CHILDREN IN POOR FAMILIES: DOES THE SOURCE OF FAMILY INCOME CHANGE THE PICTURE?

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Abstract

This paper focuses on children who have been statistically classified as "poor" or "in poverty" because their families' resources fall below a specified "poverty threshold". The measure of poverty used is based on family income and accommodation costs, standardised to take account of family size. The paper examines (a) trends in the source of income for children below the specified poverty threshold and (b) the extent to which such children are found to differ in their living standards, characteristics and circumstances according to whether the main source of family income is from government transfers or market income. The analysis shows that the proportion of children below the specified poverty threshold rose from the late 1980s, peaked in 1994, and then fell back slightly. The proportion of children with government transfers as their main source of family income also rose. Standard of living data show that poor children reliant on government transfers are more likely to be subject to restrictions in key items of consumption than are poor children in families with market income. The results demonstrate that there is considerable variation in the living standards of those below the poverty threshold, and suggest that poor children in families with government transfers as the main income source are a particularly vulnerable group and warrant a policy focus that recognises their multiple sources of disadvantage.

INTRODUCTION

There is an extensive body of research suggesting that low parental income in childhood is commonly associated with a range of negative outcomes for children. These include lower educational attainment, reduced participation in employment as

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adults, and lower adult earnings (Child Poverty Action Group Inc. 2001). The strength of association increases with the persistence of the experience of low income, and can vary according to the stage in a child's life when that experience occurs (Hill and Jenkins 1999, Bradbury et al 2000).

A recent analysis of literature on the statistical associations between low family income and child outcomes concludes that these associations arise through complex processes that involve more than just an income effect, and partly reflect the tendency of other child risk factors to be correlated with low parental income (Mayer 2002). The persistent association between parental income and children's outcomes is partly due to family background characteristics that result in both low parental income and worse life chances for children. However, after mediating factors are taken into account, it appears that income has a modest effect on child outcomes.

There is debate about just how parental income affects child outcomes. The relationship appears to be non-linear, with negative effects being largest over the income range that distinguishes partial deprivation to severe deprivation. Families that are poor for a long time tend to be different from other families. Persistently poor families are much more likely than other families to have a caregiver suffering from depression, anxiety or other psychological problems, physical health problems, low cognitive skills, drug or alcohol abuse or other problems. These factors, taken in combination, reduce the likelihood of consistent and nurturing parenting.

Finally, receipt of welfare income is negatively associated with children's outcomes, even when level of income is controlled. This effect derives not so much from welfare receipt per se, but from parental characteristics that make some parents more prone than others to be on welfare (Mayer 2002).

Taken together, the findings suggest that children in families reliant on welfare may be particularly vulnerable to negative outcomes, being not only relatively poor but also more likely than children generally to have other disadvantages. The findings suggest substantially lower vulnerability among children supported by market incomes who are not poor, with an intermediate level of risk found among children supported by market income but who are relatively poor.

MEASUREMENT OF POVERTY AND ITS RELATIONSHIP WITH LIVING STANDARDS

The notion of poverty used in statistical measurement is one based on the limitation of economic resources of families or households. In its simplest formulation this means being below an income threshold. The measurement procedure can be made more sophisticated by taking into account other factors that may have implications for the resources available for day-to-day consumption. The Housing-adjusted Equivalised

Disposable Income (HEDY) metric is one such formulation. This type of restricted statistical definition of poverty permits useful results on trends and inter-group relativities to be obtained from analysis of routinely collected statistical information (for example, information collected by Statistics New Zealand's regular Household Economic Survey). Its limitations are that it does not recognise that families with the same income, or same HEDY value, will have differing living standards (resulting from differences in their levels of financial assets, levels of debt, etc.), and does not take account of the differences in incomes of those below the threshold (which is an inevitable consequence of using the simple but crude binary classification of "poverty"/"not poverty").

The traditional formulation of poverty, as found in such early writers as Rowntree (1901) and Booth (1903) begins with a much broader notion of poverty that focuses on the consequences of restricted financial resources and reports on the extent to which people are unable to meet their basic needs. There is a tradition of empirical research on these matters that in England extends from Rowntree to Townsend to Mack and Lansley (in their studies of Poor Britain), which draws on this tradition and collects data on hardship in terms of its various manifestations.

The present paper uses information of the latter type in combination with information permitting the sort of standard statistical poverty classification referred to earlier. It thus permits a distinction to be made between poverty in the limited statistical sense, and the picture that emerges when living standards data are used to describe the extent to which people are in hardship.

STRUCTURE OF THE ANALYSIS

The purpose of this report is to test the hypothesis specified in the introduction, using data derived from Statistics New Zealand's Household Economic Survey (HES)[2] and the Ministry of Social Policy's 2000 Survey of Living Standards. The analysis will establish the extent to which the living standards, circumstances and characteristics of poor children (defined in a narrower statistical sense) vary depending on whether the families' main source of income is government transfers or market income. It will examine this in the context of a brief historical survey that will show changes in the incidence of poverty over the past decade. The analysis will primarily focus on answering the following seven questions:

[2] Access to the HES data was provided by Statistics New Zealand under conditions designed to give effect to the confidentiality provisions of the Statistics Act 1975. The results presented and views expressed are those of the authors.

- How has the incidence of poverty among children changed over time?
- How have the sources of family income for children changed over time?
- Why is the incidence of poverty among children reliant on different sources of family income and how has this changed over time?
- How has the distribution of poverty and income source status changed among children?
- How have the family income sources of poor children changed over time?
- How do living standards compare among poor children according to whether they are reliant on government transfers or market income, and how does this compare with all other children?
- How do the family characteristics of poor children reliant on government transfers compare with those reliant on market income and all other children?

The above questions will be examined in relation to three groups of dependent children:
- poor children whose main source of family income is government transfers;
- poor children whose main source of family income is market income; and
- all other children (i.e. those in families who are above the specified poverty threshold).

This report will outline the implications of differences for determining which group of children may be more at risk of low living standards, persistent low income and negative child outcomes that may be a consequence of the economic disadvantage. The paper will also outline the implications of the findings for the development of policies to prevent disadvantage and poor outcomes among New Zealand children.

CHANGES IN THE INCIDENCE AND DISTRIBUTION OF POVERTY AMONG CHILDREN

In this section of the paper, we outline what has been a changing landscape in terms of the incidence and distribution of poverty among dependent children in New Zealand over the past decade. The definition of poverty used in this study is based on a housing-adjusted equivalent disposable income (HEDY) distribution and is benchmarked to what was 60% of the median on the HEDY distribution for the 1997-98 HES year. HEDY adjusts the conventional measure of Equivalised Disposable Income (EDY) to take account of variations in housing cost. This procedure is defined in Jensen and Krishnan (2001), where an analysis based on HEDY is presented. HEDY is also the basis for the results given in the 2001 *Social Report* (Ministry of Social Policy 2001b).

In this study, children with HEDY values below the 60% of median HEDY benchmark are described as "poor", with those above described as "not poor". All data have been price adjusted to year 2000 dollars using the Consumer Price Index (CPI) for all groups, less housing. The rationale for this approach also lies in recent reports on poverty and income adequacy that highlight the significance of housing cost as a factor affecting living standards. This is particularly the case for families with dependent children (see Stephens et al 2000, Waldegrave and Sawrey 1994). The relatively liberal 60% HEDY threshold (rather than a more stringent 50% or 40% threshold) has been used partly because it is the one that gives the highest figure for the proportion of families below the threshold, which provides more stability in the results when sub-group analysis is undertaken. The 60% threshold is used fairly commonly for poverty measurement in New Zealand (Ministry of Social Policy 2001b, Stephens and Waldegrave 2001). However, sensitivity analysis showed that the overall patterns presented in this paper are not sensitive to variations in the threshold (over the range of 40% to 60%).

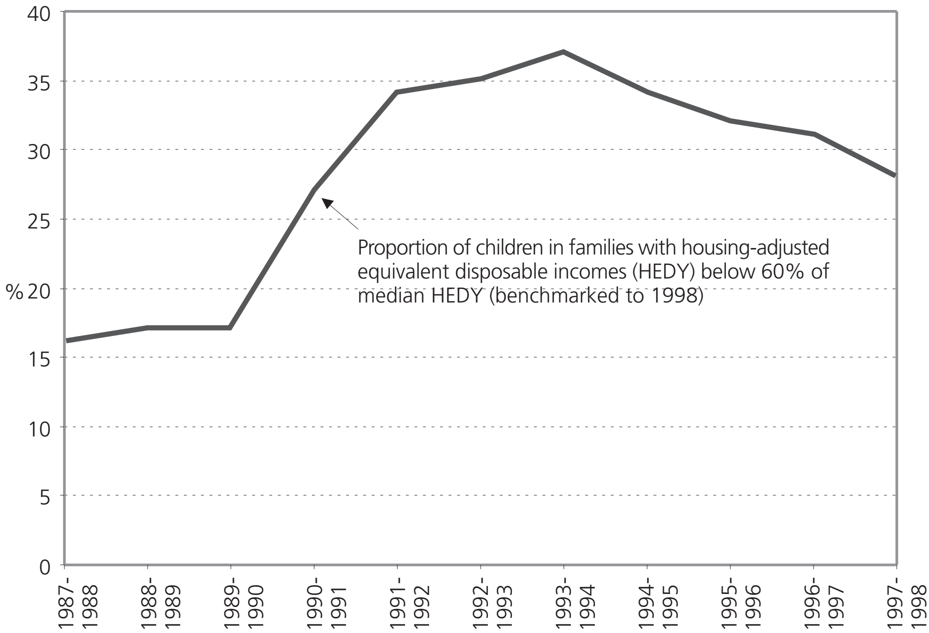
Incidence of Poverty Among Dependent Children[3]

The likelihood of a child in New Zealand being poor has followed an inverted U-shape pattern over the 1988 to 1998 period (see Figure 1). In 1988 16% of dependent children were in families with housing-adjusted equivalent disposable incomes below the housing-adjusted threshold. This increased to 37% by 1994, then fell again to 28% by 1998.[4] While the incidence of poverty among dependent children declined after the middle of the decade, the incidence was greater at the end than at the beginning. This was partly due to the deleterious impact of housing costs on the likelihood of being in poor families among New Zealand children.

[3] A child is not dependent if they are aged 18 years and over, or if aged 16-17 years and in full-time employment or in receipt of income support in their own right.

[4] The trend portrayed in Figure 1 which shows a high incidence of poverty that peaks in 1994 followed by a modest fall, is also found using lower poverty thresholds (i.e. at 40% and 50% of median HEDY). The pattern found is not threshold-specific. The trend lines for the 40% and 50% poverty thresholds have the same appearance shown in figure 1 but are displaced downwards. For example, while the 1998 incidence of poverty at the 60% threshold is 28%, at the 50% threshold it is 20% and at the 40% threshold it is 13%.

Figure 1 Incidence of Poverty Among Dependent Children, 1988-1998



Source: Statistics New Zealand's Household Economic Survey (data derived by the Ministry of Social Development).

Changing Reliance on Government Transfers[5] Among Dependent Children

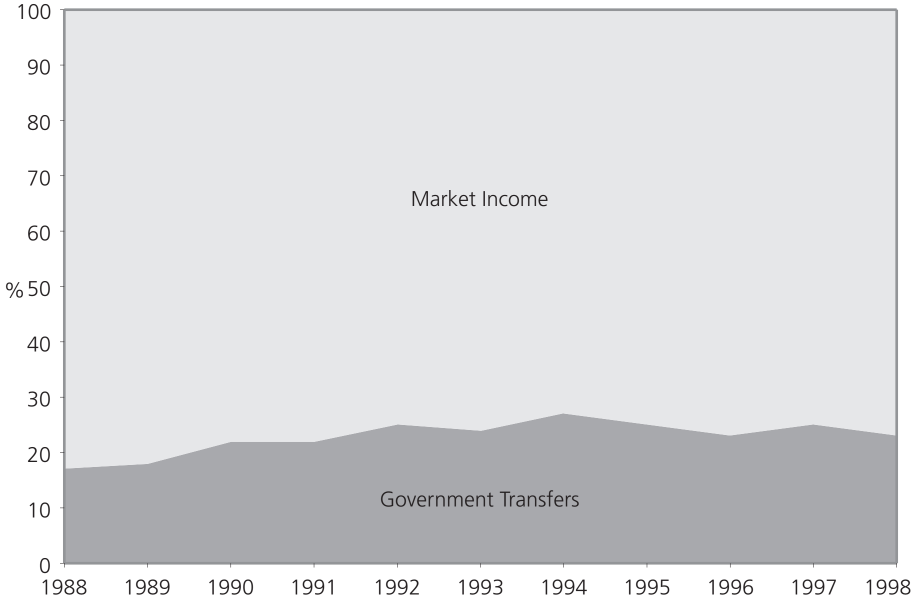
There have also been changes in the extent to which dependent children are in families whose main source of income is government transfers.[6] In 1988 17% of all dependent children were in families whose main source of income was a government transfer. By 1994 this had peaked at 27%, before declining slightly to 23% by 1998. This trend has followed a similar pattern to the overall incidence of poverty identified in Figure 1. Dependent children in families whose main source of income was market income[7] declined from 83% in 1988 to 73% in 1994, before rising slightly to 77% by 1998 (see Figure 2).

[5] Government transfers includes income-tested Social Welfare benefits, New Zealand Superannuation and student allowances.

[6] "Main source of income" refers to the income type with the total income of all economic family members that is greater than any other type reported for the year.

[7] "Market income" includes all income from market sources (primarily wages and salaries and earnings from self-employment).

Figure 2 Distribution of Dependent Children, by Main Source of Family Income, 1988-1998



Source: Statistics New Zealand's Household Economic Survey (data derived by the Ministry of Social Development).

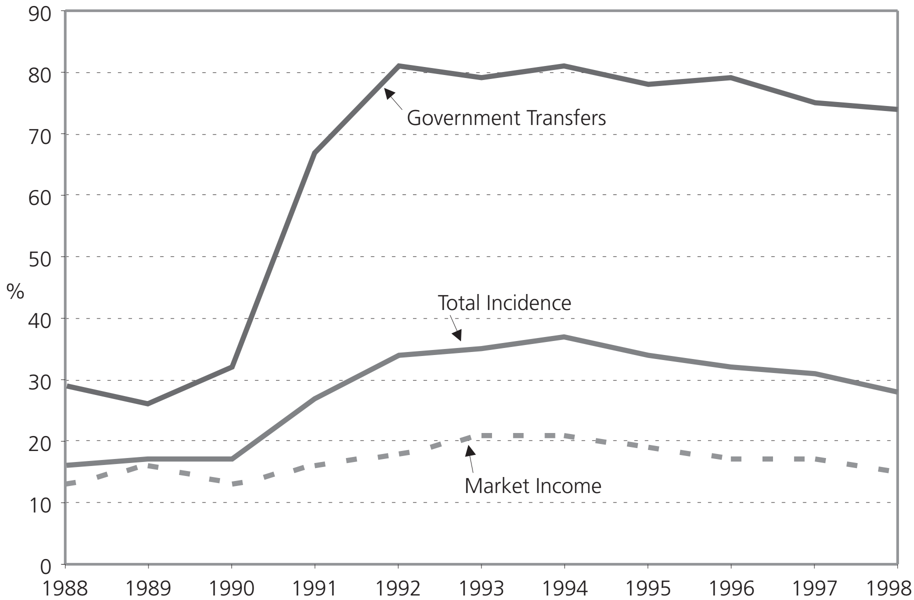
Increasing Propensity to be Poor Among Children Reliant on Government Transfers

As expected, the likelihood of being in poverty is greater for dependent children in families who are reliant on government transfers as their main income source than for those reliant on market income. In 1998 74% of dependent children reliant on government transfers were poor relative to the HEDY threshold, compared with 15% of those reliant on market income.[8] This is partly due to the high numbers of sole parents among those reliant on government transfers. What is more surprising is the substantial increase in the incidence of poverty among those reliant on government transfers. Between 1988 and 1994 this had increased from 29% to 81%, before declining to 74% in 1998. The likelihood of being in poverty among those reliant on market

[8] The trend portrayed in Figure 3 is not threshold specific with similar patterns being portrayed at lower poverty thresholds but displaced downwards. For example, the 1998 incidence of poverty for poor children reliant on government transfers at the 40% and 50% median HEDY threshold is 30% and 53% respectively. For poor children reliant on market income the incidence of poverty at the 40% and 50% thresholds are 8% and 11% respectively in 1998.

income had similarly increased from 13% in 1988 to 21% in 1994, before declining to 15% by 1998 (see Figure 3). The increased propensity to fall below the poverty threshold for those reliant on government transfers since 1990 has been largely due to the combined effects of three factors: the cut to rates of income support in 1991, the growth in unemployment (which peaked in 1991 at 11%), and escalations in housing costs (particularly for those in rental accommodation).

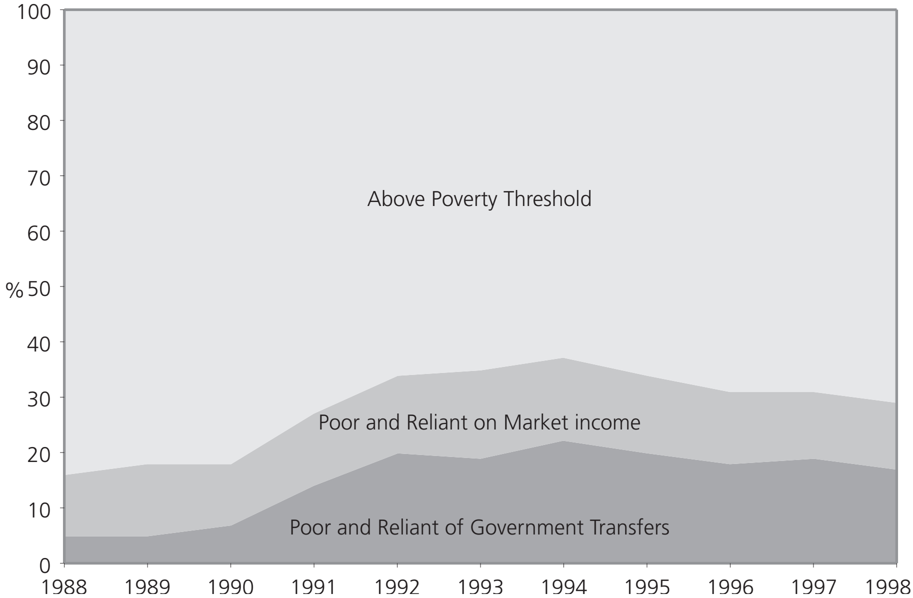
Figure 3 Incidence of Poverty Among Dependent Children, by Main Source of Family Income, 1988-1998



Source: Statistics New Zealand's Household Economic Survey (data derived by the Ministry of Social Development).

Figure 4 demonstrates that children who are above the poverty threshold make up a declining proportion of all dependent children, down from 84% in 1988 to 71% in 1998. In contrast, children who are poor and reliant on government transfers have made up an increasing share, from 5% in 1988 to 17% in 1998. Children who are poor and reliant on market income have made up a relatively constant share of about 12% of all dependent children.

Figure 4 Distribution of Dependent Children, by Poverty and Income Source Statuses, 1988-1998



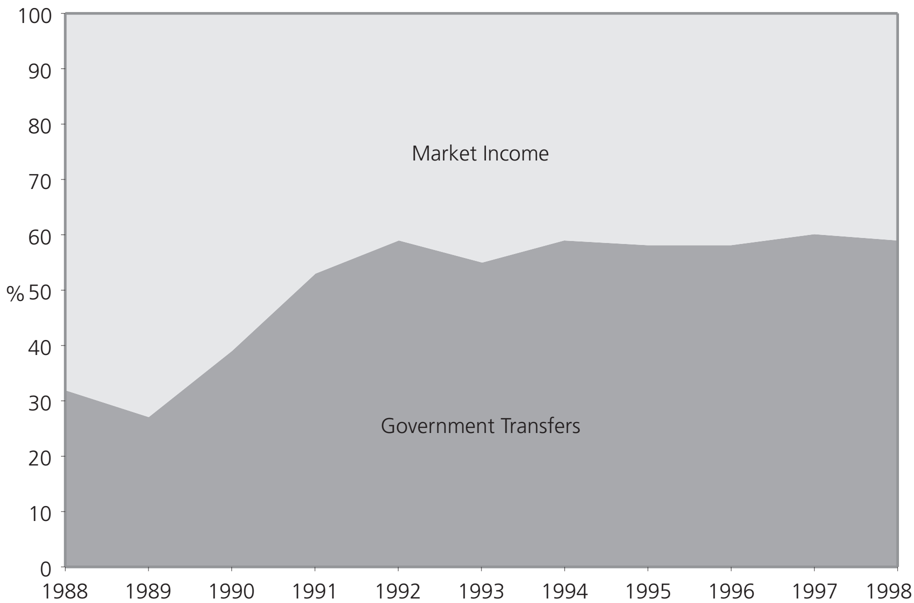
Source: Statistics New Zealand's Household Economic Survey (data derived by the Ministry of Social Development).

Changing Sources of Income Among Poor Children

In 1998 over half (59%) of all poor children were in families whose main source of income was a government transfer. A further 41% had market income as their main source of income. The most substantial change in this distribution occurred between 1989 and 1991, when the proportion with market income as their main source of income fell from 73% to 47%. Between these years the proportion with a government transfer as their main source of income increased from 27% to 53% (see Figure 5). This increase parallels the substantial increase in unemployment that occurred over this period. The total unemployment rate peaked from 7% in 1989 to 11% in 1991 (the highest it had been in two decades).

While the decline in the proportion of poor children whose main source of income was market income can be associated with the increase in employment, there has been no corresponding bounce-back following the recovery in employment over the latter half of the 1990s. It is likely that this is at least partly due to the growth in numbers of DPB recipients over the period. Between 1988 and 1998 the number of children supported by DPB recipients increased from 119,000 to 191,000 and the proportion of all 0-17-year-old children supported by the DPB increased from 13% to 19%. In addition it may be more difficult for families with dependent children to make a transition from government transfers to market income following an economic recovery (Picot et al. 1999).

Figure 5 Distribution of Poor Children, by Main Source of Family Income, 1988-1998



Source: Statistics New Zealand's Household Economic Survey (data derived by the Ministry of Social Development).

DIFFERING CHARACTERISTICS OF THE THREE CHILD GROUPS

In this section we compare the social, economic and demographic characteristics of the three previously defined groups of children in order to establish which of the groups are the most vulnerable and potentially at risk of negative outcomes.[9]

[9] The distribution and characteristics of poor children reliant on market income includes those who are reliant on income from self-employment. Sensitivity testing of these distributions, excluding the self-employed, did not change the patterns portrayed and in particular did not affect the relative positions of the three groups of children.
While the analysis in this report is based on a single threshold (60% of median HEDY benchmarked to 1998), sensitivity analysis shows that changing the threshold to 40% of median HEDY does not substantially affect the results. The pattern of disadvantage shown by the Survey of Living Standards and HES data as applying to low-income children reliant on government transfers remains at the lower-level 40% threshold.

How Do Living Standards Compare Among the Different Groups of Children?

A unique insight into the living standards of New Zealand children can be obtained from information drawn from the 2000 Survey of Living Standards. The survey asked caregivers whether they had restricted particular activities or purchases in order to keep down costs (economising items)[10] and whether they had been without particular items or activities because of cost (enforced lack items).[11] The items chosen relate to areas in which the family may economise as well as areas in which there are restrictions on child-specific items. The data divide children into the three groups of interest which are the focus of this paper, and then the propensity is calculated for children in each group to be in families who have restricted activities or purchases because of cost. The data on the items have been used:

- to demonstrate consumption differences item by item (see Table 1); and
- to demonstrate the aggregate effect or consumption outcome by means of an index that combines the individual items into an ad hoc index of living standards based on the degree to which children are in families who economise on a number of items (Figure 6).

Types of Items Economised On

Across all the items presented in Table 1 the pattern that emerges is that poor children reliant on government transfers are worse off than poor children reliant on market income. Poor children reliant on market income are still substantially worse off than children above the poverty threshold.

For two items that could have an impact on the health and well-being of children i.e. ("put up with feeling cold" and "cut back on fresh fruit and vegetables"), the likelihood of children being in families who report doing the above to save costs was substantially greater for poor children reliant on government transfers than poor children reliant on market income. The likelihood of poor children reliant on market income being in families who cut back on the above activities because of cost was still substantially greater than for children above the poverty threshold.

[10] Respondents were asked whether they had economised on particular items in the previous 12 months. The response categories were "not at all", "a little" or "a lot".

[11] The information was obtained in three stages: (a) whether the respondent has the item in question; (b) if not, whether the respondent wished to obtain the item or engage in the activity; (c) if so, whether cost was the reason for being without it. Enforced lack is defined as wishing to have the item or to engage in the activity but being without it because of cost.

Table 1 Indicators of Living Standards: Proportion of Children in Families Who Report They Do the Following to Keep Down Costs, 2000

Restricted activities or purchases because of cost	Poor children whose main source of income is govt. transfers	Poor children whose main source of income is market income	Children above poverty threshold
Economising a little or a lot	%	%	%
Bought cheaper cuts of meat or less meat than preferred	81	71	66
Gone without fresh fruit and vegetables	38	31	15
Bought second-hand clothing instead of new	69	59	38
Put off buying clothes for as long as possible	83	77	70
Relied on gifts of clothing	53	50	28
Put up with feeling cold to save heating costs	35	25	12
Gone without or cut back on visits to family or friends	57	47	30
Done without or cut back on trips to the shops or other local places	65	58	48
Made do with not enough bedrooms because of the cost	37	29	21
Child wore clothes or shoes too small or too large	30	26	11
Children share a bed	14	9	3
Made do with very limited space for the children to study or play	28	20	11
Postponed child's visits to the doctor	17	8	3
Postponed child's visits to the dentist	11	7	4
Been unable to pay for your child to go on school outings	26	18	5
Not bought school books for school supplies	20	13	4
Not bought children's books for reading at home	33	28	13
Child went without music, dance, art or other cultural lessons	34	26	15
Had to limit child's involvement in sport	30	25	10

Table continued page 130

Table 1 cont...

Restricted activities or purchases because of cost	Poor children whose main source of income is govt. transfers	Poor children whose main source of income is market income	Children above poverty threshold
Enforced lack*	%	%	%
Don't have suitable wet-weather clothing for each child	16	9	3
Don't have a pair of shoes in good condition for each child	10	6	0
Don't have a child's bike	16	9	2
Don't have a personal computer	41	30	14
Don't have access to the internet	35	28	14
Don't have a Playstation	23	11	7
Don't have children's friends over for a meal	7	4	2
Don't have enough room for children's friends to stay the night	8	8	1
Don't have children's friends to a birthday party	6	5	1
Don't pay for childcare services	17	10	6

Source: 2000 Survey of Living Standards, Ministry of Social Development.

* These are items that respondents say they want but do not have because of cost.

When focusing on a child-related activity such as school outings, there are again substantial differences in the propensity for children to be in families who economise among the three groups. For example, 26% of poor children reliant on government transfers were in families where school outings were restricted because of cost. This compares with 18% of poor children reliant on market income and only 5% of children above the poverty threshold.

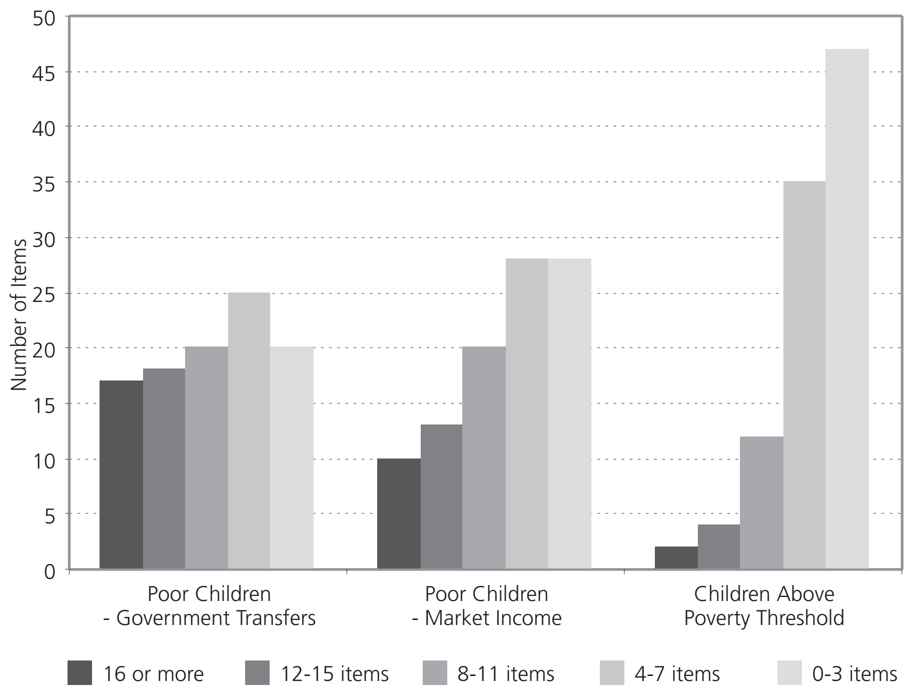
Of particular concern is the proportion of poor children in families where visits to the doctor are postponed because of cost. This was 17% for those reliant on government transfers, 8% for children reliant on market income and 3% for children above the poverty threshold.

Restrictions on some activities can have an impact on the social and educational well-being of children. In 2000, 17% of poor children reliant on government transfers were in families where childcare services were not accessed because of cost. This compares with 10% of poor children reliant on market income and 6% of children above the poverty threshold. Another area often referred to as the “digital divide” is apparent among the different groups of children. For example, 41% of children reliant on government transfers were in families that wanted but did not have a personal computer because of cost. The comparable proportion for poor children reliant on market income was 30% and for children above the poverty threshold, 14%.

Ad Hoc Index of Living Standards

Figure 6 represents a very simple way of combining the items specified in Table 1 to create an ad hoc index (scale measure) of standard of living. This ad hoc index can be treated as representing a single living-standard dimension, as the items have been shown to comprise a set of valid living-standard indicators with a covariance structure consistent with their being regarded as individually imprecise reflections of a single, underlying latent variable (Ministry of Social Policy 2001a). Because of the nature of the item set and the relatively large number of items, this index can be expected to be acceptably reliable and valid.

Figure 6 Propensity for Children to be in Families Where Key Items of Consumption are Restricted Because of Cost, 2000



Source: 2000 Survey of Living Standards, Ministry of Social Development.

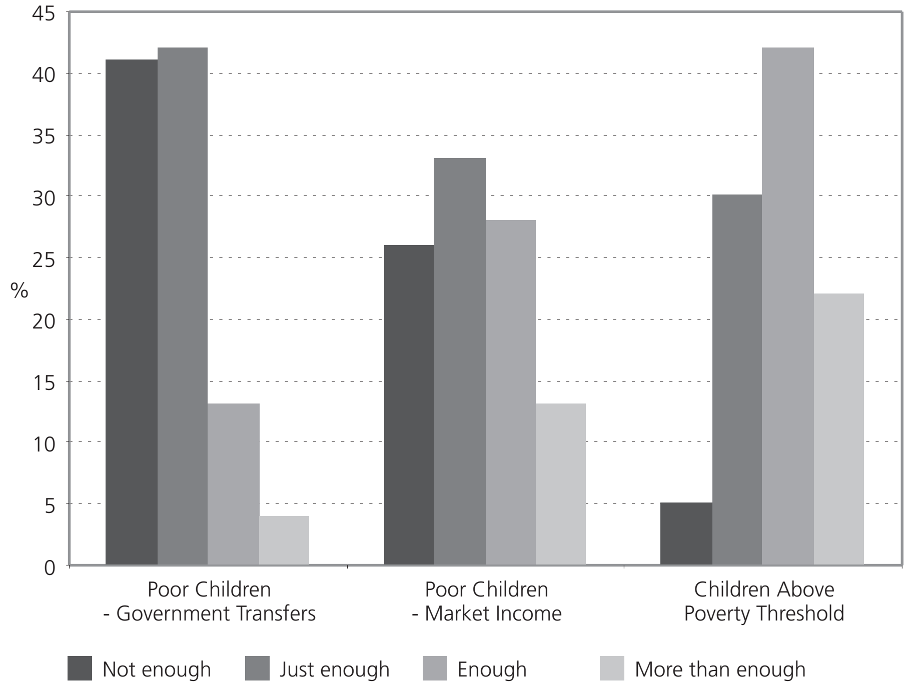
Figure 6 shows that children in families above the poverty threshold are more likely than other children to be concentrated at the 0-3 end of the restricted items scale. In contrast, poor children are more likely to appear among families where 8 or more items are restricted because of cost. Poor children reliant on government transfers have the highest likelihood of being present at the high end of the scale where 16 or more items have been restricted because of cost. Similarly higher proportions of poor children reliant on market income are at the high end of the scale compared with children above the poverty threshold.

Data were also available on the number of financial problems the family had experienced over the past year (relating to difficulties such as defaulting on rent or mortgage payments, being unable to pay power bills, etc.). The results of this analysis reveal that poor families reliant on government transfers had the highest prevalence of these problems, with those above the poverty threshold having a comparatively lower prevalence and poor families reliant on market income falling between.

Another way to examine the living standards of the three groups of children is to compare their caregivers' ratings of the adequacy of their incomes for meeting their needs. This is a subjective means of assessing living standards, and such self-assessment measures are often used to validate other measures of living standards (Ministry of Social Policy 2001a). In 2000 only 5% of children above the poverty threshold were in families where caregivers rated their incomes as "not enough" to meet their needs. For poor-market income children the similar proportion escalates to 26% and increases again to 41% for poor children reliant on government transfers (see Figure 7).[12]

[12] The focus of the above analysis has been primarily on contrasting the living standards of those below the poverty threshold by their main source of income. Among those above the poverty threshold, 8% are reliant on government transfers as their main source of income. How do the living standards of these children compare with the living standards of the two groups of poor children? It would be expected (and the data are consistent with this expectation) that they would have higher living standards than the children dependent on government transfers classified as poor. However, it is not clear what result could be expected from comparing them with poor children whose families had market incomes. On the one hand, it might be expected that the latter families would tend to have more assets and higher levels of human capital, but the effect of this on the living standard comparison would be offset by their having lower incomes. The number of children above the poverty threshold reliant on government transfers is too small to permit the relative strength of these competing influences to be estimated.

Figure 7 Propensity for Children to be in Families Where Caregivers Rate Their Incomes in Terms of How Well They Meet Their Needs, 2000



Source: 2000 Survey of Living Standards, Ministry of Social Development.

Factors that May Contribute to Group Differences in Living Standards

The preceding analysis was not intended to go beyond establishing whether group differences exist. In that regard, it has been successful in establishing a clear pattern of consistent differences across a large set of indicators of well-being. Analysing the sources of the variation is not part of the present paper. However, it is worth digressing briefly to speculate on some of the possibilities.

The most obvious factor to examine is the contribution of income differences below the threshold that may exist between the two groups of poor children. Because of the possible implications for the development of policy on child poverty, a preliminary examination of this has been made. The approach taken was to decompose the hardship differences into components attributable to variations in the HEDY value or the main source of income (government transfers or market income). The results indicate that there is a modest difference in incomes between the two groups, with poor families reliant on government transfers having a mean HEDY value 18 percentage points lower than poor families reliant on market income. This accounts for 40% of the variation in the ad hoc living standards index between the two groups of poor children. The remaining 60% of the variation is associated with income source and presumably reflects a variety of differences in the characteristics of the people in these two groups.[13]

Other possible contributory factors, which are not analysed further here, include:
- Results from the survey of the living standards of older New Zealanders show that income and accommodation costs only account for a part of standard of living (other factors such as assets and past experiences of economic misfortune are also significant predictors of current standard of living) (Ministry of Social Policy 2001a).
- There may be variations in levels of debt between the two groups of poor children.
- There may be variations in support from other family members (which could lower levels of hardship).
- Family responsibilities may cause some income to be diverted to assisting people outside the household (and could raise levels of hardship).
- The differences in living standards could reflect differences in the persistence of poverty between the two groups of poor children. (This is an important consideration in understanding variations in living standards and their long-term implications. There is evidence that the length of time spent with low living standards can compound the negative effects on children's outcomes. However, the limitations in the data (which do not include durational information) have meant that we have been unable to explore these issues.)
- Poor families reliant on market income may have resources (financial and other) that buffer them against the effects of low income. (Examination of data concerning a count of assets shows that poor families reliant on government transfers have substantially fewer assets than those above the poverty threshold, with poor families reliant on market income being in an intermediate position.)
- The differences may reflect health status differences and the impact of health care costs.
- Buffering may be provided by resources available in a child's neighbourhood, school and local community environment.
- Differences in location may give rise to variations in prices, unavoidable transport costs, etc.

For the purposes of examining the circumstances associated with child poverty, children in this paper have been divided into the three groups mentioned above. In

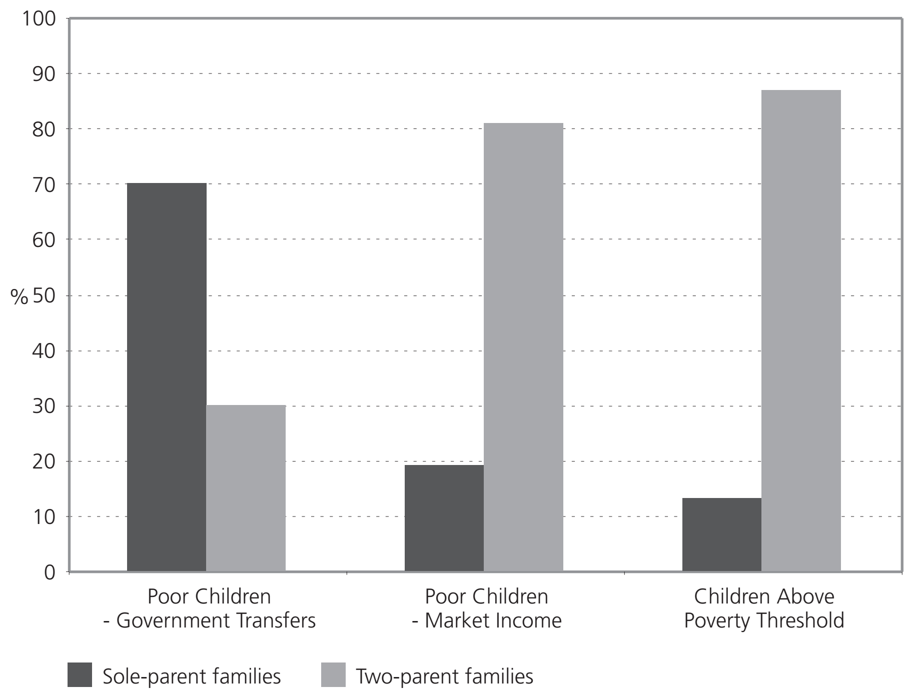
[13] The analysis regressed scores on the ad hoc living standards index against two dependent variables: the HEDY value and a dichotomous dummy variable distinguishing between the two main sources of income (government transfers and market income). The regression coefficient for the dummy variable was interpreted as indicating the amount of variation in well-being attributable to source of income where HEDY is controlled. This was then related to observed differences in well-being between the groups. This amounted to 60% of the observed difference.

total, 17% of all dependent children in New Zealand are poor children whose main source of family income is a government transfer (group A). A further 12% are poor children whose main source of family income is derived from market sources (group B). The remaining 71% of dependent children can be described as being in families who are above the poverty threshold (group C). The above analysis has established that there are substantial differences in living standards among the three groups of children. The following analysis will establish whether there are differences between group (A) families and group (C) families in terms of various characteristics, and whether group (B) families more resemble families in group (A) or group (C).

Family Type: Sole Parent or Two Parents

The majority (70%) of poor children reliant on government transfers are in sole-parent families and 30% are in two-parent families. This distribution completely reverses for poor children reliant on market income, with 81% being in two-parent families and only 19% being in sole-parent families. The family type distribution for those reliant on market income closely resembles that of children above the poverty threshold (see Figure 8).

Figure 8 Dependent Children, by Family Type, 1998

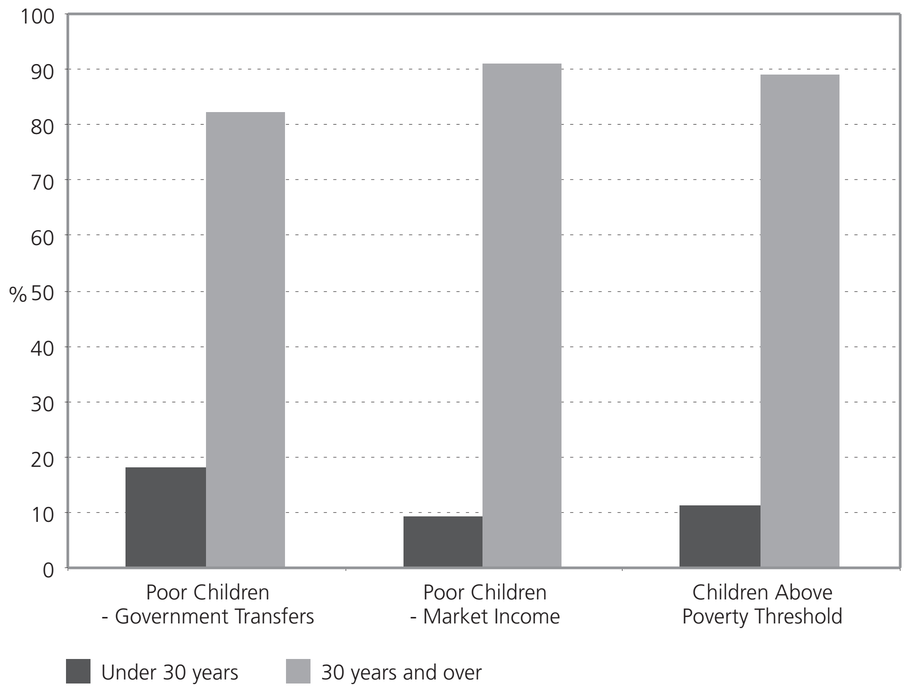


Source: Statistics New Zealand's Household Economic Survey (data derived by the Ministry of Social Development).

Age of Principal Income Earner

The distribution of the three groups of dependent children shows that children reliant on government transfers had a slightly higher likelihood of being in families where the principal income earner was under 30 years. In 1998 18% of these children were in families where the principal income earner was under 30 years of age. This compares with 9% of poor market-income children and 11% of children above the poverty threshold (see Figure 9).

Figure 9 Distribution of Dependent children, by Age of Principal Income Earner, 1998

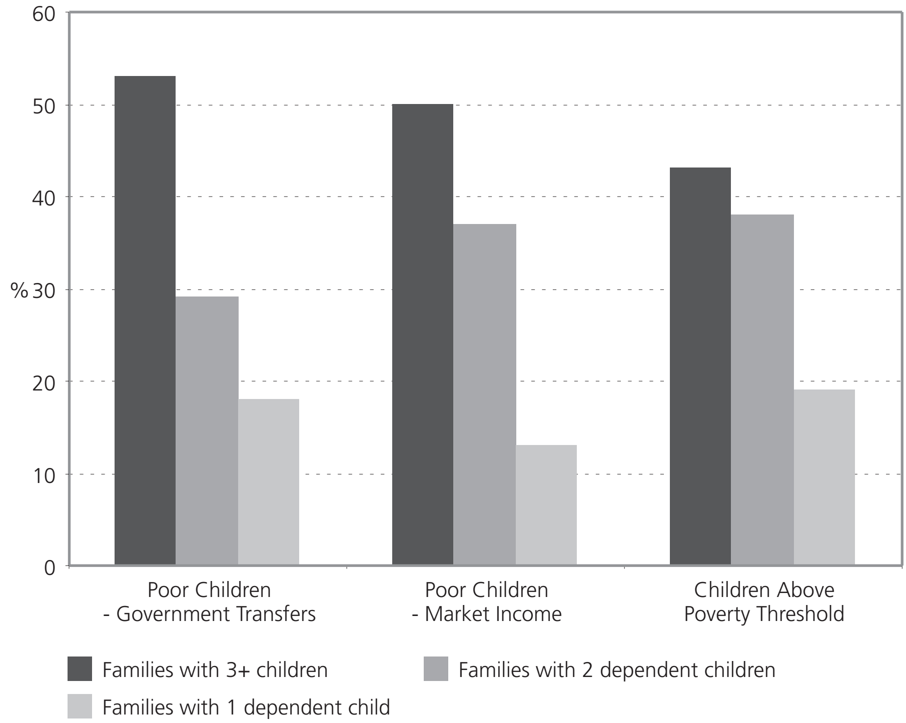


Source: Statistics New Zealand's Household Economic Survey (data derived by the Ministry of Social Development).

Number of Dependent Children in the Family

There was no substantial variation in the distribution of children in terms of the number of children in the family. Very similar proportions of children who were reliant on government transfers and those above the poverty threshold were in families with only one child. Both groups of poor children were, however, more likely to be in families where there were three or more dependent children (see Figure 10).

Figure 10 Number of Dependent Children in the Family, 1998

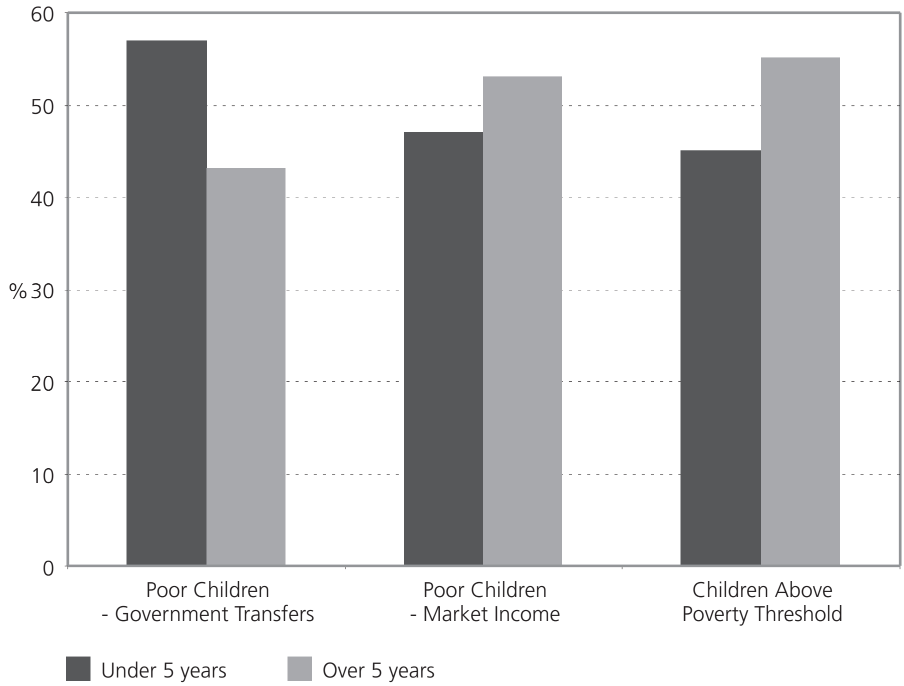


Source: Statistics New Zealand's Household Economic Survey (data derived by the Ministry of Social Development).

Age of Youngest Child in the Family

Overall, the families of poor children whose main source of income was government transfers were more likely than those reliant on market income to have a youngest child under the age of five (57% compared with 47% respectively). Similarly, 45% of children above the poverty threshold were in families where the youngest child was aged under five years (see Figure 11). Of note here is the higher proportion of children in poor families reliant on government transfers who forgo childcare services because of cost (see Table 1).

Figure 11 Age of Youngest Child in the Family, 1998

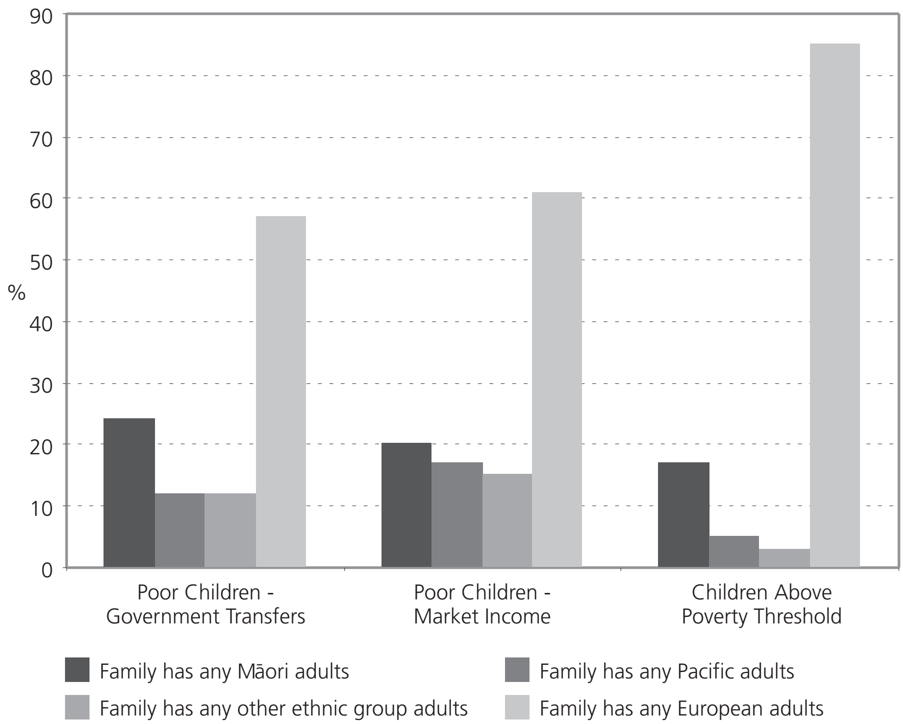


Source: Statistics New Zealand's Household Economic Survey (data derived by the Ministry of Social Development).

Ethnicity

Compared with children above the poverty threshold, poor children in families reliant on government transfers or market income were more likely to have Māori, Pacific and other non-European ethnic group adult members in the family. Poor children whose families were reliant on market income were more likely than those reliant on government transfers to have Pacific and other non-European ethnic group adults in the family (see Figure 12). These families are also more likely than average to forgo music, dance, art or cultural lessons (some of which may be related to enhancing the child's social and cultural identity) because of cost (see Table 1).

Figure 12 Ethnicity of Adults in the Family, 1998



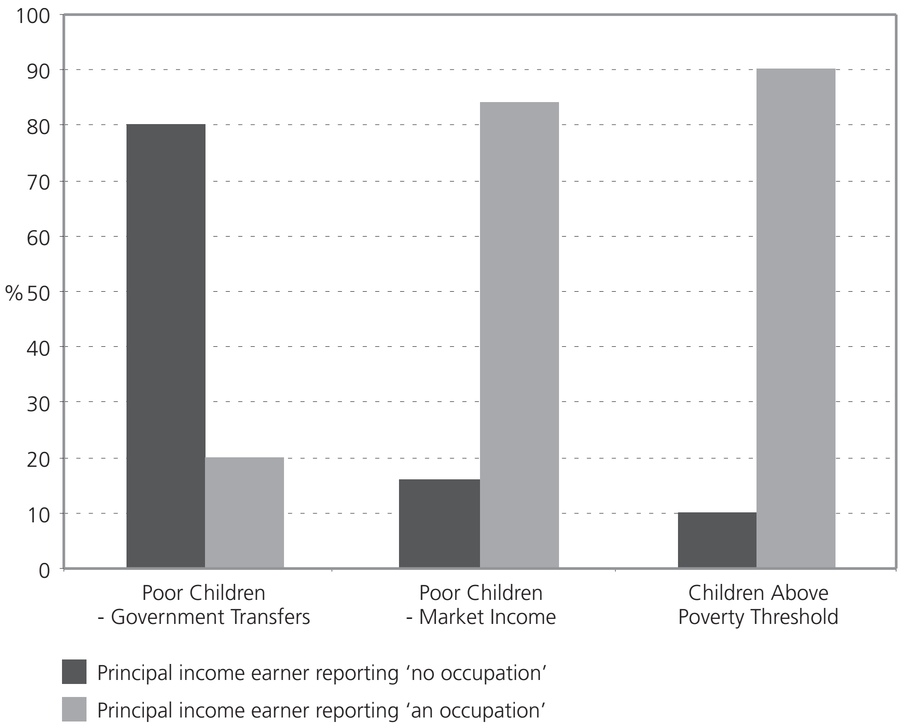
Note: Groups are not mutually exclusive.

Source: Statistics New Zealand's Household Economic Survey (data derived by the Ministry of Social Development).

Likelihood of Principal Income Earner Having No Occupation

The majority (80%) of poor children reliant on government transfers were in families where the principal income earner reported "no occupation". This compares with only a minority (16%) of poor children reliant on market income and 10% of children above the poverty threshold (see Figure 13). When poor children reliant on market income are compared with children above the poverty threshold, slightly more poor children are in families where the principal income earner was in a lower-skilled occupation and slightly fewer are in professional occupations.[14] In 1998 22% of poor children reliant on market income were in families where the principal income earner was in a lower skilled occupation while 32% were in families where the principal income earner was in a professional occupation. In contrast, for children above the poverty threshold, 45% were in families where the principal income earner was in a professional occupation and only 13% were in families where the principal income earner was in a lower-skilled occupation.

Figure 13 Whether the Principal Income Earner Reports an Occupation, 1998



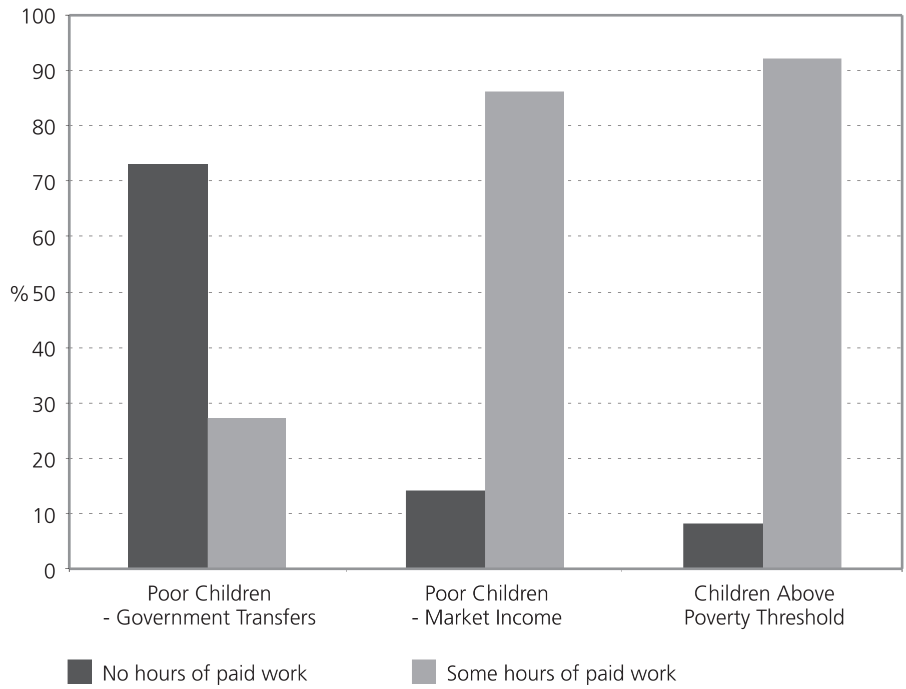
Source: Statistics New Zealand's Household Economic Survey (data derived by the Ministry of Social Development).

[14] Lower-skilled occupation referred to here includes plant and machine operators and assemblers and elementary occupations. Professional occupations referred to here includes legislators, administrators, managers, professionals, technicians and associate professionals.

Likelihood of Paid Work in the Family

There is considerable debate around the issue of paid work and low income. This debate centres around concerns about whether or not mothers with young children should work, whether being in any paid work (regardless of income) is better than not being in work, whether some paid work can ultimately lead to higher pay and increased economic opportunities, and whether maintaining a connection with the world of work (through involvement in paid work) has some intrinsic value in terms of social participation and modelling behaviour (Atkinson and Hills 1998). In 1998 the majority (92%) of children above the poverty threshold were in families where there was participation in paid work. This proportion drops slightly to 86% for poor children in families where the main source of income was market income.[15] In comparison, only a small proportion (27%) of poor children reliant on government transfers were in families where there was some participation in paid work (see Figure 14).

Figure 14 Hours of Paid Work in the Family, 1998



Source: Statistics New Zealand's Household Economic Survey (data derived by the Ministry of Social Development).

[15] In 1998 14% of poor children reliant on market income were in families where there was no paid work. This may partly be due to differences in the recording of paid work, which is recorded as usual hours worked in the reference week, and the main source of income, which is the annualised greatest source of income for the year.

In recent years there has been an increase in the part-time labour force participation of sole parents. This has occurred against a backdrop of increasing employment among all mothers. A combination of factors, including a buoyant labour market and changes to work test requirements, has affected those who in the past have been more difficult to place in work (Goodger 2001). These changes are likely to have positive effects on the economic circumstances of poor children reliant on government transfers, although it is difficult to predict how large these effects may be.[16]

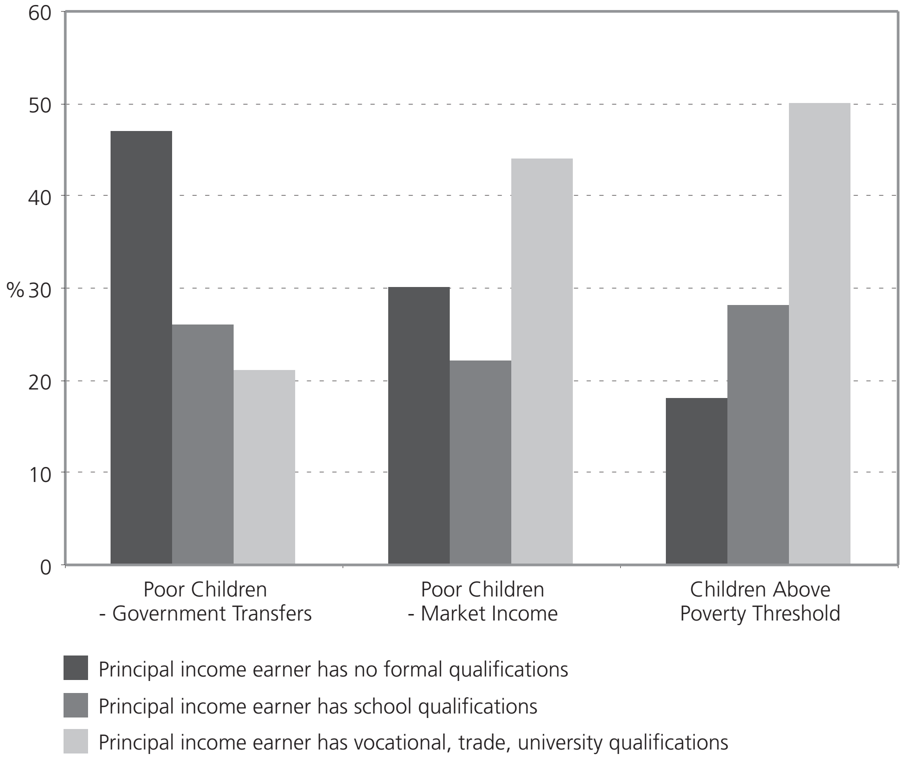
Educational Qualifications

The likelihood of children being in families where the principal income earner has no formal qualifications increases from 18% for children above the poverty threshold to 30% for poor children reliant on market income, and further to 47% for poor children reliant on government transfers. Poor children are not only more likely to have a principal income earner with low qualifications, but are also more likely to experience sacrifices in terms of purchases of books, computers, sports and cultural lessons.

The finding has several implications for the development of social policy. The first relates to the need for training to improve the skill base of the caregivers of poor children. The second relates to research that shows that is a higher likelihood of poor children whose caregivers have formal qualifications (particularly post-secondary) of exiting a low-income situation than poor children whose caregivers lack formal qualifications (Picot et al. 1999). The third relates to the extent to which low-income caregivers (who are highly qualified) manage to access economic opportunities. In recent years this concern has related to the exclusion of well-qualified new migrants from employment that reflects their qualifications and skills (Bedford and Trlin 2000). In 1998, 44% of poor children reliant on market income had a care-giver with post-school qualifications. This compares with only 21% of poor children reliant on government transfers (see Figure 15).

[16] Initial analysis of the 2000 Survey of Living Standards data shows that children in sole-parent families who are reliant on market income have an appreciably higher standard of living than those primarily reliant on government transfers. For example, 38% of children in sole-parent families reliant on market income were in families where caregivers restricted eight or more items of consumption because of cost. The comparable proportion of children in sole-parent families reliant on government transfers was 64%. However, the standard of living distribution of the former group is not necessarily indicative of the standard of living that could be achieved by the latter group if sole parents moved into paid work, as the variation may reflect differences in other factors such as educational status, previous work histories, etc.

Figure 15 Educational Qualifications of the Principal Income Earner, 1998

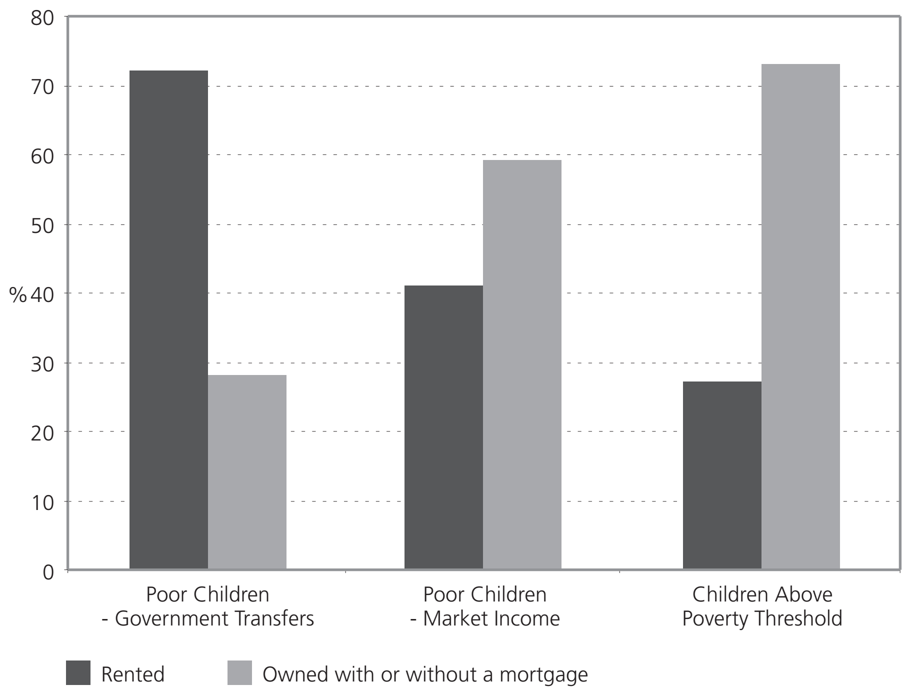


Source: Statistics New Zealand's Household Economic Survey (data derived by the Ministry of Social Development).

Tenure Circumstances

The tenure circumstances of children varied widely depending on the income circumstances of the family. In 1998 73% of children above the poverty threshold resided in owner-occupied dwellings, while 27% lived in rented dwellings. The likelihood of living in a rented dwelling increased to 41% for children in poor families reliant on market income, and to 72% for children in poor families reliant on government transfers (see Figure 16). Children in poor families were not only more likely to live in rented dwellings, but were also more likely to experience sacrifices in terms of heating, the number of bedrooms, and having limited space to study and play. These differences in tenure circumstances could also indicate levels of future well-being as families who own homes (with or without a mortgage) may in the longer term accumulate assets and have lower housing costs (Ministry of Social Policy 2001a).

Figure 16 Tenure Circumstances of Children, 1998



Source: Statistics New Zealand's Household Economic Survey (data derived by the Ministry of Social Development).

SUMMARY AND CONCLUSION

This paper looks at children who have been statistically classified as "poor" or "in poverty" because their families' resources fall below a specified "poverty threshold". The measure of family resources used in the classification procedure is based on family income and accommodation costs, standardised to take account of family size. This paper has examined the extent to which the living standards, circumstances and characteristics of poor children vary depending on whether the family's main source of income is government transfers or market income.

Overall, the likelihood of children being in poverty has declined since the mid-1990s. However, higher proportions of children were in poor families at the end of the decade compared with the beginning of the decade. Escalations in housing costs have since the mid-1990s had a deleterious effect on the propensity of children to be poor (Stephens et al. 2000).

Since 1988 the proportion of dependent children in families who are reliant on government transfers as their main source of income has increased, while the proportion reliant on market income has declined. Among children reliant on government transfers, the propensity to be poor has increased markedly, while the likelihood of being poor among those reliant on market income has stayed relatively static. Over the decade children above the poverty threshold have made up a declining share of all dependent children, while poor children reliant on government transfers have made up an increasing share. Over half (59%) of poor children were reliant on government transfers as the main source of family income, while 41% were reliant on income derived from market sources. This has changed markedly since 1988, when 68% of poor children were reliant on market income.

The findings show that there is considerable variation in the living standards of poor children, as defined in a limited resource sense. Living standards, as measured by the propensity to be in families that economise on particular activities or purchases, were lower for poor children reliant on government transfers than for those reliant on market income. However, poor children reliant on market income were much worse off than children above the poverty threshold across a number of economising behaviours.

These results give a stark picture of ways in which poor children's activities and access to basic services are restricted because of cost. A particular threat to children's well-being arises from restrictions in health care due to cost. The consequences of such restrictions can carry substantial long-term risks for the health and well-being of children in poor families. The greater propensity for the caregivers of poor children reliant on government transfers to report that their income is inadequate to meet their needs forms just part of a multi-faceted portrait of limited well-being and heightened vulnerability among these children.

The family characteristics of poor children vary depending on the extent to which the family receives government transfers. The families of poor children reliant on government transfers were more likely than those reliant on market income to be sole-parent families, to have a principal income earner under the age of 30 years, to have a youngest child under the age of five, to have a principal income earner who has no occupation or no formal qualifications, to have no paid work in the family, to have Māori and Pacific adult members of the family, and to live in rented dwellings.

In contrast, the families of poor children reliant on market income were more likely than the above group to be two-parent families, to have a principal income earner over the age of 30 years, to have a youngest child aged five years or older, to have a principal income earner who has an occupation and has formal qualifications, to have Pacific and other non-European ethnic groups adult members of the family, to have paid work in the family, and to live in owner-occupied dwellings.

Overall, the family characteristics of poor children reliant on market income more closely resemble the characteristics of children above the poverty threshold.

The results of this study suggest that poor children in families primarily reliant on government transfers are a particularly vulnerable group. Specifically the results indicate that these children are a multiply-disadvantaged group that could be expected to have a relatively high risk of a variety of negative outcomes. Children who are above the poverty threshold are a more advantaged group in terms of all the factors examined, and these children can be expected to be less vulnerable to adverse outcomes. Poor children whose families are primarily reliant on market income are in an intermediate position. This group appears to be more vulnerable than children above the poverty threshold but less so than children reliant on government transfers. Initial analysis indicates that differences in achieved incomes below the poverty threshold do not satisfactorily account for the differences between the poor market income and government transfers groups.

To summarise, the findings show that poor children reliant on government transfers, when compared with poor children reliant on market incomes, have lower living standards and a number of compounding shortfalls that can be expected to place them at greater risk of negative outcomes. The findings suggest a need for policies that have a wider focus than just income support. Such an expanded policy focus would incorporate recognition of the multiple sources of disadvantage of many of these children, and would explore mechanisms designed to connect parents and children to services directed at reducing the likelihood of negative child outcomes.

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