Income support for families with children: A comparison of neighbors [US and Canada]

Canadian Women Economists Network
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Large social safety net changes over 1990s and 2000s in US and Canada

- Last two decades saw big changes in the social safety net for both US and Canada
- Most of the backbone of today’s social safety nets did not exist
- Both countries moved in a similar direction:
  - away from welfare benefits and towards tax benefits
  - toward children and/or families with children
  - effort to reduce welfare cliff and promote labor force attachment
Scope of talk

• Review the major changes to the social safety net for low income families
• Contrast the approaches of the US and Canada
• Discuss the implications for two central outcomes: employment and poverty
• Focus is on benefits for children (and single parents with children)

This talk draws on my paper with Mark Stabile “How do the U.S. and Canadian social safety nets compare for women and children?” prepared for the NBER conference Public Policies in Canada and the United States
Changes to the Social Safety Net in the U.S.
Major changes in U.S.

- Decline in cash welfare: 1996 welfare reform, TANF replaces AFDC
- Though not a focus here, also a large expansion of public health insurance, particularly for children (Medicaid expansions, SCHIP introduction, Affordable Care Act)
- [Food Stamps: important program for low income families unchanged during this period]
Welfare Reform

Elements of Federal Welfare Reform

• Funding converted to a block grant
• States gain flexibility in how to use funds
• Time limits (5 years, some states as low as 2 years)
• Work requirements
• Financial sanctions

Entitlement ended.

Personal Responsibility and Work Opportunity Reconciliation Act of 1996
Signed on August 22, 1996
WHAT HAPPENED? Decline in Caseloads

Figure TANF 1. AFDC/TANF Families Receiving Income Assistance

Source: Indicators of Welfare Dependence 2014
WHAT HAPPENED? No longer a cash assistance program (No longer targeted on most disadvantaged)

FIGURE 3.
TANF Block Grant and State MOE Spending as a Share of Total, by Category, FY2014

Source: Bitler and Hoynes, The Hamilton Project.
Many states with less than 10% of spending for cash assistance

Source: Bitler and Hoynes, The Hamilton Project.
Less protection for families in poverty

**FIGURE 7.**
Number of Families Receiving AFDC/TANF Benefits for Every 100 Families with Children in Poverty, 1980–2014

Source: Bitler and Hoynes, The Hamilton Project.
In-Work Assistance: Earned Income Tax Credit

- In-work, tax based assistance; refundable tax credit
- Must have earned income to be eligible
- EITC was expanded through tax acts in 1986, 1990, and 1993 (and smaller expansions in 2001, 2009)
- Credit varies by number of children (small credit for childless)
Zooming out: U.S. Antipoverty programs for families with children

EITC is now the main antipoverty program for children in the U.S., followed by food stamps. Cash welfare is no longer providing much assistance.

Changes to the Social Safety Net in Canada
Major changes in Canada

- 1993: Canada Child Tax Benefit [universal: available in work and out of work]
- 1998: National Child Benefit Supplement [available in and out of work; more targeted on lower incomes]
- 2006: Universal Child Care Benefit [universal, for children<6]
- 2007: Working Income Tax Benefit [in–work, like the EITC but smaller]
- 2016: Canada Child Benefit (replaces CCTB, NCB, UCCB)
- Provincial benefits also shift over this period
Canada Child Benefit, July 2016

• $6,400 for each child up to age 5 and $5,400 for each child ages 6 – 17.
• Tax free
• Maximum benefit is received for all those with income less than $30,000; phased out at incomes beyond that.

Because of the recent implementation of the CCB, our analysis summarizes the programs and policies prior to its introduction.
Looking across the changes in both countries

**Similarities. Both countries:**

- Moved away from reliance on cash welfare with high phase-out rates and large work disincentives
- Targeted new benefits on children (or families with children)
- Introduced programs to reduce the *welfare cliff* [=the large decline in benefits associated with entering work]

**Differences**

- **CANADA** child benefits mostly are **universal** (not tied to work)
- **U.S.** child benefits mostly **require work**; aren’t universal
- **CANADA** provides more protection (both in 1992 and 2015), more assistance.
U.S. Programs in 1992 (2015 USD)

Source: Hoynes and Stabile (2017); calculations are for a single adult with two children living in Colorado.
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Economic Predictions

- **CANADA & U.S.**: changes in policies encourage work → employment should rise
- **CANADA & U.S.**: poverty among working families should fall
- **U.S.**: poverty for *nonworking* families should rise (deep poverty should rise)
- **CANADA**: poverty should be lower (and fall more) compared to the US
- **U.S.**: employment should be higher (and rise more) compared to Canada
Employment Rates in US and Canada
Single women 25-54 with less than college degree

Women without children form a control group (little policy change for this group during this time)

Source: Hoynes and Stabile (2017); US data is from the Current Population Survey (CPS) and Canadian data is from the Survey of Labour and Income Dynamics (SLID). Employment is defined as any work last year.
Findings for Employment

- Employment rates for single mothers increased over this time period
- The employment gap (with single women without children) closes
- Post-2000 US employment turns down for all groups
- Post-2000 Canada employment slows but continues upward; overtaking the U.S.

Source: Hoynes and Stabile (2017); US data is from the Current Population Survey (CPS) and Canadian data is from the Survey of Labour and Income Dynamics (SLID). Employment is defined as any work last year.
Differences in trends post-2000 are to a large degree due to differences in the strength of the labor market across the two countries.

Absolute Poverty Rates in US and Canada
Single women 25-54 with less than college degree

We use the OECD poverty definition where the poverty line is 60% of equivalized income. We anchor the poverty line in 1996 and then adjust for changes in prices for the other years.

Source: Hoynes and Stabile (2017); US data is from the CPS and Canadian data is from the SLID.
Findings for Absolute Poverty

- Poverty rates for single mothers declined over this time period
- Post-2000 US poverty improvements stagnate for all groups
- Post-2000 Canada poverty for single mothers continues dramatic decline; rates are now far below the U.S.

Source: Hoynes and Stabile (2017); US data is from the Current Population Survey (CPS) and Canadian data is from the Survey of Labour and Income Dynamics (SLID). Employment is defined as any work last year.
In both countries part of the decline in poverty is due to changes in market income; yet a growing part of the decline in poverty over the 2000s is due to the effects of taxes and transfers. This is particularly so for Canada.

Source: Hoynes and Stabile (2017); US data is from the Current Population Survey (CPS) and Canadian data is from the Survey of Labour and Income Dynamics (SLID). Employment is defined as any work last year.
Concluding thoughts

• The introduction of the CCTB/NCB (and its successor the CCB) in Canada and welfare reform and the EITC expansion in the US represent major changes in the structure of the social safety net for single mothers in both countries.

• They both reflect a move away from relying primarily on traditional welfare benefits.

• They both encourage labor force participation either through having work requirements (US) or lessening the welfare cliff with the introduction of child benefits that phase out at higher levels (Canada) — although clearly work incentives are stronger in the U.S. programs.

• Over these two decades of change employment rates are up for single mothers (compared to single women without children). The larger effects in Canada are in part due to the stronger labor market (since 2000).

• The commitment to providing universal child benefits in Canada is reflected in the dramatic decline in absolute poverty.