



Intergenerational Welfare Participation in New Zealand

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Introduction

- The issue of the intergenerational transmission of economic advantage or disadvantage has been around for a long time (e.g., see Becker and Tomes 1986).
- Early studies found relatively low correlations for parents and children suggesting substantial mobility. However, measurement error on the 'permanent' status of parents can lead to a downward bias on estimated intergenerational correlation.
- Later studies (e.g., Solon 1992 and Zimmerman 1992) with more detailed information on parental histories found higher correlations of around 0.4 and less 'mobility' between generations.



Our Study

- Maloney, Maani and Pacheco (*Australian Economic Papers 2003*) focus on the intergenerational transmission of welfare participation between parents and their children in New Zealand.
- Motivated by the relative stability in the overall structure of welfare programmes in New Zealand over our sample period (late 1970s through late 1990s). Substantial reforms would be expected to weaken transmission (e.g., demise of the AFDC programme in the US).
- We use data on the benefit histories of parents and their children from the Christchurch Health and Development Study. We have indicators of welfare participation for parents over ages 1 to 14 of their children, and for these youth between ages 16 and 21.



Table 1
Mean Benefit Propensities Among CHDS Youth Sample

	Size	Y
Entire Sample	847	0.101
<i>By Gender:</i>		
Males	411	0.085*
Females	436	0.117*
<i>By Ethnicity:</i>		
Non-Maori	735	0.088**
Maori	112	0.191**
<i>By Education:</i>		
Some Qualification	708	0.064**
No Qualification	139	0.293**

- Using various sources, we compute a benefit participation rate for ‘youth’ of around 10% between ages 16 and 21. This is significantly higher for females, Maori and those without qualifications.

- Lot’s of dispersion. More than one-half never received benefits.



Estimates of Intergenerational Correlations

- We show the importance of having a ‘long panel’ on the benefit histories of parents. Using only a single year observation, the estimated correlation with their children averages 0.218. With a 14-year window, this increases to 0.345.
- This won’t completely eliminate measurement error in the ‘permanent’ welfare participation of parents. Thus, it may continue to *underestimate* the true intergenerational correlation. Instrumental variables provide alternative results that might *overestimate* this true correlation. The two should provide lower and upper bounds.
- These IV results provide substantially higher estimates for this intergenerational correlation, but are somewhat volatile.



Extensions and Conclusions

- We found that these intergenerational correlations may vary for subpopulations (by gender, ethnicity and qualifications).
- We also found that about $\frac{1}{4}$ of this transmission mechanism may operate through the lower educational qualifications of children in households receiving benefits.
- Attempts should be made to replicate and extend this analysis with other data sources and updates to the CHDS cohort. Our findings suggest that the true intergenerational correlation in welfare participation is at least $\frac{1}{3}$.

