

From: Mark Stabile and Michael Baker

To: Child Poverty Watchers

Date: April 7, 2021

Re: **HOW THE CANADA CHILD BENEFIT IS PERFORMING**

While poverty afflicts many demographic groups, child poverty is typically viewed with particular concern.

There is international consensus around the [idea](#) that early life experiences can have a disproportionate impact on adult socioeconomic outcomes and governments around the world have responded with various measures.

The Canada Child Benefit (CCB), introduced in 2016, has generated considerable discussion in Canada and abroad over its potential impact on child poverty. It's no accident the enhanced US Child Tax Credit introduced as part of the 2021 American Rescue Plan a few weeks ago shares many design features with the CCB.

The CCB replaced a patchwork of federal benefits including the Universal Child Care Benefit (UCCB), the Canada Child Tax Benefit (CCTB) and the National Child Benefit Supplement (NCB). The introduction of the CCB was preceded in 2015 by an enhancement of the UCCB, which increased benefits for children aged zero to 5 years and expanded benefits to children 6 to 17.

The CCB increased the generosity of the benefit at lower income levels, and made all of the benefit tax-free and income tested, whereas the CCTB and NCB benefits had been income tested, while the UCCB benefits were taxable.

As a result, some high-income families – primarily single parents and one earner/two parent families – saw larger reductions in benefits in the move to the CCB.

In our new National Bureau of Economic Research [working paper](#) with Derek Messacar, we estimate the effect of CCB on child poverty, family after-tax income and mothers' labour supply. And, since the UCCB was itself expanded a year prior to the introduction of the CCB, we also estimate the impact of this enhancement, tracking the year-by-year change in poverty, income and labour supply. We focus on the years 2007-2018 allowing us to observe the impacts of both programs.

Our results are policy-relevant for at least three reasons. First, child poverty is the presumptive target of these program innovations and so understanding their impacts on poverty is a key input to understanding the benefit of the reforms.

Second, this evaluation can also inform policy development in other countries, as is demonstrated by the frequent citation of the Canadian experience in discussion now in the United States.

Third, any adverse family labour supply responses to the programs increases their costs to the government, and weakens their impacts on poverty.

Our study makes use of three data sets: the public use files of the Canadian Income Survey (CIS) and the confidential files of the Longitudinal Administrative Databank (LAD) and the Labour Force Survey (LFS). The LAD offers large samples and administrative tax-filer based income data. The CIS offers much smaller sample sizes but is potentially more representative by capturing individuals who do not file taxes. The LFS is best suited to tracking changes in labour supply.

Our focus is on single mothers and how they fared compared to single women without children. Single mothers have extremely high rates of poverty (30 to 40 percent of single mothers are below the Low-Income Measures of poverty depending on the data set used) and roughly 30 percent of children in poverty live with single mothers.

The CIS and LAD provide evidence that both the UCCB expansion and the introduction of the CCB led to increases in transfer income for single mothers relative to single women without children although the CCB had the greater effect. In the CIS measure, the post-CCB increase is roughly double the increase that followed the UCCB expansion. In the LAD database of tax filers, the increment is three times. In the LAD we also find corresponding increases in after-tax income. The increment is much larger following the CCB introduction than following the UCCB expansion. In contrast, in the CIS we find little change in after-tax income following either reform.

The LAD provides evidence of a small reduction in the Low-Income Measure of poverty for single mothers relative to single childless women following the UCCB expansion (roughly 1.5 percentage points). Following the introduction of the CCB, LIM measured poverty falls roughly 5 percentage points relative to the 2014 base, or an additional 3.5 percentage points relative to its level after the UCCB expansion. In the CIS, using the Low-Income Measure we find a much larger reduction in poverty following the UCCB expansion, while the reduction following the CCB introduction is close to that found in the LAD.

Finally, using the Labour Force Survey, we find no evidence of a labour supply response to either of the program reforms on either the extensive or intensive margin for single women ages 25 to 54.

It should perhaps not be surprising that increasing transfers to low-income families lifts children out of poverty and our evidence confirms this intuition. The CCB had a larger effect than the enhanced UCCB, primarily because the amounts available to lower income families are greater, but both reduced poverty. Interestingly, neither had visible labour supply effects for our sample population, despite concerns that enhancing benefits would discourage work. Our work provides further evidence of the efficacy of these types of targeted cash transfers as an effective tool for redistribution and poverty reduction.

Mark Stabile is the Stone Chaired Professor of Wealth Inequality at INSEAD and Michael Baker is Canada Research Chair in Economics and Public Policy at the University of Toronto.

To send a comment or leave feedback, email us at blog@cdhowe.org.

The views expressed here are those of the authors. The C.D. Howe Institute does not take corporate positions on policy matters.