

CRDCN

Research Highlight

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Income and Children's Outcomes in Canada

Since the federal government introduced the first family allowance program in 1945, income transfers to families with children have been a basic social policy in Canada. Though prompted by a range of goals, a central expectation motivating these kinds of transfers is that higher family income will lead to better child outcomes, especially in low-income families.

Using Canadian evidence from 34 relevant studies, including from longitudinal surveys, this synthesis critically examines this assumption and draws implications for public policy and future research: What can we really expect from government transfers, such as child benefits, that increase household income? Do they really improve child outcomes?

Results and Policy Implications

In essence, all other things being equal, the research specifically examining the causal impact of income suggests that higher income does improve a range of child outcomes (cognitive, behavioural, social and emotional) but that the improvement is small in magnitude. Much of the correlation between lower income and worse child outcomes is in fact explained by other factors that often go along with low income; income itself has a relatively small influence on child outcomes when researchers account for these other factors.

From a policy perspective, this finding suggests that we cannot expect income transfers to low-income families to vastly improve child outcomes, and that focusing exclusively on income to close the gap between children from low- and higher-income families, via transfers or otherwise, is unlikely to be effective.

However, aside from statistical significance and magnitude of impact, other non-causal studies offer a more nuanced portrait and gives insight into the nature of the relationship between income and child outcomes. In terms of public policy, these studies suggest that income transfers could be more effective if they were targeted:

- Income's effect on child outcomes is non-linear — an additional dollar of income has a larger effect on lower-income children. If the goal is to improve child outcomes, families with lower income should be given significantly more benefits than those with more income.



About this Research Highlight

This *Research Highlight* draws on Annie McEwen and Jennifer Stewart, "The Relationship Between Income and Children's Outcomes: A Synthesis of Canadian Evidence", *CRDCN Synthesis Series*, April 2014.

It was prepared by Sarah Fortin, Knowledge Transfer Coordinator at the Canadian Research Data Centre Network (CRDCN), an infrastructure created to improve researchers' access to Statistics Canada detailed microdata files, to expand the pool of skilled quantitative researchers and to improve communication between social scientists and research users.

- Income's effect on child outcomes displays diminishing marginal returns — each additional dollar of income has a smaller impact on child outcomes than the previous dollar. The evidence suggests that income transfers will have no significant effect on child outcomes beyond a certain threshold (C\$60,000 year). Currently, many child benefits are designed progressively and decrease as income increases, but many of these extend well past this threshold.
- Income matters more in the early years of life. Since early outcomes persist through childhood, child benefit policies should be differentiated based on age, with higher transfers for younger children.
- Income also affects the movement between positive and negative trajectories: poor outcomes are more persistent and have more deleterious long-term effects for lower-income children. Middle- and high-income children are not immune from poor outcomes, but they are much more likely to be on a trajectory toward positive outcomes than lower-income children.

Knowledge gaps and the need for data

Canadian research on the effect of income on child outcomes has come a long way in the past 20 years. Better data, better data availability, and advancing techniques have allowed for more sophisticated research. However, untangling the complex relationship between income and child outcomes remains a challenge and requires better data and more analysis. Notably, we need to do more to address the following knowledge gaps:

- We need to further explore how longer period of low- income and how income dynamics throughout childhood affect children.
- We need to examine children outcomes beyond early childhood, notably in middle school and high school.
- We need to collect data and analyze a wider range of non-cognitive outcomes, such as mental health and self-control.
- We need to further examine the effect of income on various some subsets of the population, including gender.

Unfortunately, the lack of a national data collection on Canadian children will thwart efforts to investigate these questions. The National Longitudinal Survey of Children and Youth (NLSCY) - which followed the same children from 1994 to 2008 and proved essential to examine child development in Canada - is now inactive. Given the importance of domestic institutions such as public health care and public education, we cannot rely on international data to understand the development of Canadian children. Without a high-quality national longitudinal survey, we can only speculate about the current well-being and development of Canadian children.