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The Prince and the Pauper: Movement of Children Up and Down the Canadian Income Distribution, 1994-2004

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Abstract

This paper uses longitudinal microdata from the Statistics Canada National Longitudinal Survey of Children and Youth (NLSCY) spanning the years 1994 through 2004 to study patterns of family income experienced by a cohort of 7163 Canadian children for most of their childhood. Five principal questions are addressed: 1) What trends in the level of real family income are apparent?; 2) What happens to inequality of income among this group of children as they grow up?; 3) Are the same children always the ones to be 'stuck at the bottom' or, alternatively, 'secure at the top' of the relative income distribution?; 4) What are the characteristics of the children who are most likely to ever or always be in the bottom (or top) of the distribution?; 5) What changes in characteristics are associated with movements up or down the income distribution?

Executive Summary

This paper uses longitudinal microdata from the Statistics Canada National Longitudinal Survey of Children and Youth (NLSCY) to study patterns of family income experienced by a cohort of children who were aged 0 to 7 in 1994 until they are 10 to 17 in 2004. The NLSCY provides a relatively large sample of children (over 7000 observations) as well as the longest longitudinal panel yet available in Canada.

We ask five main questions about family income. First, what happens to average levels of real income experienced by this cohort of Canadian children as they grow from pre-schoolers to teenagers? We find that average real levels of annual income have increased at all points of the income distribution. Second, what happens to inequality of family income? While there is considerable inequality of annual income apparent, we find that the level of income inequality has neither increased nor decreased *for this group of children* over the ten year period studied.

Third, and more innovatively, we take advantage of the longitudinal nature of the NLSCY to ask how much movement up or down the income distribution takes place? An important point for policy is that we find considerable 'stickiness' of position. For example, about half of the children who were in the bottom quintile of the group's income distribution in 1994 were again observed in the bottom quintile in 2004; only 4 percent of these children had moved up to the top quintile. At the same time, if we ask how many children have ever been exposed to a position of low income, it is also policy relevant that we find much higher rates than cross-sectional data might suggest. For example, 40 percent of children in our cohort 'ever' (in one of six cycles of data) had a family income that would place them in the lowest 20 percent for their cohort. More children of immigrant parents have 'ever' been in the bottom quintile (54.5 percent compared to 40.0 percent); and, more children of immigrant parents have been 'stuck' at the bottom (9.2 percent compared to 4.7 percent).

From the perspective of policy, it also seems important to know the characteristics of the children who are most likely to be 'stuck' at the bottom of the income distribution throughout childhood. Indeed, experiencing low income year after year has been described as an important aspect of 'social exclusion;' moreover, longer-term measures of family income have been found to have stronger relationships with non-monetary aspects of child well-being such as health and happiness. Thus, the fourth question we ask is: "which starting point (1994) characteristics are associated with a higher risk that the child will ever or always be at the bottom the income distribution during the 1994 through 2004 period?" Multivariate analyses suggest that the key correlates of the probability of *always* being in the bottom quintile of the relative income distribution include, in order of size of association, living in a lone-parent family, having a parent

without paid work, living in one of the Atlantic provinces, or having a parent who is non-white.

Finally, we ask which *changes* in family characteristics have the largest associations with movements up or down the relative children's income distribution. Again, in order of size of association, divorce/re-marriage of parents, regional migration, changes in employment status of parents, having a parent return to or complete school, and changes in the number of siblings present are most important.