\$500 million Healthy Marriages Initiative announced by the U.S. government in 2005 which puts emphasis on communicating the benefits of marriage and sponsoring counseling programs to improve the marriage skills of low-income couples.

In addition, there is clear evidence that single-parent families benefit when the parent is involved in the workforce rather than dependent on welfare. To promote work as an option, the welfare wall – or the disincentive effects of high marginal tax rates on welfare recipients who choose to work – must be overcome. The federal government's new WITB, announced by Ottawa in the 2007 budget, is designed to surmount this problem. However, its small initial size may limit its effectiveness.

For two-parent families, making the WITB sensitive to marital status would provide an additional benefit to reduce the prevalence of low income in this group and strengthen incentives around family structure. Such a move would send a signal that the government recognizes the importance of marriage in fighting poverty. Additionally, income splitting would provide further tax relief for two-parent families and make the family the central focus of the tax system.

An additional policy to reduce the long-term incidence of poverty for both single- and two-parent families is asset promotion. Ownership of assets confers many advantages on low-income Canadians. Assets insulate against sudden changes in income, provide a means to new sources of income and provide valuable lessons in financial management. But provincial welfare rules often discourage low income Canadians from saving. The Learn\$ave project in Canada encourages low income Canadians to save for their future through incentive contributions.

Consistent throughout this paper is the belief that poverty is best tackled through incentive structures that reward positive efforts and strengthen the family.

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