FRASER INSTITUTE
2021

Does the CANADA CHILD BENEFIT Actually Reduce Child Poverty?

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**BETTER UNDERSTANDING
THE CANADA CHILD BENEFIT**
Essay Series

CHAPTER 4

Does the Canada Child Benefit Actually Reduce Child Poverty?

By Christopher A. Sarlo

Key points

- This essay in the ongoing series on the Canada Child Benefit (CCB) focuses on empirically testing the federal government's claim that the CCB has dramatically reduced child poverty.
- The principal analysis in this essay relies on Statistics Canada's SPSD/M simulation model.
- Using low income cut-offs (LICO), a measure of low-income, there were an estimated 390,600 children (for 2019) in families whose income was below LICO under the old system of the Canada Child Tax Benefit (CCTB) and Universal Child Care Benefit (UCCB). The number of low-income children drops to 299,700 after the CCB was introduced, a difference of 90,900.
- If the Market Basket Measure (MBM) is used as an indicator of poverty (it is roughly 20 to 30 percent higher than LICO), there were an estimated 987,306 children living in households whose income was below the MBM under the old system of CCTB and UCCB. The number of (below MBM) children drops to 702,942 under the new CCB, a decline of 248,364. This represents 77.5 percent of the government's estimated decline in child poverty of 367,000.
- It's important to recognize the approximate values of LICO and the MBM. In 2019, for instance, LICO ranged between $27,085 and $41,406 for a family of four while the MBM ranged between $38,239 and $50,055. Neither measure attempts to capture material deprivation but are predominately relative measures of poverty.
- As previous analyses have shown, the targeting of the new CCB to the middle-class rather than those in need results in more families with in-

comes close to the MBM being raised above the "poverty" line whereas fewer families deeper in need (below LICO) were pushed higher by the CCB.

• Finally, it's important to reiterate that the costly ($7 billion) expansion that came with the CCB was deliberately targeted towards the middle class and not to truly low-income families with children.

Introduction

A September 13, 2019 CBC news story about the sharp decline in the number of Canadians living in poverty pointed out that "Trudeau credited his government's Canada Child Benefit (CCB) as a key factor in lifting low-income families out of poverty" (Powers, 2019). Along the same lines, a press release by Employment and Social Development Canada on February 24, 2021, included the statement: "Through programs like the Canada Child Benefit, 367,000 children have been lifted out of poverty since 2015 in Canada" (Employment and Social Development Canada, 2021, February 24). According to the Canadian Press, even Statistics Canada appears to agree with this claim. (CP, 2019). Just as this essay was going to press, the Liberal party of Canada tweeted another self-congratulatory statement that "over 400,000 children have been lifted out of poverty" since 2016 implying that the CCB was largely responsible (@liberal-party, 2021, July 25, 12:35 p.m.).

What should we make of the federal government's claim that the CCB is largely responsible for the measured reduction in poverty? Did it do a study to support such statements or is this simply the usual hubris that we have come to expect from politicians? A recent search for "official" research findings by any of the relevant government agencies (including Statistics Canada) that would back up these assertions found no results. It would certainly be important to do such a study because the CCB, at a cost of over $27 billion per year, is one of the most expensive federal government programs and even a modest nod at accountability would require evidence of efficacy.

The CCB[12] was established in 2016 as a re-working of existing federal government payments to families with children. The new Liberal government regarded those existing programs—the Universal Child Care Benefits (UCCB) and the Canada Child Tax Benefit (CCTB)— as "inad-

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[12] Currently, as of May, 2021, the CCB program provides a maximum benefit of $6,765 per child under age 6 (per annum) and a per annum maximum benefit of $5,708 per child between age 6 and 17. The benefit is income tested and families with net incomes greater than $31,700 have the benefit systematically reduced.

equate" and "not sufficiently targeted to those who need it most" (Sarlo et al., 2020: 2). As part of the restructuring of federal child benefits, the government put substantially more money into the CCB and claimed to target it better. However, in an earlier paper in this series (Sarlo et al., 2020), empirical evidence showed that in fact, by 2019, poorer families with children received a smaller share of CCB benefits than was the case under the previous programs.[13]

The purpose of this essay is to critically examine the federal government's oft-repeated claim that the CCB is largely responsible for lifting some 367,000 children out of poverty. Specifically, we look for empirical evidence that might support or counter that claim. We have examined two relevant sources of empirical evidence: 1) a recent study using econometric methods, and 2) a custom simulation. Both tested this claim. It is important to stress that while recent Statistics Canada reports show that poverty (using various indicators) had been declining between 2015 and 2019, the question economists are most interested in is whether that poverty reduction is due primarily to government policies or due primarily to a growing economy and increasing employment.

What is the empirical evidence that the CCB has substantially reduced child poverty?

When we look at the actual distribution of the cash benefits under the CCB, it appears that they are targeted to the middle class rather than the poor.[14] However, it could be argued with some justification that even if the CCB is not specifically targeted to poorer families, those families will receive more in *absolute* terms than under the prior programs and this might help lift some poor families above the poverty line. It is certainly a valid point and one that is best addressed with empirical evidence. Unfortunately, the government has provided no publicly available evidence for its claim.

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[13] Specifically, "... eligible families with incomes below $40,000 received 21.8 percent of the benefits (under the prior scheme) whereas under the CCB, they receive 16.2 percent of the total" (Sarlo et al., 2020: 7).

[14] As noted in a previous essay in this series, under the previous (UCCB plus CCTB) programs, eligible families with incomes between $50,000 and $120,000 received 44.4 percent of the total benefits; under the CCB, those middle income families received 56.9 percent (Sarlo et al., 2020: 1-2).

An econometric test

Baker et al. (2021) examined the impact of the CCB on both measured poverty (using only relative indicators) and on women's employment. Their rationale for the study is that "… the CCB has garnered international attention as an example of effective policy for combating child poverty" (Baker et al., 2021: 18) and so they set out to test the level of efficacy. The challenge always with econometric studies is to control for other factors that would influence the dependent variables (poverty rates and employment) in the absence of any policy change. We know, for example, that the trajectory of the economy was already improving during this period (2015-2019) and with it came falling poverty rates and greater employment in general.

The authors focused on single parents with children and used single women without children as a control group, something they acknowledge is not ideal. They employed three Statistics Canada databases: The Longitudinal Administrative Database (LAD), the Labour Force Survey (LFS), and the Canada Income Survey (CIS). They used two measures of poverty in the study: the low-income measure (LIM) and the market basket measure (MBM), both of which can be fairly classified as relative measures. In other words, both poverty measures examine the relative position of people in the income distribution rather than their income compared to the cost of basic necessities. The authors wanted to compare the response in poverty rates to two policy changes—the 2015 expansion of the UCCB and the 2017 implementation of the CCB.

Based on their analysis, it would be reasonable to say that the impact of the policy changes on poverty rates has been "mixed." Using one of the databases and employing the LIM poverty indicator, the authors found that poverty rates declined slightly after the UCCB expansion and somewhat more after the CCB implementation. However, using a different database and the MBM "poverty" indicator, the results show that the decline in poverty after the UCCB expansion, while still modest, was larger than that for the CCB.

The authors also examined the impact of the two policy changes (UCCB and CCB) on women's employment. They found no evidence that either policy change had any significant impact on the labour supply of either single or married women with children. The impact on women's employment is of particular importance because it speaks to the more fundamental and enduring cure for poverty. That neither redistributive policy is shown to affect employment is of concern.

Simulation test

Statistics Canada's Social Policy Simulation Database and Model (SPSD/M) offers another way to test the veracity of the government's claim that the CCB was mainly responsible for the reduction in poverty of 367,000 children. The SPSD/M is a "statistically representative database of Canadian individuals in their family context" (Statistics Canada, undated) and it allows users to conduct "if/then" experiments by inputting policy changes while holding everything else the same. (The program does not include behavioural responses.) The results can then be used as an indicator of policy efficacy.

We used the SPSD/M (latest version—June 2021) to examine the impact on child "poverty" of both the earlier (CCTB plus UCCB) child cash benefit scheme and the new CCB. It is noteworthy that, prior to 2018, most academic and government studies used the Low-Income Cut-Off (LICO) as an indicator of poverty whereas after 2018, the government had selected the Market Basket Measure (MBM) as Canada's official poverty line. By 2019, the MBM thresholds were about 20 to 30 percent higher than the LICO lines. Both lines are employed in these simulations for comparative purposes. So, the question that the simulation will help answer is this: If the CCTB plus UCCB schemes had continued to run to 2019 and had not been replaced by the CCB, what would have been the estimated effect on child poverty? The same calculation was done assuming that the CCB, with its additional $7 billion expenditure, replaced the earlier scheme in 2016.

The results of the simulation exercise using the SPSD/M model and employing the two indicators of "poverty" (LICO and MBM) are displayed in table 1.

Table 1: Changes in Child Poverty Indicators under LICO and MBM, 2019

	Using LICO	Using MBM
Child Benefit Policy	Number of "Poor" Children in Recipient Families	Number of "Poor" Children in Recipient Families
CCTB plus UCCB	390,600	987,306
CCB	299,700	702,942
Difference	-90,900	-284,364

Source: Calculations done by the Fraser Institute using SPSD/M (version 28.1).

Figure 1: Number of "Poor" Children in Recipient Families, 2019
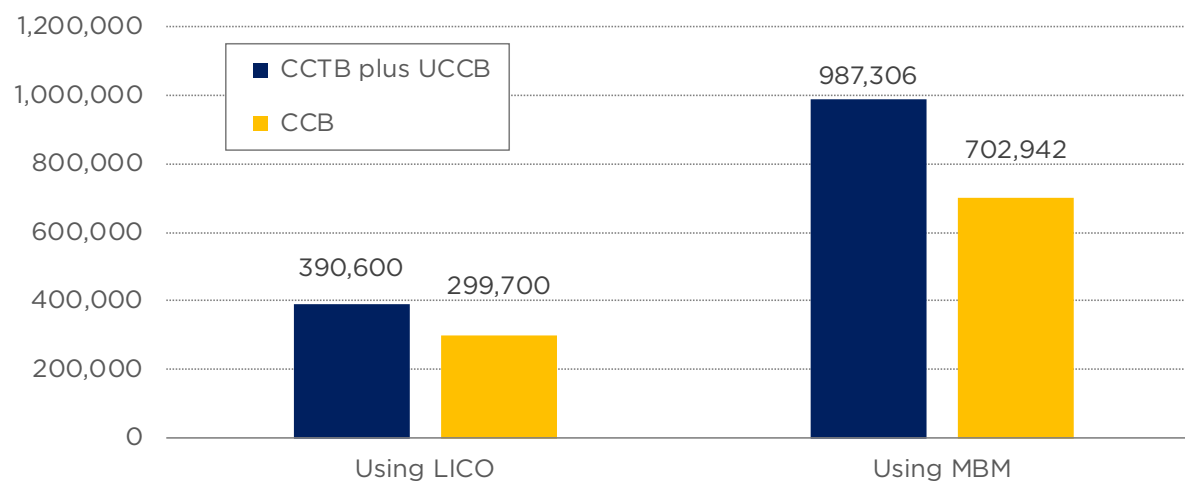
Source: Calculations done by The Fraser Institute using SPSD/M (version 28.1).

It is important to interpret these numbers correctly. If the previous child benefit policies (CCTB plus UCCB) had continued on to 2019, the SPSD/M simulation model estimates that there would have been 390,600 poor children in recipient families using the LICO indicator of poverty. With the current CCB there were 299,700 poor children among recipient families—a difference of 90,900. If the same simulation is repeated but using the MBM as the threshold for poverty, then there are an estimated 987,306 poor children under the earlier (CCTB plus UCCB) programs but 702,942 under the CCB program—a difference of 284,364. Note that the MBM thresholds are 20 to 30 percent higher than the LICO.

So, using the MBM as an indicator of poverty, the model results tend to support the government's claim that the CCB was substantially responsible (77.5 percent) for the reduction of 367,000 children living in poverty. However, the comparison using the LICO is important. What is clear is that the way the CCB is distributed has particularly benefited families that were just below the MBM, bumping them above the threshold (indicating that they've been lifted out of poverty). However, the CCB did not help people who were deeper in poverty nearly as much. This differential outcome confirms the results of an earlier essay in this series which showed that the Liberal government decided to skew the CCB benefits towards the middle class to a much greater extent than the earlier programs (Sarlo et al., 2020). This analysis makes the government's boast about helping lift children out of poverty much weaker.

Moreover, it is essential to reiterate the increased cost of the CCB compared to the previous two programs. The extra $7 billion that came with the establishment of the CCB could have completely eliminated child poverty had the government effectively targeted poor families.

The analysis in this essay also demonstrates the potential usefulness of a measure of poverty that focuses on real deprivation, even just for comparative purposes. In contrast to the much higher, relative measures like the MBM and the LIM, a measure focusing on basic needs would allow us a more detailed examination of the impact of policy on families with lower incomes. Currently, the use of (largely) relative measures such as the MBM (where the "poverty" threshold for a family of four is an annual income of over $55,000 per year), prevents any kind of granular examination of the poverty problem.

Conclusion

This essay provides some empirical evidence relating to the government's oft-repeated claims that the CCB is substantially responsible for the reductions in child poverty in Canada after 2016. We need to emphasize that the economy was strong and child poverty was already on the decline during the whole period from 2016 to 2019. The question that needs to be answered is this: to what extent did the CCB make a difference? We examined two methods of testing the government's claim—an econometric study and a simulation run.

Surprisingly, there is no government study on the matter, even though it is one of the federal government's most expensive programs and was developed specifically to address child poverty. The only academic study done on the effectiveness of the program, Baker et al. (2021), used a variety of databases and two indicators of poverty and was only able to show that the CCB modestly reduced the poverty of single mothers as compared to the control group, single women (who obviously did not get the cash benefit). Given the enormous amount of money pumped into the program, we might have expected far more. It is notable as well that the Baker et al. study concluded that there was no significant impact on women's employment resulting from the CCB. And employment is the critical piece in a longer term solution to poverty.

An analysis of child poverty rates using Statistics Canada's SPSD/M (June, 2021) also paints a mixed picture. While children in families near the higher-end threshold (MBM) were more likely to be bumped above the line by the CCB, children in families that were at a much lower income

level were not so lucky. The CCB works better for the less poor than for the more poor.

A critical examination of the potential benefit of the CCB in reducing child poverty is particularly important because many in the media have already spread the "news" that Canada's program is effective and worthy of emulation. In the US, there are proposals (from both Republican and Democratic policymakers) to establish a program of child benefit cash transfers based on the "success" of the Canadian program (Sherman, 2018). It is quite astonishing that large redistributive government programs, like the CCB, receive little to no oversight or critical scrutiny.

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Special thanks

Acknowledgments

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Date of issue

September 2021

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>.

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