

## Op-Ed: Surprise! Anti-Poverty Policy Reduced Poverty

Poverty is bad. Insufficient income very often leads to insufficient consumption of the necessities of life, and so can result in lousy health, unproductive work lives, and bad nutrition. It is even worse for children, because children spend a lot of their time and energy investing in their futures (even if they don't know it). Good physical and mental health make for strong learning outcomes in school, and their lack makes for poor learning and poor grades in the short term and low productivity and low income in the long term. This is why growing up poor very often leads to an adult life in poverty.

For more than 50 years, the government of Canada has been quite active in trying to alleviate poverty by giving money to low income households through *income transfers*. These income transfers have had many names over the years, but they have all shared the goal of reducing poverty. They have mainly targeted children and the elderly.

In the past two decades, these programs have been administered by Canada Revenue Agency. Because they know how to find nearly everyone, they are able to easily and effectively find low-income households and transfer money to them, either through direct deposit or cheques. Consequently, more than 90% of households eligible for child benefits actually receive them. Further, the money is delivered monthly and in advance (rather than as part of a tax refund), so households can count on receiving the money smoothly and predictably.

The amount of income transfers available to a household with children was pretty stable over 2005 to 2015. But, in mid 2016, there was a big expansion in income transfers to children: the Canada Child Benefit (CCB) replaced a variety of older programs, and raised the amount that low-income households received in income transfers by about half. The CCB is expensive: it costs about \$25 billion per year. But, because it replaced other programs, the cost increase after 2016 was more like \$5 billion per year.

Currently, a household with children that has less than about \$30,000 per year in income receives a CCB of roughly \$500 per child per month. These benefits are phased out slowly---more than 80 per cent of households with children will receive some CCB. Because they phase out so slowly, the CCB has little effect on the incentive of low-income households to work. That is, nobody is reducing their work effort so as to retain these benefits.

For households with low income, the CCB has big impact on their spending power. For example, a household with 2 children and employment income of \$40,000 would receive roughly \$14,000 per year in child benefits, potentially raising their consumption by more than a third.

The increase in income transfers in 2016 reduced poverty substantially. The poverty rate over 2013 to 2015 was roughly 12.0 per cent. This means that 12 per cent of all people in Canada lived in households with total income less than the poverty line. (Canada's official poverty line is called the "Market Basket Measure", and it is calculated by asking how much it costs to buy the necessities of life in each location in Canada.) The increased income transfers happened halfway through 2016, and the poverty rate in 2016 dropped to 10.6 per cent. Both income transfer

programs delivered money for the full year in 2017, and in that year the poverty rate was 9.5 per cent. This means that there were 700,000 fewer people living in poverty in 2017 than in 2013.

How do we know that income transfers were the reason that 700,000 people were lifted out of poverty? Couldn't the economy have just improved? The key reason we can attribute this reduction in poverty to the increases in income transfers is that the main people lifted out of poverty were children. For children, the poverty rate dropped much more dramatically than for the population as a whole. **Child poverty fell by more than a third** from 14.5 per cent in 2013 to 9.0 per cent in 2017. There were 350,000 fewer children living in poverty in 2017 than in 2013. Children represent half the people pulled out of poverty even though they are only a quarter of Canada's population.

Reducing child poverty by a third is a huge achievement. It did not happen as a result of discovering how to reduce child poverty: we have known for five decades that income transfers are effective. It happened because we made the reduction of child poverty a policy priority. It happened because we spent billions of new dollars on income transfer programs. And they work.