

**BUSINESS INDICATORS****May 1996****Low Income Rates Among Children**

In Canada, since the 1970s, the real and relative (to older adults) earnings of adults under 35 have fallen. Accordingly, it would seem reasonable, since most young children live in households headed by adults under 35, that the incidence of poverty among children would be rising during this period. However, this has not been the case, with the number of children below Statistics Canada's Low Income Cut-offs basically following the business cycle (i.e., rising during recessions, and falling during economic expansion). In a study done by Statistics Canada,<sup>1</sup> two explanations of this apparently contradictory phenomena are given: corresponding increases in transfer payments; and changes in the demographic and labour market characteristics of Canadian families.

Throughout the 1980s, the earning gap between young and older adults widened. This is partly due to the greater vulnerability of younger workers toward unemployment. The family income for young families relative to older families has declined significantly since the 1970s, and real median family income has also declined for younger families. However, this incidence of falling earnings among young families was predominantly experienced by families without children.

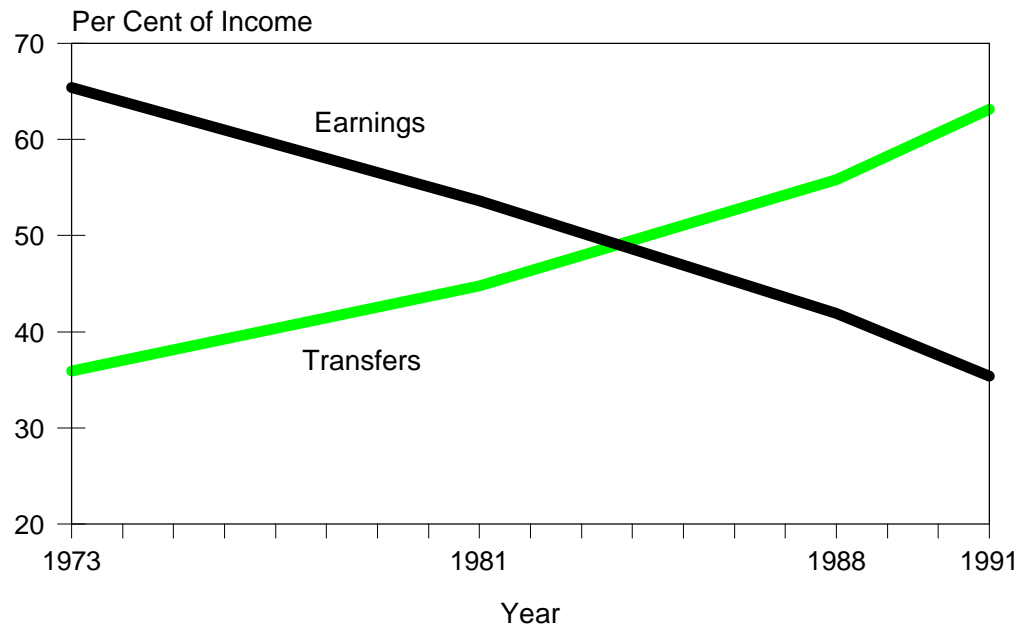
The reason families without children have suffered a greater decline in earnings than families with children is that transfer payments to families with children have increased. If we define low income families as those families whose income is less than 50 per cent of the median adult equivalent adjusted (AEA) income (see the glossary box for definitions), then statistics show that the *share* of income attributable to labour market earnings for low income families with children has fallen, while the dependence on transfer payments has risen. This is also true when examining *levels* of earnings in real dollars. Figure 1 displays the shares of disposable income from labour market earnings and from transfers for children 0 to 6 years of age in low income families. The graph is almost identical for children 7 to 14.

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<sup>1</sup> Picot, G. and Myles, J. (1995), *Social Transfers, Changing Family Structure, and Low Income Among Children*, Research Paper Series, No. 82, Analytical Studies Branch, Statistics Canada.

Figure 1

### Sources of Disposable Family (AEA) Income, Children 0 to 6 in Families Below 50% of the Median Disposable Income



Source: Statistics Canada

If income before taxes and transfers is examined, among children 0 to 6, the incidence of low income increased by approximately 8 per cent from 1981 to 1991. After taxes and transfers, the increase is under 2 per cent. Similar trends occurred among older children. What this means is the redistribution of income inherent in the tax structure and transfer programs worked as it should have and reduced low income rates. Another observation to be made from the data is that the gap between the rate of low income before and after accounting for transfers has been expanding. This means that the amount of redistribution has been increasing. The end result of this is that although declining real and relative earnings have put children at greater risk of poverty, income redistribution programs have adjusted to compensate for falling labour market earnings.

Figure 2 shows the sources of transfer income for children 0 to 6 in low income families for the years 1973 and 1988. The main areas of increase in terms of transfer payments have been in the Child Tax Credit, which did not exist in 1973, and social assistance, which climbed from 17 per cent to 27 per cent of income. (See glossary box for definition of transfer payments)

Using regression analysis, the authors of the study found that the small increase of 0.9 per cent in the proportion of children 0 to 6 in low income families over the 1973 to 1991 period was hiding two opposing changes. On the one hand, there was a 4.7 per cent increase in incidence of low income due to economic factors, but at the same time, there was a 3.8 per cent decrease due to demographic factors.

## Glossary

### ***Adult Equivalent Adjusted (AEA) Income -***

A per capita measure of family income where income is adjusted to account for the economies of scale achieved by larger families. Family members are given weights, where the first person is weighted at 1.0, the second by 0.4. Each additional adult is weighted 0.4 and each additional child is weighted 0.3 (in single parent families, the first child is weighted 0.4).

### ***50% Median Disposable Income -***

Income distribution is based on AEA income and low income families are defined as those families whose income is less than 50 per cent of the median equivalent income.

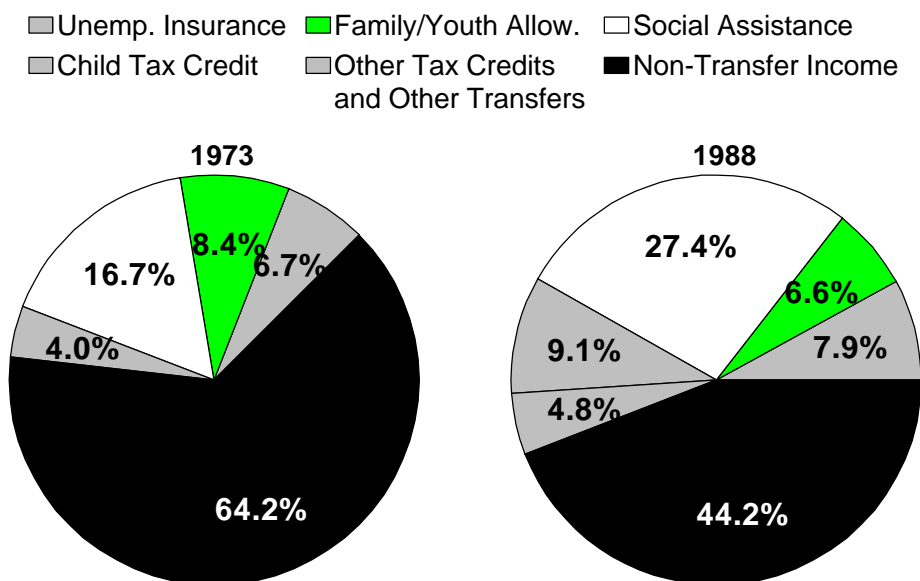
### ***Transfer Income -***

Income from the following sources: family and youth allowances, Old Age Security (OAS), Guaranteed Income Supplement (GIS), Canadian Pension Plan (CPP), Quebec Pension Plan (QPP), Unemployment Insurance benefits, social assistance, provincial tax credits, child tax credits, federal sales tax credit, GST credit, other government transfers.

In addition to increasing transfer payments, the changing demographic and labour market characteristics of Canadian families is another reason for the lack of a corresponding increase in child poverty in the face of declining earnings for young adults. Changes of importance that have occurred include: a higher average level of educational attainment, which has resulted in an increase in earning power for many young adults; an increased incidence of multiple earner families; a trend toward fewer children per family; and an inclination toward delaying having children until later in life. These changes have outweighed the effects of a substantial increase in the number of single parent families, and contributed to keeping the level of child poverty lower than it otherwise would have been if demographic factors had remained constant.

Figure 2

## Sources of Disposable Family (AEA) Income, Children 0 to 14 in Families Below 50% of the Median Disposable Income



Source: Statistics Canada

To summarize, despite increasing inequality between older and younger wage earners in terms of labour market earnings over the last 20 years, the distribution of family income has remained fairly stable. The incidence of young parents and children in low income categories has tended to follow the business cycle, rather than the long-term trend toward lower earnings for younger adults. The Statistics Canada study has identified two reasons for the apparent contradiction. The first is a trend toward higher transfer payments, increasing as a proportion of income of lower income families. The second reason is the change in the structure of families in which children live. These two factors have helped compensate for declining earnings and have kept young children out of low income groups. Whether these factors will continue to offset the conditions in the labour market that are exerting upward pressure on the incidence of child poverty remains to be seen.