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How In-Work Benefits Reduce Poverty

The U.S. and Canada adopted similar programmes to combat family poverty in the 1990s. How have they fared?

The United States and Canada are often thought to be similar in many ways, especially to those *outside* of North America. They both like hockey and baseball, English is the main language, and they have wealthy economies. But of course, there are differences. One striking contrast is the role of government in the lives of citizens. Canada has a much wider social "safety net" than the U.S. including universal health care and larger benefits for the unemployed. Yet poverty persists in both countries.

Welfare

Before the 1990s, the main benefit for poor families in both countries was direct benefits or entitlements – cash payments to the poor.

In the U.S., this handout was in the form of Aid to Families with Dependent Children (AFDC) which was based on incomes below the federal poverty line and thus discouraged recipients from working. If parents went to work, even part-time work, they were in danger of losing AFDC. In the 1990s, there was a conscious decision to move away from entitlements for the poor towards incentives to work. After years of political handwringing decrying the cycle of poverty, AFDC was phased out in 1996. Its follow-up programme, the Personal Responsibility and Work Opportunity Reconciliation Act, was also a direct benefit scheme, but had fixed time limit restricting the length of time people received the entitlement. This was called a "**reassertion** of America's work ethic" by the U.S. Chamber of Commerce.

Such a shift was also on the horizon in Canada. Yet in contrast to the U.S.'s federal assistance programme, Canada's provinces provided most of the direct benefits to poor families. Canada began looking at different ways to encourage employment in the early 1990s.

The changeover from direct benefits towards tax credits in both countries encouraged work, even part-time employment. Workers who didn't earn much could offset their small paycheque with a benefit from the government, based on their family situation and income.

Preventing child poverty in particular has been at the core of safety net support in both nations. Studies have shown that these tax credit programmes have been helpful for children in terms of **school work** and **health**. But do these programmes help whole families, including poor single mothers?

In our working paper, "**How do the U.S and Canadian Social Safety Nets Compare for Women and Children?"**, Hilary Hoynes of University of California at Berkeley and I examine the policies of the 90s and their effects on single mothers. We compared single mothers across the two countries and single mothers in each country to single women without children in terms of employment success. We sought to uncouple the effect of the programmes themselves from general labour market effects.

Earned benefits

The success story of tax credits begins with the U.S.'s Earned Income Tax Credit (EITC), which was created in 1975 and then took off in the 90s, followed by expansions in 1990, 1993 and 2009.

Even if a worker doesn't earn enough to pay federal tax, she receives a cheque from the U.S. government for the full amount of the tax credit, based on the number of children she has. Depending on their income, workers who pay federal income tax also receive the tax credit. Once a single head of household with three or more children makes more than US$48,000, that family no longer qualifies for EITC. For example, a single mother with three children who works and earns US$30,000 a year can claim US$3,857 in 2017.

Nearly 20 percent of all U.S. tax filers and 44 percent of filers with children receive the EITC.

In 1993, the Canada Child Tax Benefit (CCTB), a refundable tax credit with families, was created and became the backbone of the Canadian safety net for families with children. Unlike the EITC, there is no work requirement and rather than an annual sum, the CCTB is paid monthly based on tax reports from previous year. In 1998, National Child Benefit Supplement (NCB) was added to CCTB to help parents transition from welfare to work. The NCB amounts varied depending on the province. In 2014/15, the combined benefit began to phase out at around C$25,000 but families continued to earn some benefit for incomes as high as C$100,000.

From July 2016, the government introduced the new Canada Child Benefit (CCB) to replace the existing child benefit programs (the CCTB, NCB and a third benefit: the Universal Child Care Benefit).

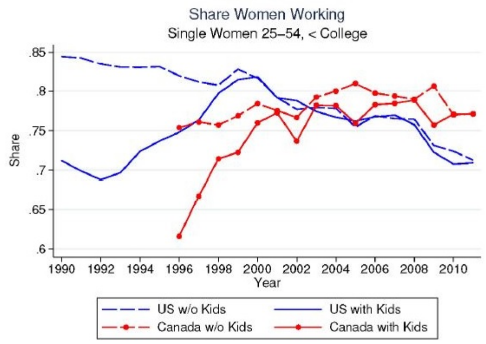
In Canada, welfare assistance is still available but the amount of direct benefit varies between provinces/territories.

Women at work

After the tax credit programmes began in earnest, the number of women at work began to increase. Before the Great Recession, Canada's unemployment rate was generally several percentage points higher than that of the U.S. But Canada wasn't as badly affected as the U.S. by the events of 2008 and its rate of employment is now more similar to that of the U.S.

On both sides of the border, these programmes have pulled single mothers into work. They are statistically moving closer to the employment levels of women without children.

As seen in Figure 1, when direct benefits were still available in the U.S., there was a disparity between single mothers and single women in terms of unemployment in both countries. In both the U.S. and Canada, single women without children were far more likely to work, yet by the beginning of this decade, single mothers have caught up to single women.



Notes: No college defined as less than a four-year degree. Women are considered working if they worked at least one week in the previous year. Data from Current Population Survey, Annual Social and Economic Supplement (US), and Survey of Labour and Income Dynamics (CA). Sample includes women 25-54.

Work as a force for good?

Tax credit programmes in Canada and the U.S. have helped poor women work, thus reducing poverty. But the way in which poverty in North America has been alleviated is particular to the country.

Because there are much stronger work incentives in the U.S. than in Canada; poverty is reduced through work on the one hand and cash payments on the other. The role of the market in the U.S. (people are encouraged to earn labour income) vs the role of the benefit programmes in Canada (people are supported with greater cash payments) means poverty reduction is not achieved in the same way.

In order to find out how truly successful the safety net in both countries were, we needed to unlink the effects of the tax credit programmes from the general labour market effect. Twenty years of data on unmarried, non-college graduate women aged 25-54 in the two countries were combed through to compare single mothers across the two countries. We found that, in fact, the programmes had similar effects on single moms in Canada and the U.S. relative to their unmarried counterparts, which was surprising.

Canada and the U.S. have been equally effective in reducing poverty in families but they've worked in different ways. The U.S. improved through the labour market and Canada through the benefit/cash payment programme. There is a caveat that people who don't work at all are left out in the U.S. The benefit structure no longer accounts for those out of work, so if the economy is hit hard in the U.S., there's nothing available to support these people. Serious deep poverty could follow if there is a shock that knocks people completely out of work or if automation encourages mass layoffs in certain sectors of the population.

Tax credit programmes have, as we have seen, been successful. Although poverty has yet to be eradicated in the U.S. and Canada, the next generation will now see their parents at work, creating a labour force attachment, with all the benefits that brings: healthier mothers and better educated, emotionally, physically and mentally healthier children.

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