Low income and changes in low income among children

Wen-Hao Chen and Miles Corak
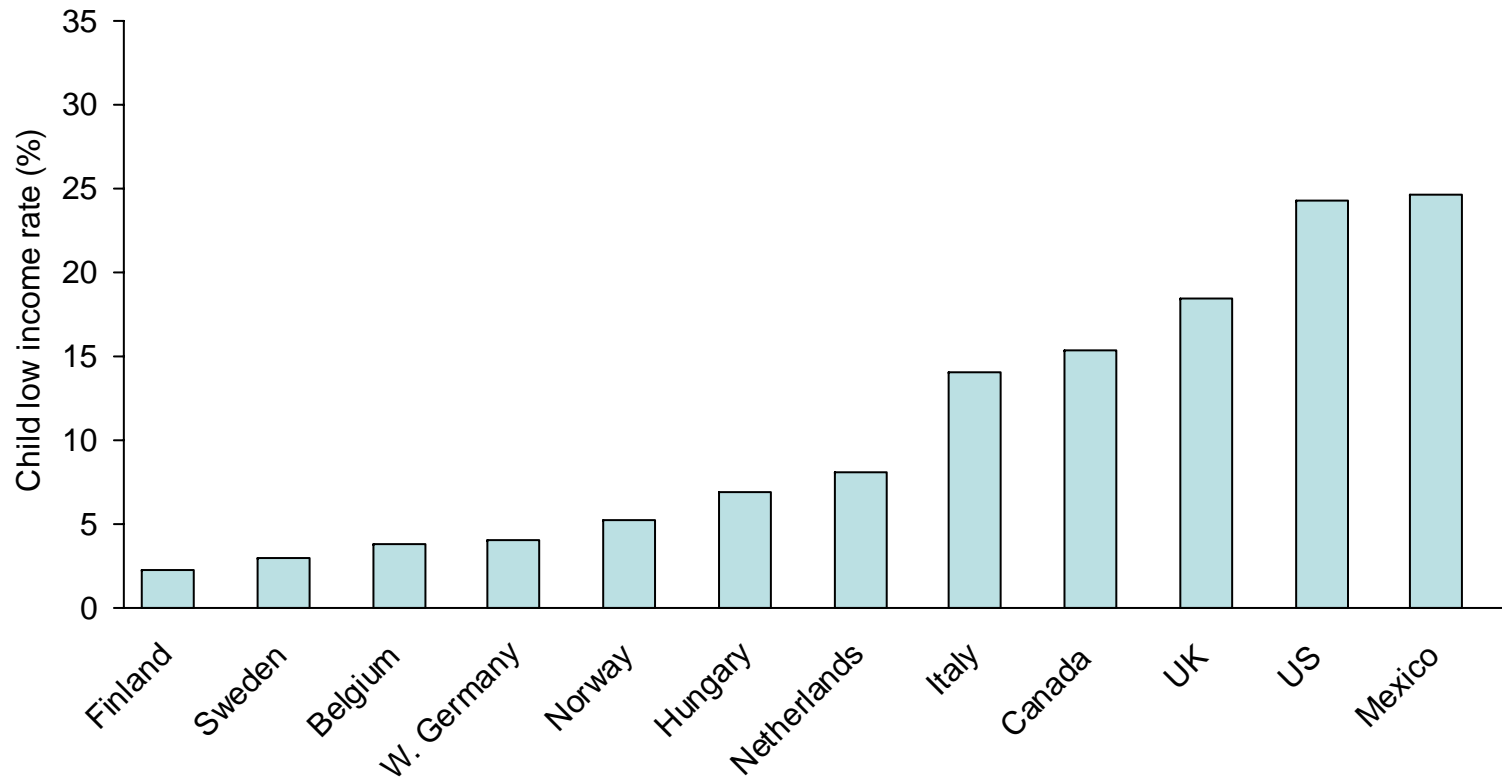
Family and Labour Studies
Statistics Canada

Presentation for the conference of the Canadian Research Data Centre Network "Canadian families under pressure?"
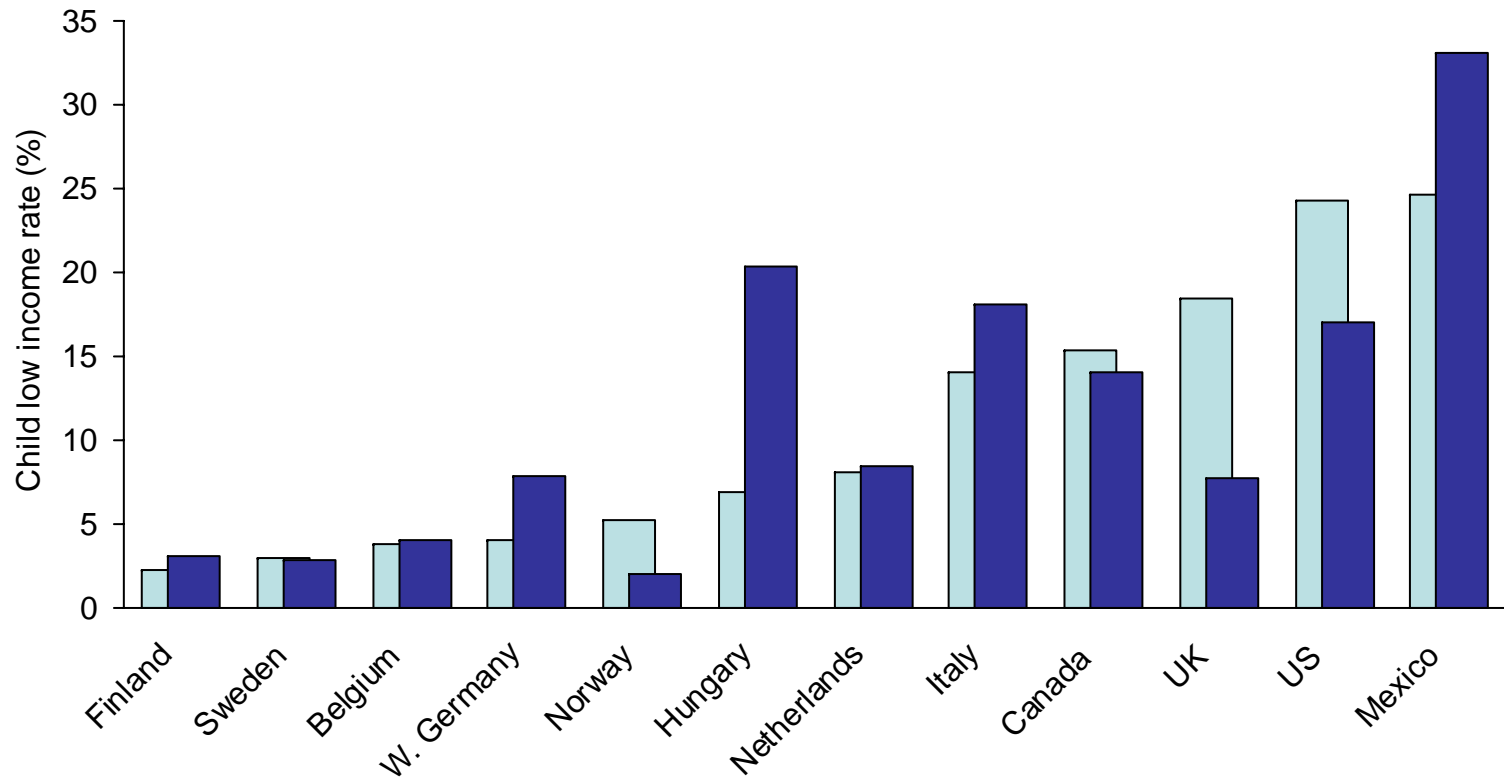
Montréal, May 2005

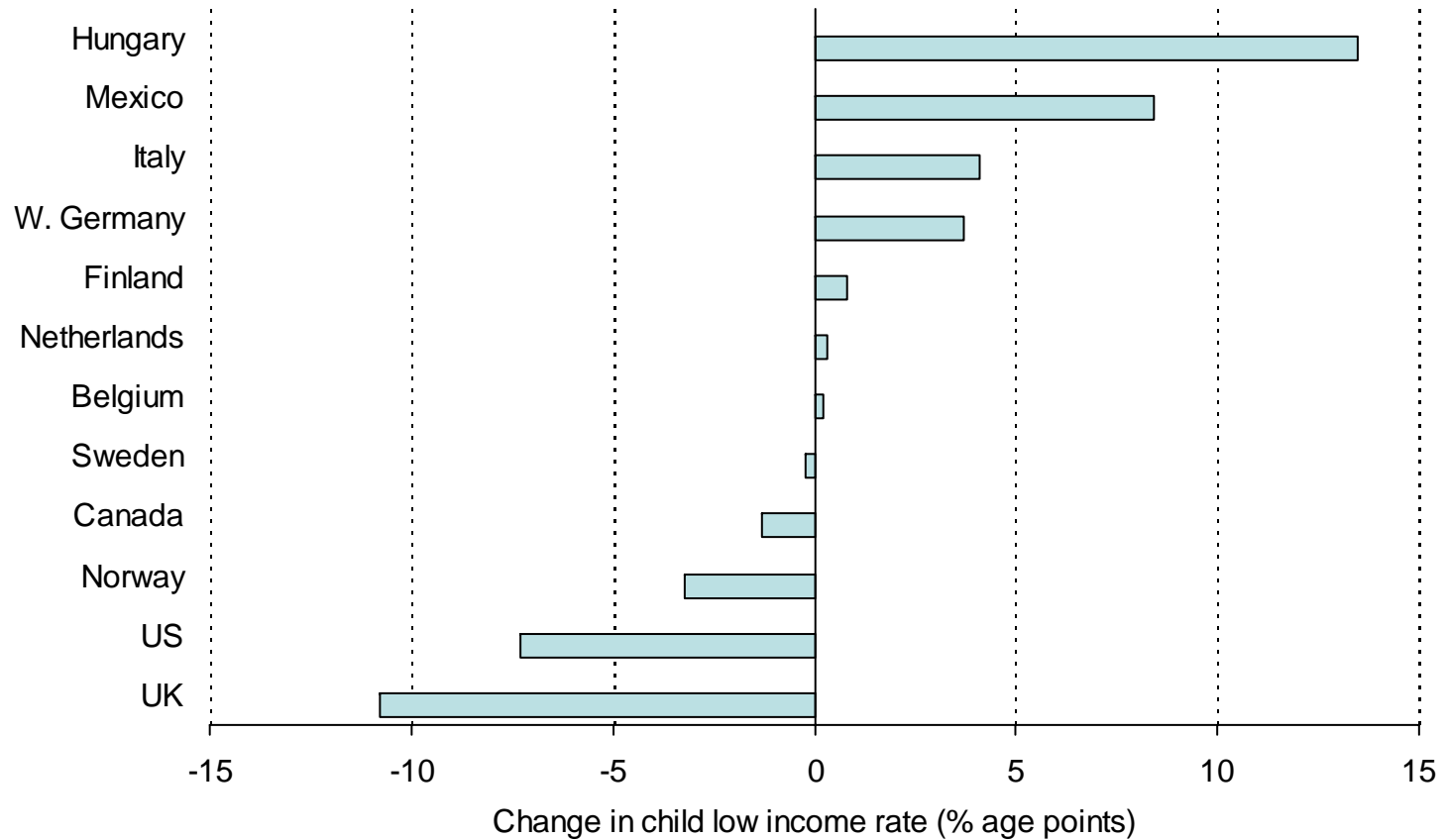# Child low income rates in 12 OECD countries during the early 1990s

Child low income rates in 12 OECD countries during the early 1990s … and about 10 years later

Changes in child low income rates since the early 1990s

Change in child low income rate (% age points)

A major observation and a motivating question

1. **Defined in this way there has been little progress in reducing child low income in these relatively rich countries**

    --- *child low income rates fell in unambiguously in only three out of 12 countries, while in four countries there were significant increases*

    --- *this is based on a rather weak test of progress, a low income line fixed as 50% of the national median income at the time the Convention on the Rights of the Child came into force*

2. **What are the major reasons for these patterns?**

Families, Markets, and the State determine the income status of chidren and the likelihood of falling into low income

Families, Markets, and the State determine the income status of chidren and the likelihood of falling into low income

1. *Families / Demographics*

- average age of parents
- University degree
  - Father
  - Mother
- Number of children per household
- Living with a single parent

Families, Markets, and the State determine the income status of chidren and the likelihood of falling into low income

1. Families / Demographics

2. Labour markets

- Parents working
  - Father
  - Mother
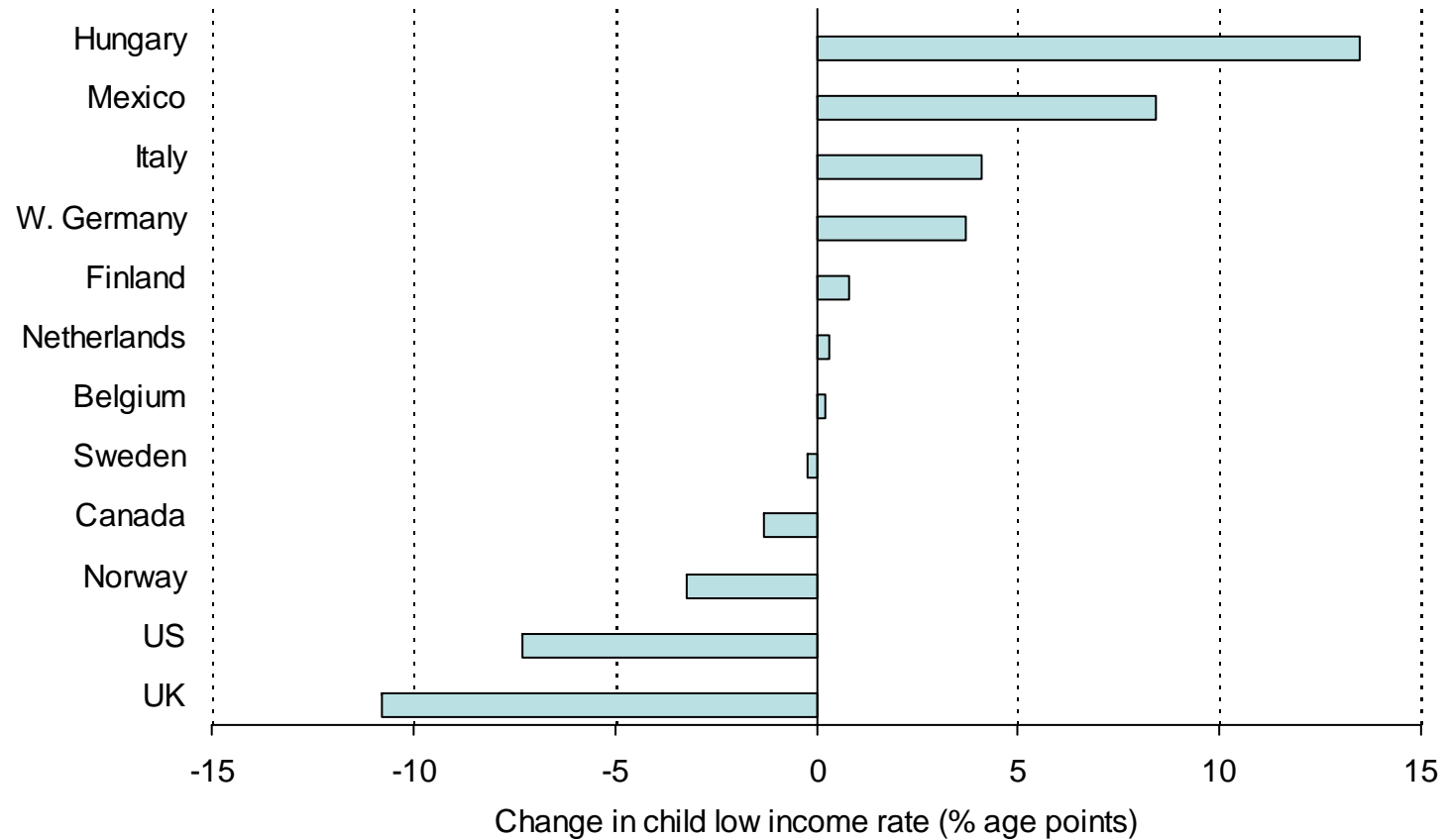- Annual earnings of father
- Annual earnings of mother

Families, Markets, and the State determine the income status of chidren and the likelihood of falling into low income

1. **Families / Demographics**

2. **Labour markets**

3. **Public transfers**
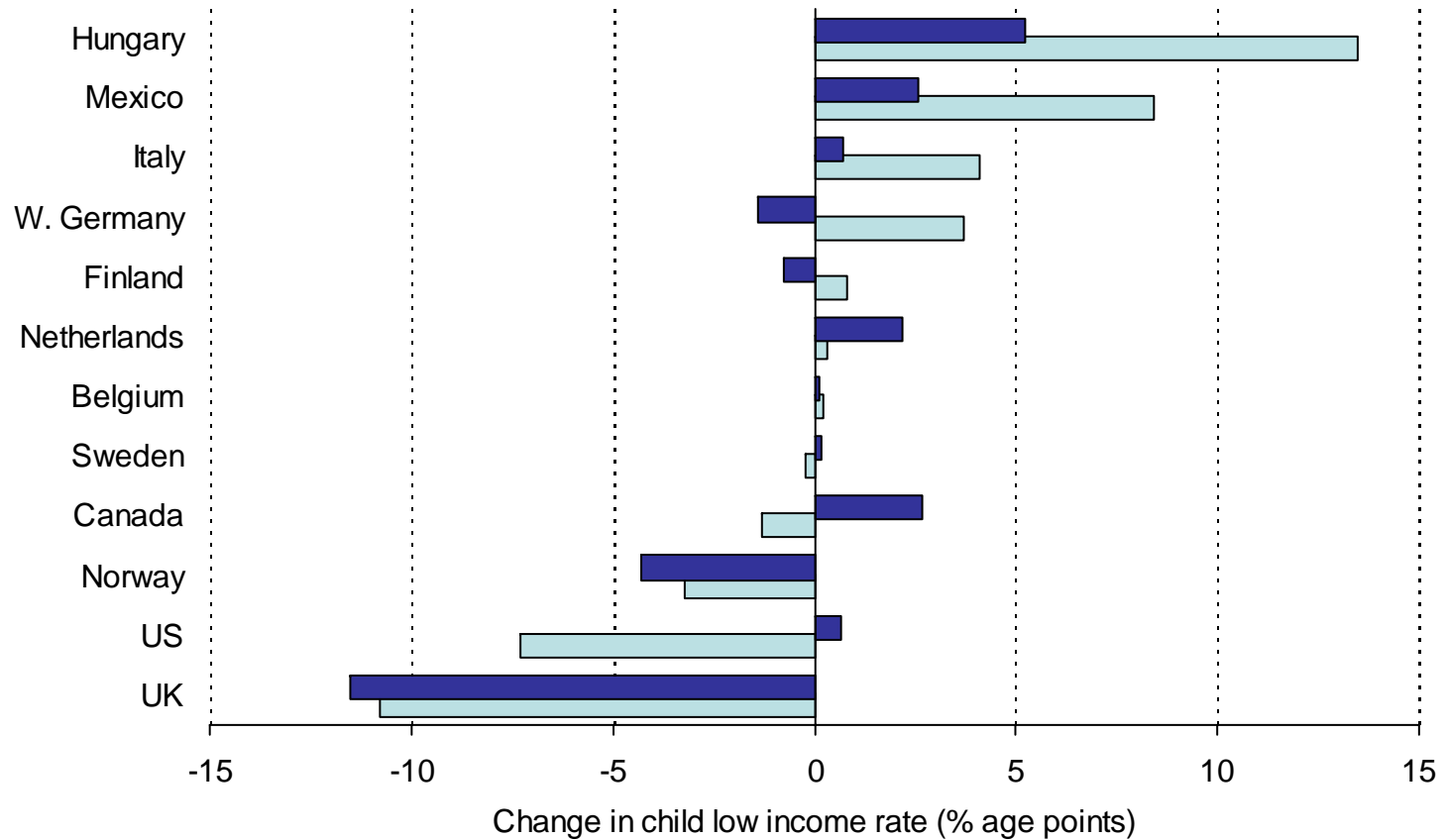   - Amount of transfer income received from the state

Canada

Changes in child low income rates since the early 1990s

Changes in child low income rates since the early 1990s … and the role of changes in government transfers

Change in child low income rate (% age points)

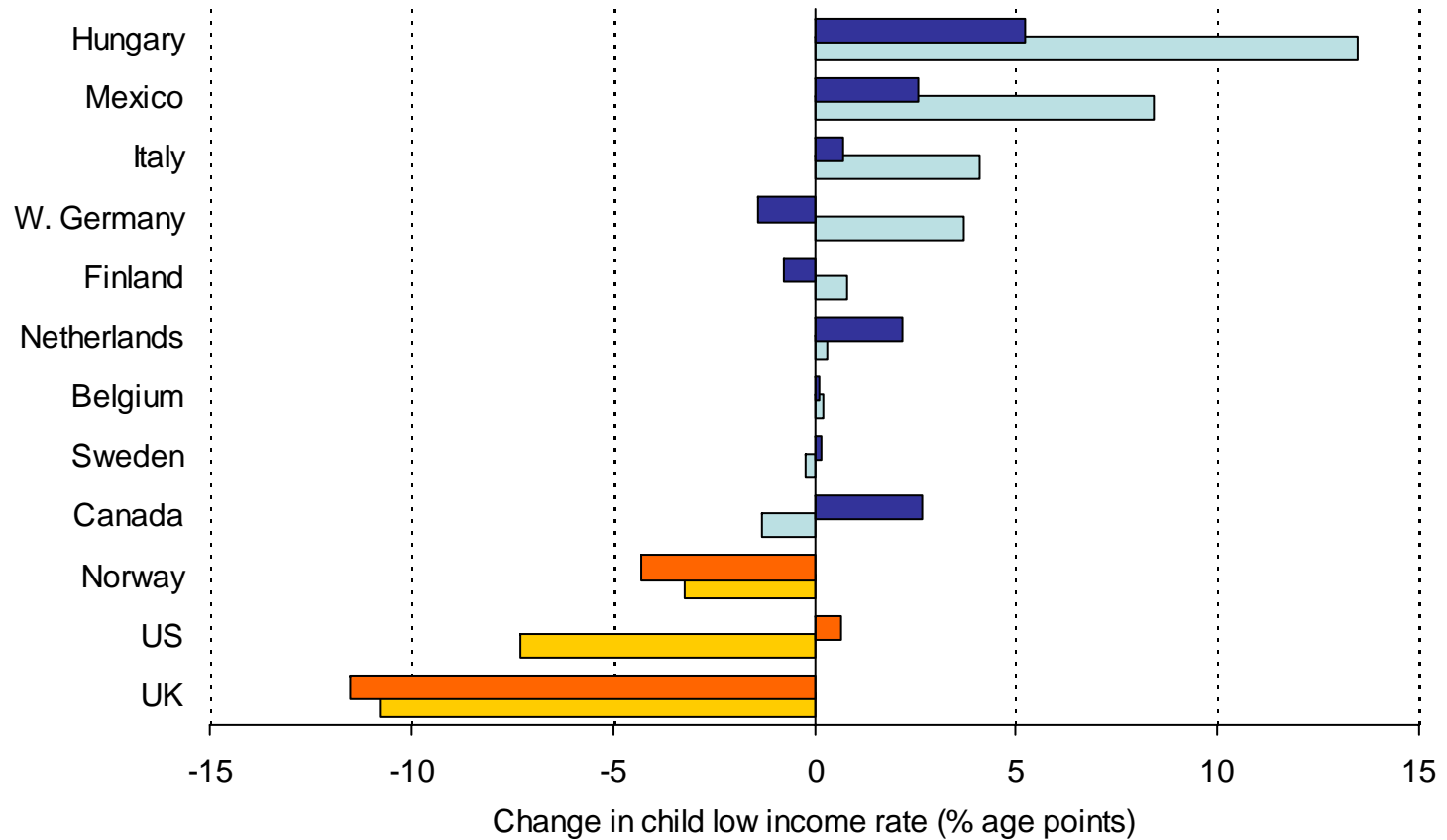# Changes in child low income rates since the early 1990s … and the role of changes in government transfers

Change in child low income rate (% age points)

In the US a strong labour market – particularly employment and earnings of mothers – lowered child poverty rates

The fall in low income among children in Norway is due to changes in transfer payments
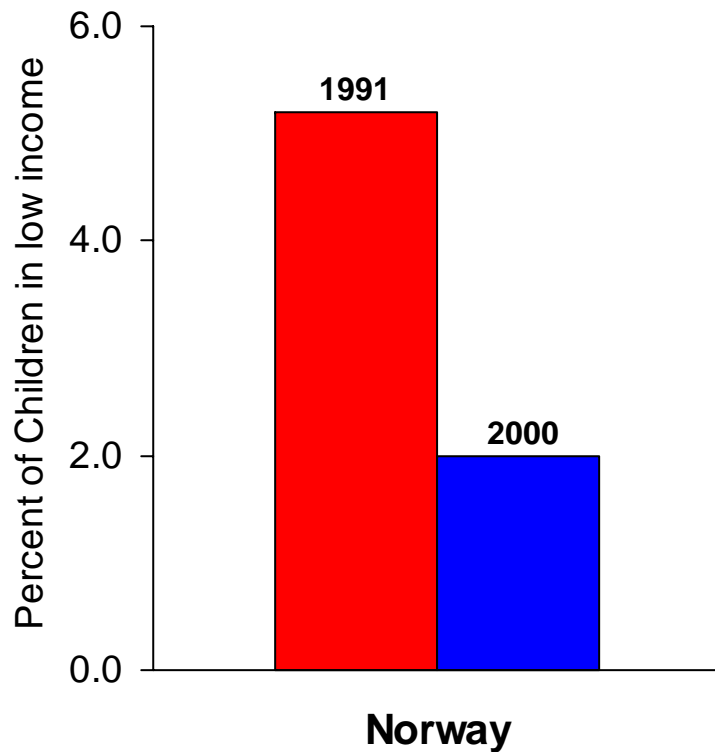
Percent of Children in low income

1991

2000

Norway

3.0

Other

2.3

Demographics
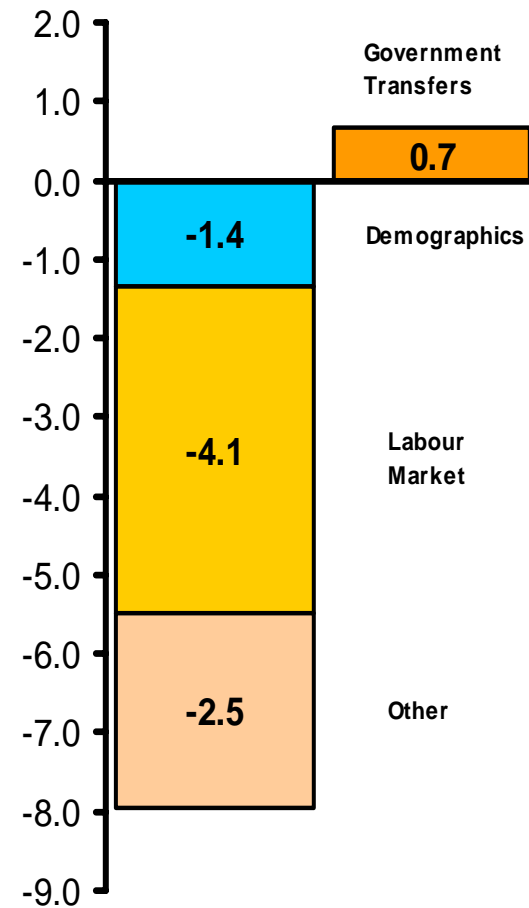-0.6

Labour Market
-0.6

Government Transfers
-4.3

Changes in child low income rates since the early 1990s … and the role of changes in government transfers

Change in child low income rate (% age points)

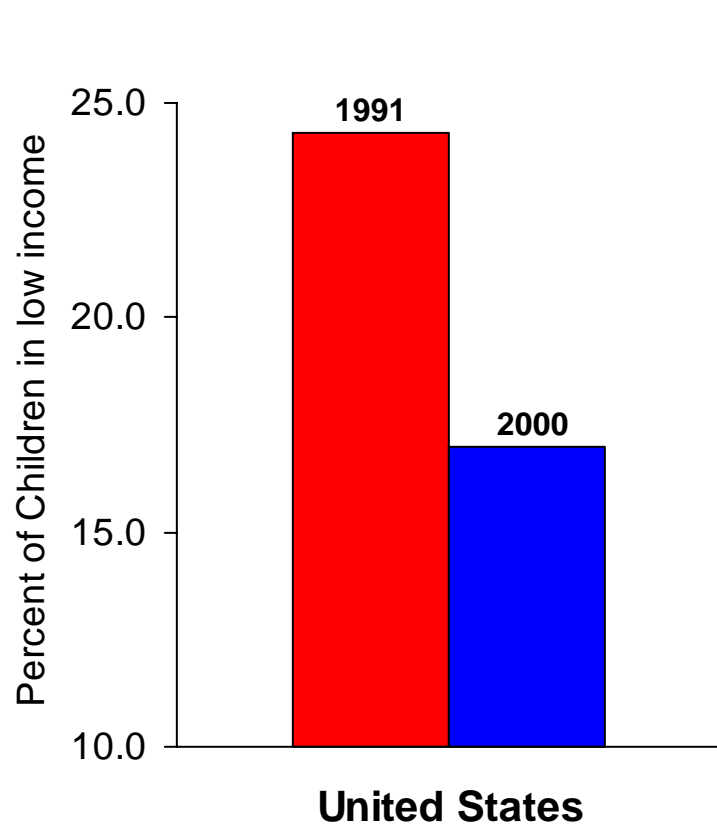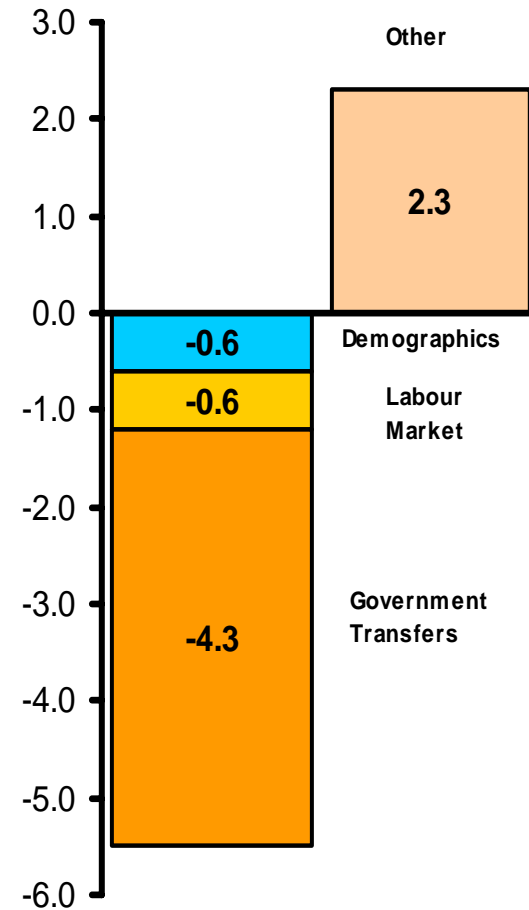# Changes in child low income rates since the early 1990s … and the role of changes in government transfers
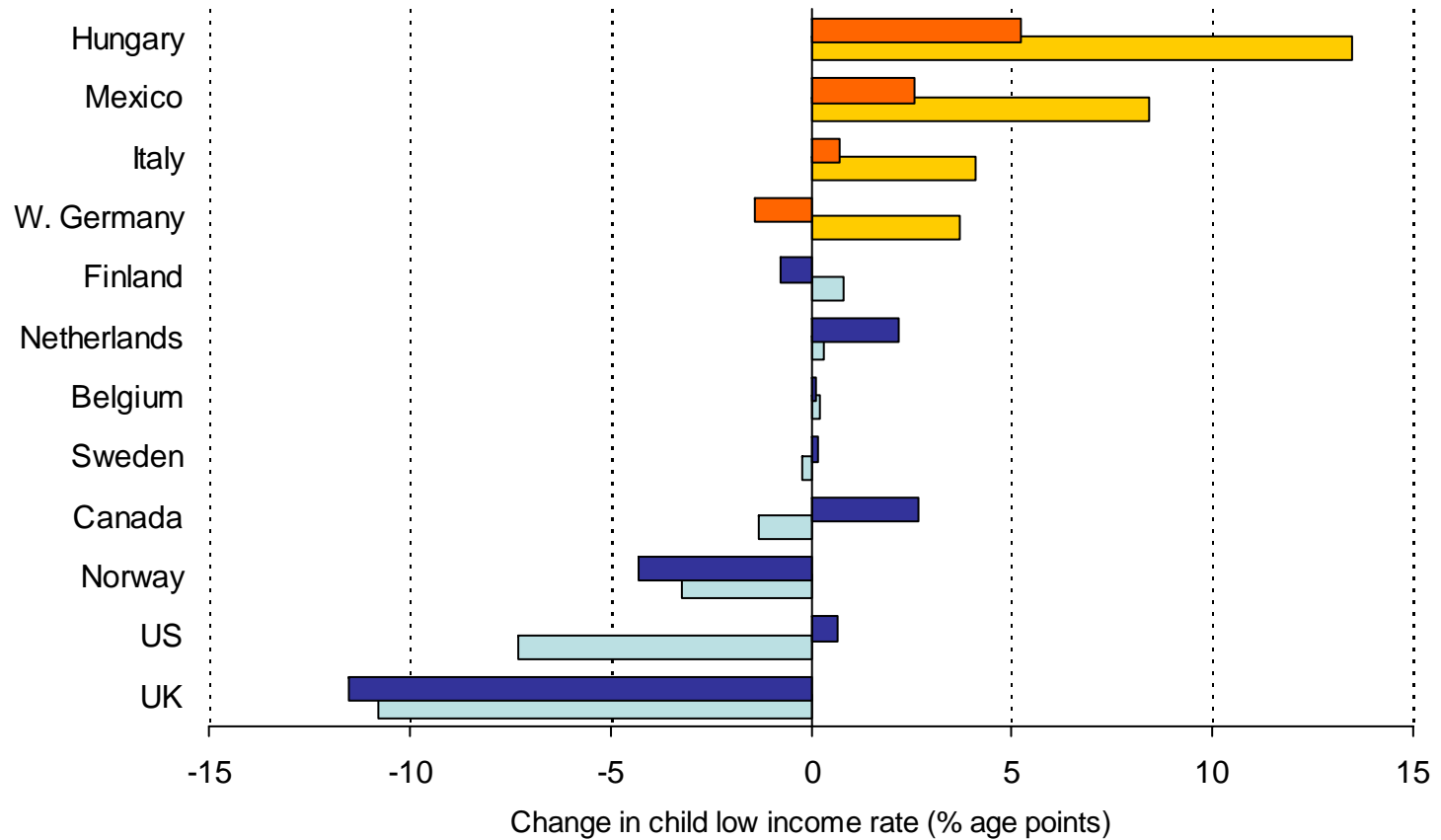
Change in child low income rate (% age points)
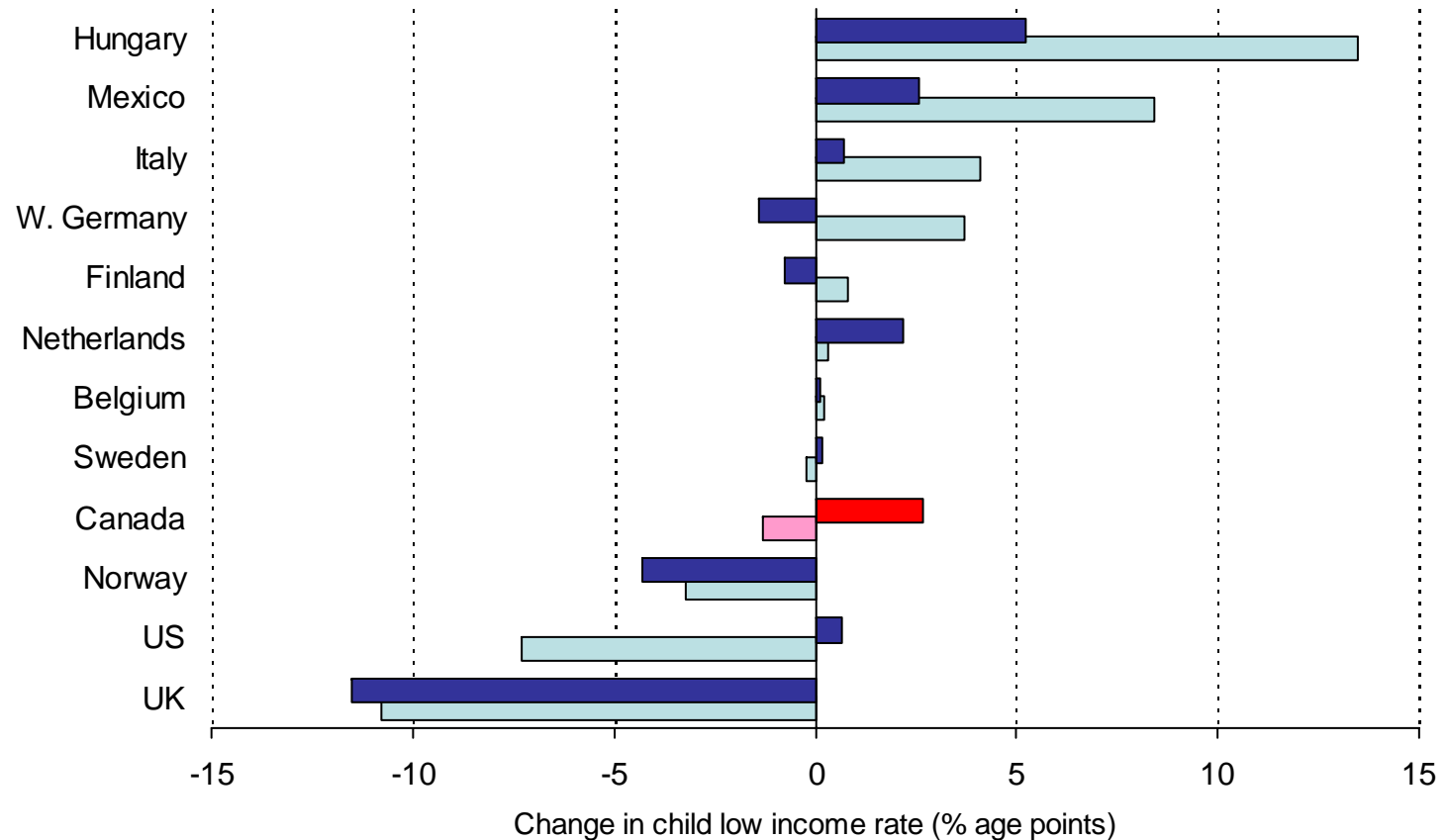
In Canada the labour market and demographic factors led to declines in child low income rates, but changes in transfers to increases --- based upon SCF and SLID
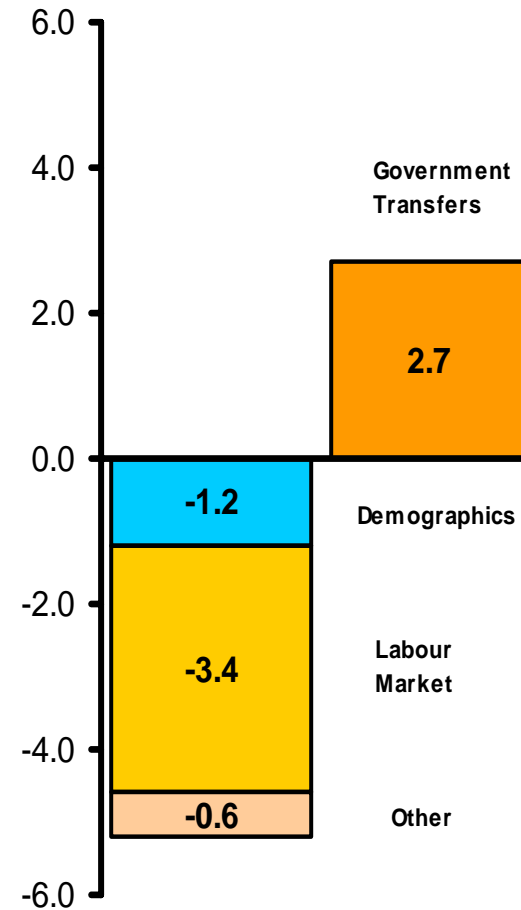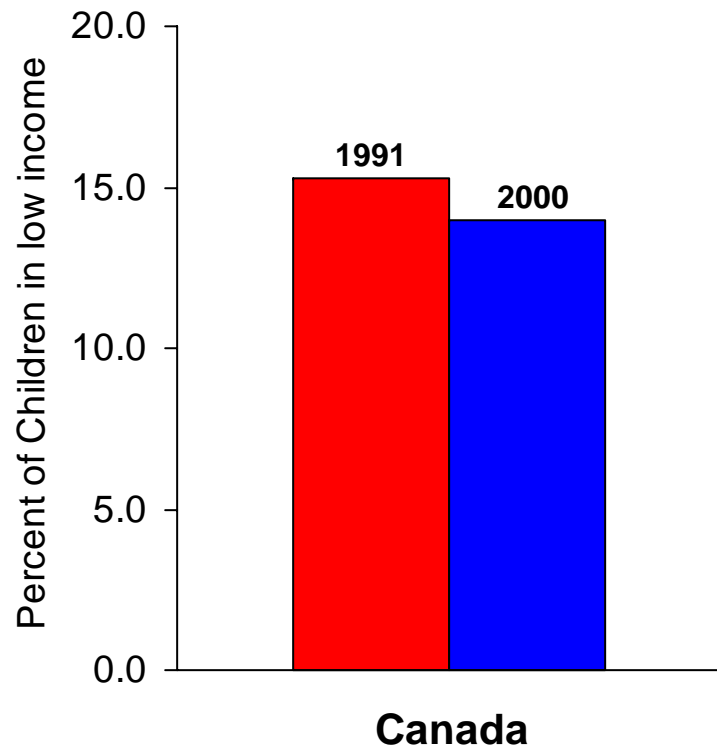
With Census data between 1990 and 2000 … the labour market is neutral while demographics and transfers imply a slight fall in low income rates

Percent of Children in low income

Canada

Other 0.3

Demographics -0.6

Government Transfers -0.6

Statistics Canada / Statistique Canada

Canada
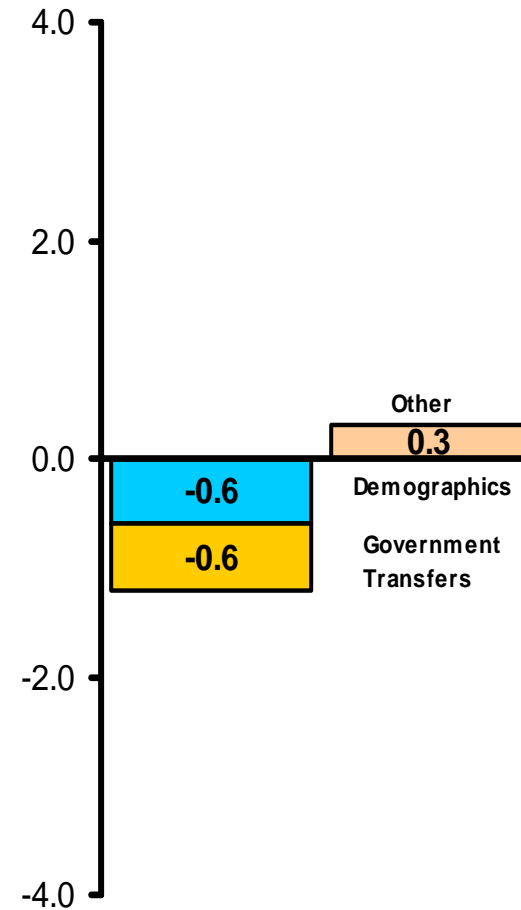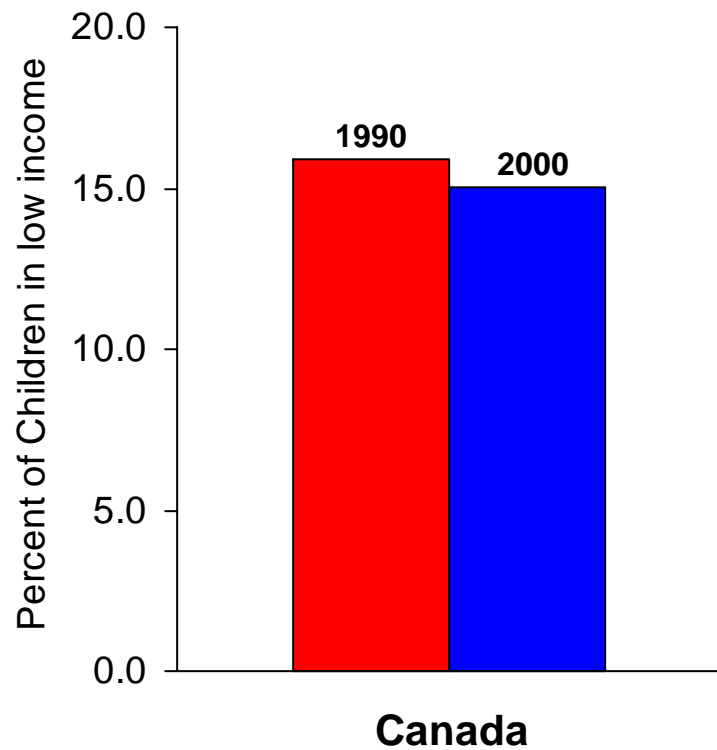
Three major conclusions

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1. *In general*

   --- Family and demographic changes play only a limited role in determining child poverty dynamics

   - *Mexico may be an important exception but labour markets and government policy changes are the major determining factors*

Three major conclusions

1. **In general**

    --- Family and demographic changes play only a limited role in determining child poverty dynamics

    - *Mexico may be an important exception but labour markets and government policy changes are the major determining factors*

2. **Where child poverty ↓**

    --- there is no single road to lower child poverty

    - *Need to appreciate how social policy and labour markets interact*
    - *The US and Norway offer contrasting examples*

Three major conclusions

1. **In general**

   --- Family and demographic changes play only a limited role in determining child poverty dynamics

   - **Mexico may be an important exception but labour markets and government policy changes are the major determining factors**

2. **Where child low income ↓**

   --- there is no single road to lower rates

   - **Need to appreciate how social policy and labour markets interact**
   - **The US and Norway offer contrasting examples**

3. **Where child low income ↑**

   --- adverse labour markets are the root cause but what varies is the response of the public sector

   - **In countries experiencing the largest increases in child poverty changes in social policy exacerbated rather than attenuated adverse labour market shocks**

Statistics Canada   Statistique Canada

Canada

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In Mexico the labour market and declines in transfers increased child low income rates, but a fall in the number of children per household was a countervailing force

Percent of Children in low income

35.0

1998

30.0

25.0

1989

20.0

Mexico

15.0

Other — 3.7

10.0

Government Transfers — 2.6

5.0

Labour Market — 6.5

0.0

-4.4   Demographics

-5.0
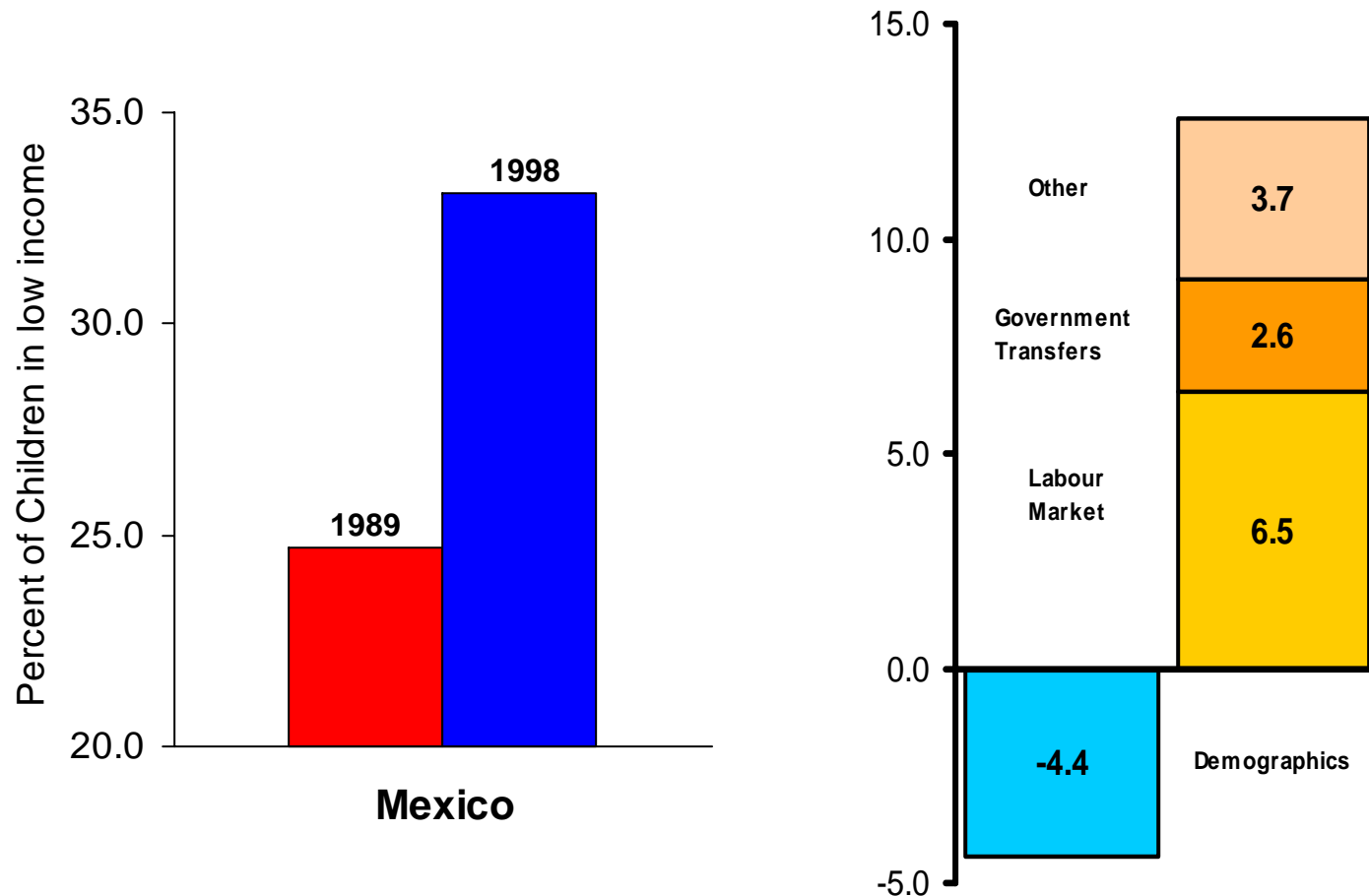
Demographic/family changes did not have an impact on child incomes

Children population, BHPS
Adjusted for Demographic Factors

— 2001 unadjusted
- - - with 1992 Demographic Factors

poverty rate -->
8.55 (dash)

<-- poverty rate
7.8 (solid)

Kernel Density

Equivalent Individual Income

* 1992 Poverty line
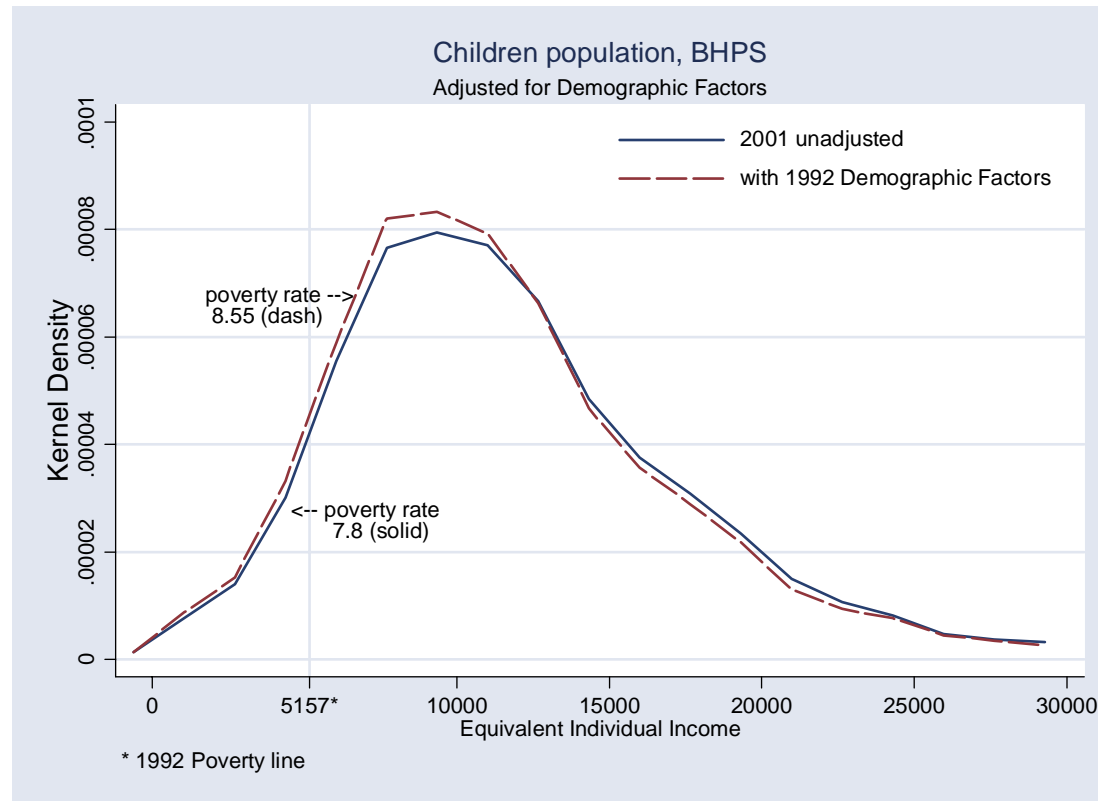
Labour markets had a significant impact ...

Children population, BHPS
Adjusted for Labour market Factors

- 2001 with 1992 Demographic Factors
- with 1992 Labour Factors

poverty rate -->
12.05 (dash)

<-- poverty rate
8.55 (solid)

Kernel Density

Equivalent Individual Income

* 1992 Poverty line

Statistics Canada / Statistique Canada

Canada
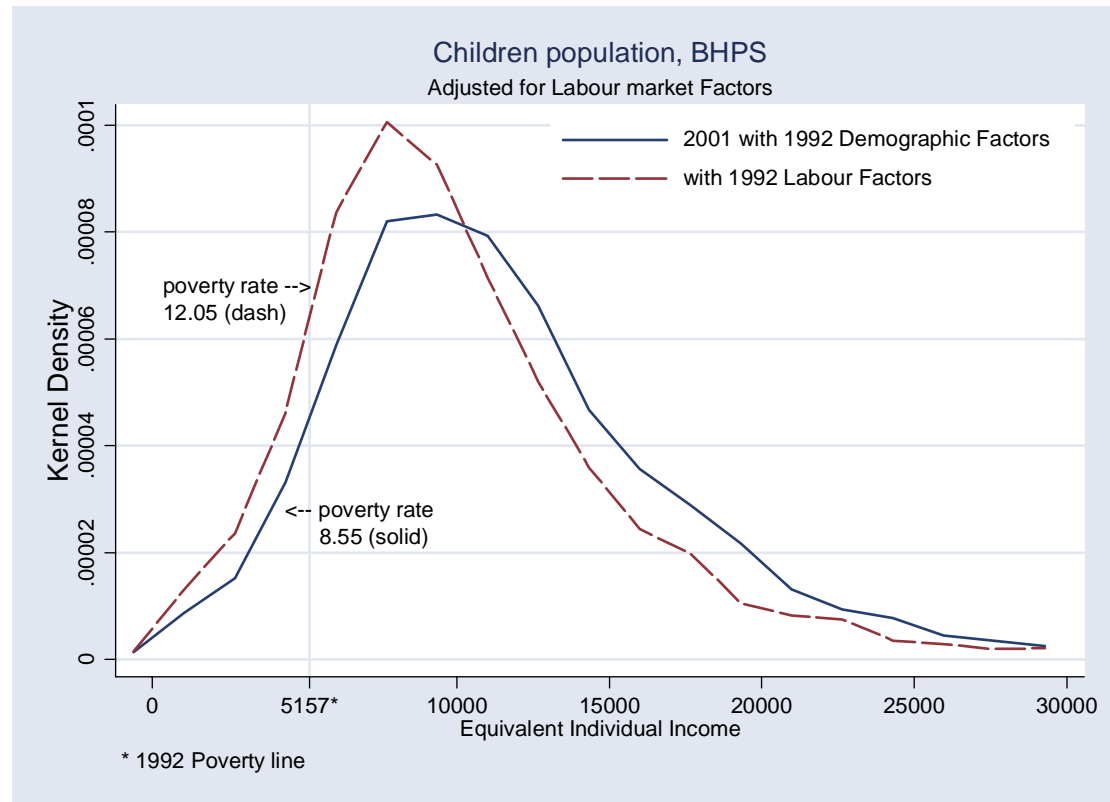
… but so did changes in government transfers

Children population, BHPS
Adjusted for Gov't Transfers

- 2001 with 1992 Demographic/Labour Factors
- with 1992 Gov't Transfers

poverty rate -->
21.7 (dash)

<-- poverty rate
12.05 (solid)

Kernel Density

Equivalent Individual Income

* 1992 Poverty line
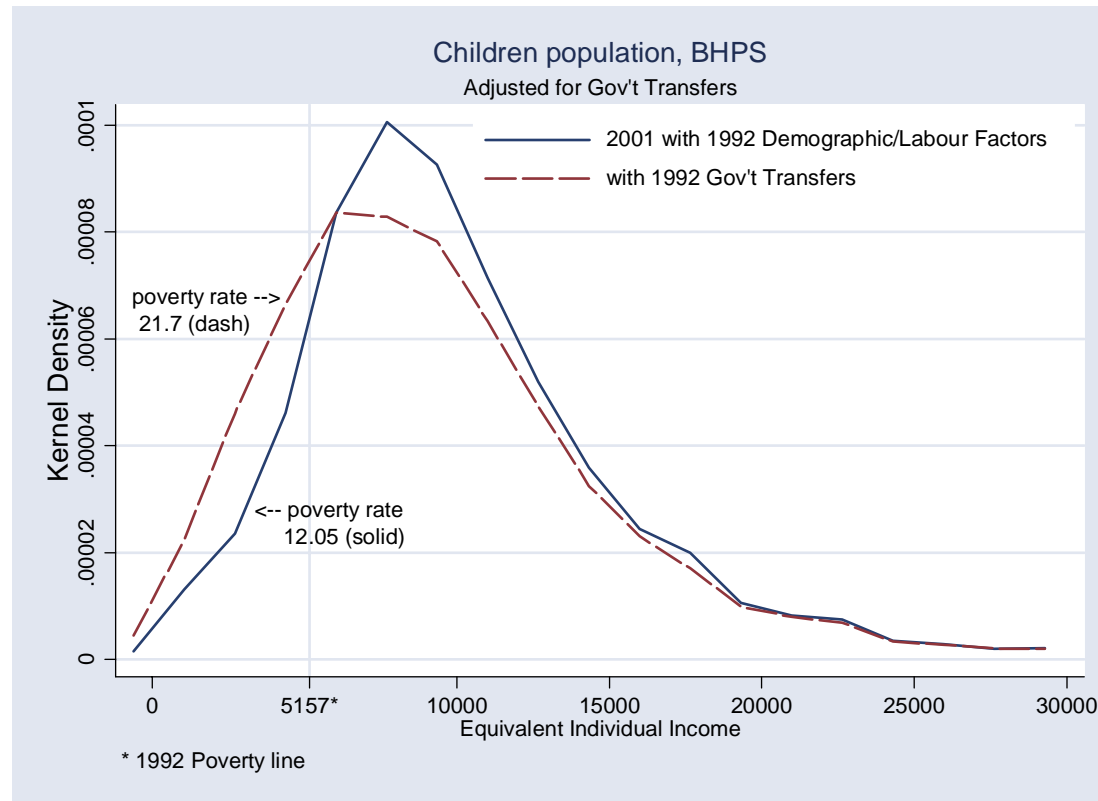
Together these three broad sets of forces do a good job of explaining the changes in the UK over this period

Children population, BHPS

Original 2001 Density
Original 1992 Density
2001 with all factors at 1992 level

Simulated 1992
poverty rate --->
21.7 (dot)

Original 2001
<-- poverty rate*
7.8 (solid)

Original 1992
<------- poverty rate
21.0 (dash)

Kernel Density

Equivalent Individual Income

* Based on 1992 Poverty line