A major new international study discusses four countries – Australia, Canada, the

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Benefits for Children: A Four Country Study is a report on the design and delivery of programs providing cash benefits on behalf of children in Australia, Canada, the United Kingdom and the United States. These four "Anglo-American" countries were selected because they share enough similarities, and maintain enough differences, to make it possible to learn from one another and to adapt the lessons to each country.

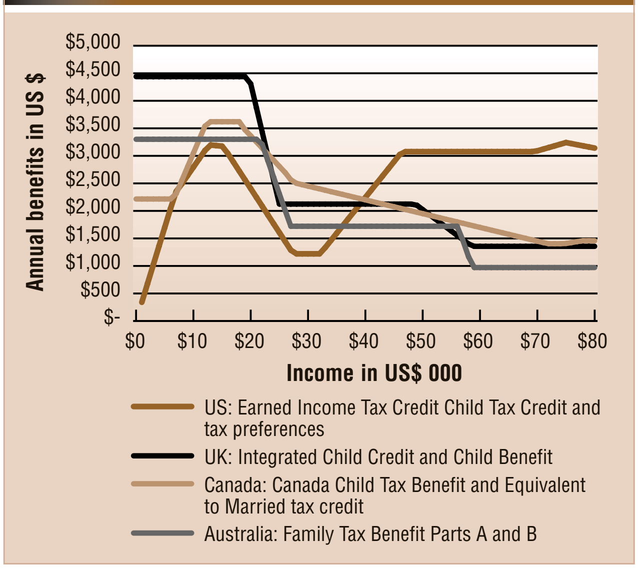
The 1970s saw the creation of new income-tested programs on behalf of children in many of the Anglo-American countries. In these programs, eligibility was determined, and the amount of benefit based, on family earnings or income. These income-related programs evolved over the subsequent decades, and have now become the centerpiece of government income security programs for families with children in the four countries in this study.

While the study reviews all cash benefits paid to families for their children, it concentrates especially on these "new" income-tested programs. In Australia, the main program is the Family Tax Benefit Parts A and B. In Canada, it is the Canada Child Tax Benefit; in the UK, it is the still to be implemented Integrated Child Credit and the universal Child Benefit; in the US, it is the Earned Income Tax Credit and child credits and preferences in the tax system. (As the final configuration for the Integrated Child Credit in the UK has not yet been decided, the study portrays the (2003) planned new credit and existing Child Benefit based on current benefit rates.)

Benefits for Children begins with a chapter comparing child benefit programs of the four countries in the study. This review article is an abridged version of that chapter. Detailed discussions of the individual programs in each country are to be found in the other four country chapters of the study.

To compare programs across countries it is necessary to convert to a common currency. In *Benefits for Children,* Purchasing Power Parity was used to convert to US dollars, with one Australian dollar worth $0.77 US, one Canadian dollar worth $0.85 US, and one United Kingdom pound worth $1.49 US. Purchasing Power Parity is the amount of money in each national currency needed to buy a common basket of goods and services. It is not the same as the exchange rate. The exchange rate is not a good measure of comparative purchasing power as it is highly responsive to other influences, such as short-term flows of investment capital. Thus, Purchasing Power Parity is a better way to estimate the relative purchasing capacity resulting from different benefit levels in each country.

Figure 1 Benefits for children: one parent and one child under 5

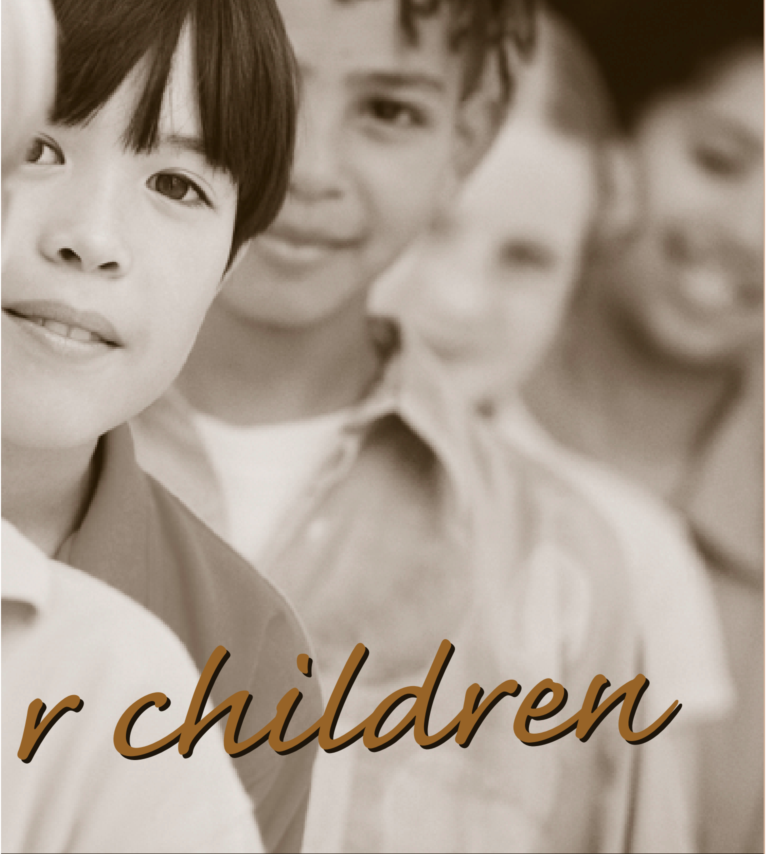


One-parent families

Figure 1 shows the structure of child benefits in the income related programs for one-parent families with one child under age five, for the four countries of the study. The Australian structure of benefits for lone-parent families in Family Tax Benefit Parts A and B is very similar to that in the UK for the planned Integrated Credit and the Child Benefit. Both have a three-tiered structure with three flat plateaus connected by two steep slopes, where high reduction rates cause rapid declines in benefits to the next plateau. The main difference between the Australian and UK configurations of child benefits for this family type is that the British benefits for the poorest families are higher, and benefits are somewhat higher for the other two plateaus as well.

Both Canada and the United States have tax preferences built into their systems. In Canada, an equivalent to married nonrefundable tax credit is provided for lone parents so that they can treat their first child the same as a dependant spouse for tax purposes. (A "refundable" tax credit is one that pays the credit even to those with no tax liability – essentially a negative tax.) In the US, there is a $500 per child nonrefundable tax credit, as well as preferences for families with children, embedded within the exemption and rate structure of the tax system. (The current tax changes before Congress propose raising the credit to $1,000 but it will remain nonrefundable so that it will not go to families with no tax liability.)

Because of these tax measures, child benefits for lone-parent families in both countries ramp up after the tax



and compares the child benefit programs of United States and the United Kingdom.

system cuts in at roughly $7,000 to $8,000, with a peak followed by a slope (due to reductions in other income-tested child benefit programs).

The US benefit structure is unique in providing no payments (through these programs) to families with no market incomes. Due to its tax rules, the US also has an unusual structure in which benefits rise to a pronounced peak, followed by a decline, only to have benefits rise again, starting at about $32,000. With the median income for female lone-parent families about $20,700, most lone-parent families are likely to be on the downward slope of the benefits structure before the valley. Unlike the US system, Canadian child benefits for lone-parent families do provide a plateau at low-income levels (because of the Canada Child Tax Benefit).

Two-parent families

Figure 2 shows the structure of child benefits for two-parent single-earner families with two children (one under five and the other between seven and thirteen), for these income-related child benefit programs. Canada is alone in not paying child benefits to high-income couples: the Canada Child Tax Benefit ends at net family income of about $US 69,000 for one or two children. The UK's benefits extend into the upper income ranges because of the universal Child Benefit payment. Australia's Family Tax Benefit Part B provides flat rate universal assistance to all single-earner families with dependent children, so Australia also pays benefits through this program to those in higher income ranges – though not in the case of two-earner families. In the US, the $500 per child nonrefundable tax credit is phased out at $100,000 income for a family with two children, and disappears entirely at $120,000 income, but this is offset by the tax preferences for families with children.

In Australia and the United Kingdom, child benefits for two-parent families show the same "three plateaus, two slopes" structure as for lone-parent families. It is probably not just coincidental that Australia and the UK both also pay relatively generous benefits to low-income families. A "stepped" shape (for example, three plateaus and two sharp slopes) is necessary to limit costs in systems that pay relatively large benefits to lower-income families. If Australia and the UK were to use the Canadian structure, which reduces benefits more gently for non-poor families and thus results in a smoother downward slope, the result would be a substantial increase in benefits for all families between $20,000 and $60,000. This would doubtless be very expensive due to the large percentage of families in that income range.

The Australian system treats single-earner families more generously than two-earner families, at least with respect to the range of programs discussed in this chapter of *Benefits for Children.* This differential treatment resulted from the historical evolution of tax exemptions into the existing system. However, while accurate, Figure 2's illustration of preferential treatment for single-earner families does not give a representative view of the Australian system overall, since in reality only a minority of two-parent families in the middle and upper income ranges have just one earner, at least for any length of time.

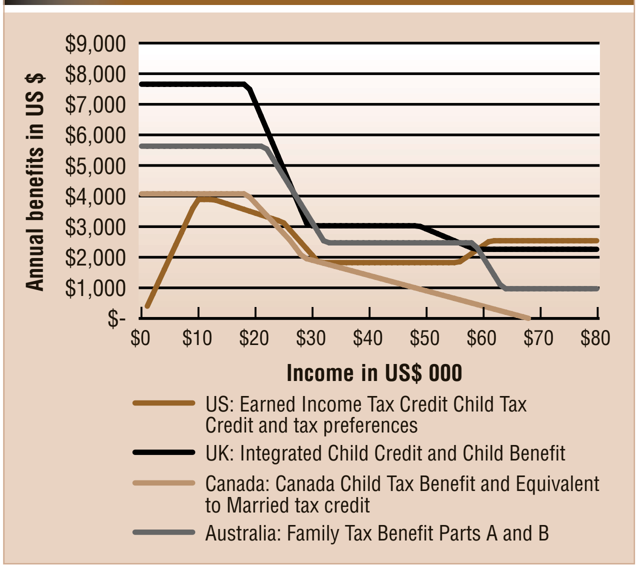
Figure 3 provides a view of child benefits for two-parent, two-earner families in Australia in which the second parent begins earning an income at about US$15,500, after which all additional income is attributed to the second parent. For this family type, the Australian system is even more clearly progressive in its distribution of benefits, with one of the three plateaus lopped off.

The US system is again unique: child benefits for two-parent families show a rising slope, followed by a peak, albeit gentler than in the case of lone-parent families, then a valley and slight increase for upper income ranges. The US system provides nothing for the poorest, relatively high benefits for a narrow range of the working poor, less for middle-income groups, and more for high-income families. At the upper income ranges, the US provides the most generous child benefits of the four countries.

State and provincial programs

Income security programs in the United Kingdom and Australia are operated exclusively by the central government. In both Canada and the United States, sub-national governments play important roles in the income security

Figure 2 Benefits for children: two parents, one earner, one child under 5, one child 5 to 13



system as a whole. While the Canadian and American child benefit programs that are the primary focus of this report are predominately federal, there are significant state and provincial supplements.

In Canada, every province and territory except for one provides some income-tested child benefit programs or employment earnings supplements for families with children. Fully integrated child benefit programs – replacing most social assistance payments on behalf of children and extending provincial child benefits to the working poor and, in some instances, modest-income families – are now operating in four of ten provinces representing 42 per cent of the population. In the US, in 1999, 15 states had supplements to the federal Earned Income Tax Credit.

Benefit reduction rates in the child benefit programs

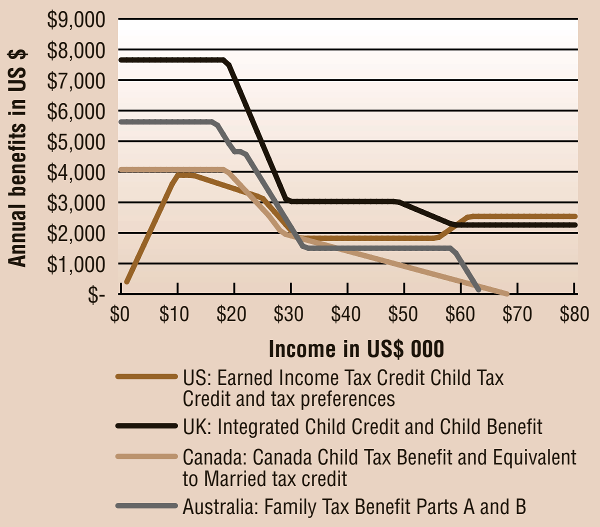
To see better the design of the key child benefit programs, Figure 4 shows the child benefit reduction rates for one-parent, one-child families. "Reduction rates" are the rate at which benefits fall as incomes increase; for example, if benefits are decreased by $100 when income increases by $1,000, this is a 10 per cent reduction rate.

Neither Australia nor the United Kingdom have any areas of "positive" reduction rates (a positive rate being an increase in benefit as income increases), because neither has any programs where the amount of child benefit increases with income. However, both Canada and the United States have some income ranges in which there are positive reduction rates. In Canada's case, this is a relatively small range of low income and is entirely due to the phasing in of the equivalent to married nonrefundable tax credit for lone-parent families. In the case of the US, reduction rates are more varied than for any of the other countries, with substantial income ranges of positive rates due to the Earned Income Tax Credit, the child tax credit and, in upper income ranges, the tax system's exemptions and higher tax thresholds for families with children.

Australia and the UK both concentrate their negative reduction rates in two very narrow bands of income, from about $20,000 to $25,000, and again between roughly $50,000 and $60,000. This is a reflection of the "three plateau" structure in Australia and the UK. In contrast, Canada is the only country with a small negative reduction rate for a very large range of income (that is, for all non-poor families that receive the basic Child Tax Benefit), as its design employs a longer, more gradual phase-out with no second plateau.

The relationship of child benefit reduction rates to the broader income security and tax systems, particularly social assistance, is not shown here. The highest effective marginal tax rates (that is, the percentage of additional income that is actually lost or gained as a result of all income-tested social programs, including non-cash benefits such as food stamps in the US, and income and payroll taxes) traditionally have been found in the transition from social assistance to work, where benefits are wholly or largely eliminated as employment earnings increase.

Figure 3 **Benefits for children: two parents, two earners, onechild under 5, one child 5 to 13**



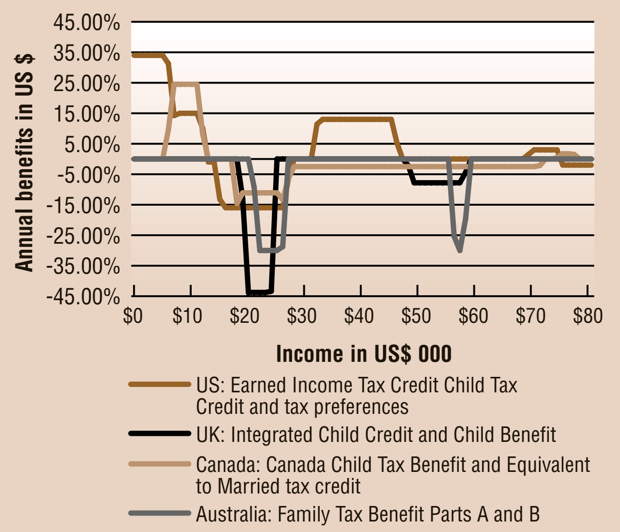
With child benefits in Australia being available at the same rate for families whether or not they are working, and with the implementation of the fully portable Integrated Child Credit in the UK that will also allow child benefits to be maintained whether working or on assistance, effective marginal tax rates for families moving from assistance to work are (or, in the UK, will be) much lower than they would be were child benefits to be unavailable to those who are working. Similarly, the barriers to work in Canada have been lowered by the increased Canada Child Tax Benefit, and lowered most in those provinces with a fully integrated child benefit.

How do child benefit systems compare?

The national chapters in *Benefits for Children* discuss the stated and unstated objectives of the child benefit system in each country. Of the many possible goals for child benefits, with regard to the two sometimes competing fundamental objectives of "vertical equity" (redistribution of income to lower-income families) and "horizontal inequity" (fair treatment of families with children compared to those without children, at all income levels), how do the child benefit systems of the four countries compare?

The British system, if implemented as described in Figures 1 and 2, will address both vertical and horizontal equity objectives to some extent. The United Kingdom pays substantial benefits to the low-income families and meaningful, though lower, payments for families at middle and higher incomes. However, the structure of the system, with its long plateaus and sharp slopes, weakens its performance in terms

Figure 4 Reduction rates of benefits for children: one parent, and one child under 5



of vertical equity for non-poor families (since some similar-income families receive very different amounts, while many different-income families get similar child benefits).

With respect to single-earner families, Australia is also addressing both vertical and horizontal equity objectives, as is the British planned system. However, while Australia provides substantial payments to middle-income single-earner families, as can be seen in Figure 3, it pays none to higher-income dual-earner families. Australia therefore only partially meets horizontal equity objectives with regard to two-earner families.

The Canadian system resembles the Australian with respect to the horizontal equity objective in the case of lone-parent families, although it is less generous when it comes to the anti-poverty objective. However, for two-parent families, the Canadian system provides diminishing and relatively small payments to those in the middle-income brackets and little or nothing to those with high incomes, so it is not as successful in addressing the horizontal equity objective for non-poor families.

Australia and Canada treat single earners and lone parents, respectively, differently from dual-earner and two-parent families. In both cases, this special treatment for a particular type of household is rooted in the history of the tax system, although the special benefits that were once in the tax system have now been fully "cashed out" in Australia and replaced with cash benefits in the child benefit system. The Canadian system retains its equivalent to married non-refundable credit in respect of the first child in one-parent families, with pro-horizontal equity results for one-parent families only, although the old children's tax exemption was also cashed out as in Australia (the money that used to be spent on the children's tax exemption effectively was redirected to what is now the Canada Child Tax Benefit).

The Australian and Canadian examples raise interesting questions about particular provisions echoing through successive reforms of the tax and income security system, until the original reason for the provision is lost and all that remains is a complex and perhaps seemingly arbitrary measure.

The American child benefit system is counter-redistributive, with large benefits to upper-income families and nothing at all to those with no earned income. The US pays its largest child benefits to the working poor and to the wealthy, and less to others. To our knowledge, American commentators on child benefits almost always overlook the important role of their income tax system, perhaps assuming that tax preferences for families with children are not "real" child benefits and not as tangible as the Earned Income Tax Credit – despite the experience in the other three countries in this study, all of which publicly debated the regressive effect of their old tax preferences for children and eventually replaced them with progressive income-tested benefits.

In its unique design, the child benefit system in the United States reflects a different philosophy of income security from those of the other countries: the American income security system is almost entirely focused on employment, and its child benefits system is designed mainly to bolster families' ties to the labour market and recognize the horizontal equity claims of taxpaying parents, rather than to provide an income floor for those with little or no earned income.

The country chapters of *Benefits for Children: A Four Country Study* provide detailed explanations of each child benefit system, how it works, and the context in which it operates. It is our hope that we will be able to learn and to advance the development of child benefits in all four countries by better understanding both the similarities and the differences among the countries.

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The other authors of *Child Benefits* are: co-editor **Ken Battle**, President of the Caledon Institute of Social Policy, an independent think tank based in Ottawa; **Daniel R. Meyer**, Professor of Social Work, University of Wisconsin, and an Affiliate of the Institute for Research on Poverty; **Jane Millar**, Professor of Social Policy and Director of the Centre for the Analysis of Social Policy at the University of Bath, UK; and **Peter Whiteford**, Principal Administrator (Social Policies) in the Non-Member Economies Division of the OECD, Paris.

Some highlights

- Anglo-American countries develop stand-alone income-related child benefit programs as centrepiece of income security for families:
  - *Australia:* Family Tax Benefit Parts A and B
  - *Canada:* Canada Child Tax Benefit
  - *United Kingdom:* planned Integrated Child Credit and Child Benefit
  - *United States:* Earned Income Tax Credit and child credits and preferences in the tax system
- Canada and UK moving towards fully integrated child benefits system (same benefit for working as for non-working); Australia already has integrated benefit.
- Australia and planned UK systems are similar designs, except UK child benefit programs more generous especially at lower incomes.
- Canada's design avoids large reduction rates, but most expensive as benefit levels increase.
- Australia and UK design may be necessary to remain affordable with relatively high benefit levels in those countries.
- United States system is counter-redistributive, with highest benefits to the wealthiest and no benefits to those with no income.
- Canada and US deliver benefits retrospectively through the tax system, while Australia is implementing a prospective system with annual reconciliation.
- Australia only country with substantial extra benefit for single earner two parent families.

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