HOW LACK OF ASSETS AFFECT CHILD POVERTY AND SOCIAL EXCLUSION

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Despite progress in the policy and economic sphere since the political transition, many South African children are still caught in poverty traps and are socially excluded. Poverty traps occur where there are self-reinforcing mechanisms that cause poverty to persist. Poor children require an enabling environment in terms of health, education, assets, social and family networks, and geography to escape a poverty trap. Children caught in poverty are also potentially subject to social exclusion, the process that excludes them from full participation in society.

One manifestation of poverty traps is a high degree of chronic poverty. Recent data indicate that about 41% of South African children are chronically poor, while another 32% are in households that moved into and out of poverty between 2008 and 2012. Almost all chronically poor children are also in structural poverty. That means that their households have too few assets and productive potential to allow them to break out of poverty – a real poverty trap. Children caught in structural and chronic poverty are likely to become poor adults, whose children in turn will grow up poor, illustrating that the poverty trap has an intergenerational dimension. That also makes it more likely that such children will experience social exclusion.

The persistent nature of poverty traps means that the characteristics of the poor are slow to change. Today, as before the political transition, children caught in poverty traps are most likely to be black Africans, to live in rural areas of the former homelands, and to have poorly educated parents. Weak family structures also mean that they often do not live with both parents.

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INTRODUCTION

South Africa has made remarkable progress in the two past two decades in reducing the effect of poverty and social exclusion on children. South African society has undergone a transition which has fundamentally changed the context within which these phenomena operate. The abolition of apartheid has opened opportunities for greater participation in society for the majority and service delivery became more targeted at the poor. Important social trends such as rural-urban migration and rapid fertility decline also changed the opportunity set for many people. Total fertility (the number of children born per woman) has declined to 2.34, not far above replacement level. As a consequence, women's choices and labour market participation have increased, and fewer unwanted children are born. Improved formal housing and municipal services provision has changed circumstances for large numbers of citizens. Few school-age children leave school before the age of sixteen. The massive expansion of the grant system has been an important source of access to finance for many poor families and has contributed to the decline of money-metric poverty and hunger amongst children. In these circumstances, poverty has declined and opportunities have been expanded. But economic growth acceleration was not rapid enough to draw many unemployed into the labour market, and those excluded from the labour market are typically also marginalised in other dimensions. Moreover, despite improvements in income of many of the poor, few of them have substantial assets or wealth. This means that they remain extremely vulnerable to possible income shocks and that they have limited means to escape from poverty permanently. This also affects the life chances of their children, while the children also endure lack of assets as a source of social exclusion.

Assets influence life chances

As assets are an important determinant of a household's well-being, the distribution of assets in a society has vital implications for the well-being and life chances of children. Deprivation in intangible assets (health, education, social capital) may serve as poverty trap mechanisms. Perpetually low tangible asset levels may also present a poverty trap. Household asset levels are a useful measure of relative wealth or welfare, and are often used in measuring poverty. The asset levels of a household generally reflect their means for consumption and, as Naschold argues, their asset accumulation is what ultimately determines their ability to escape poverty[1].

The poor face great difficulty in accumulating assets due to being '*liquidity constrained*' as well as '*credit constrained*'. When liquidity constrained, a household's income is too low to enable it to accumulate savings; credit constraints imply that poor households, having no collateral, are unable to borrow. Liquidity and credit constrained households have a limited ability to undertake investment, whether that is in better education for their children or in assets that may generate income from business activity and thus help to move them out of poverty. They are ensnared in a poverty trap.

Barrett and Carter[2] present a model that describes asset-based poverty traps. A credit-constrained household can in any given period consume only its current income and stock of accumulated assets. Model simulations show that individuals can, in the long-run, end up in either a poor or non-poor state. Implications include the following: initial asset endowments determine the long-run outcome of asset holdings; and the absence of insurance or credit market access implies that individuals who suffer a shock to their asset holdings may be pushed into a poverty trap.

Early childhood development is crucial for later life outcomes, and this requires investments. Households with limited assets can seldom undertake such investments in quality childcare, education or other developmental activities for their children, thus low asset holding negatively impacts on child outcomes.

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Adato, Carter and May[3] (2006) analyse household data from KwaZulu-Natal and find evidence for the existence of a poverty trap. Specifically, they estimate that "*households that begin with an asset base expected to yield a livelihood less than two-times the poverty line are predicted to collapse toward a low-level poverty trap with an expected standard of living equal to 90 per cent of the South African poverty line*". They also present qualitative data that describes some of the factors associated with households stuck in a low-income trap.

Divergent results from studies on the role of assets point to different underlying mechanisms. Certain households are better off than others who exhibit otherwise similar characteristics, and in all cases liquidity constraints and social networks appear to have some importance.

Assets, home background and life chances in South Africa

Twenty years after the end of apartheid there are still large differences in the asset holdings and wealth of South African households. Poor and black households tend to have low initial asset levels and poor access to credit; and theory suggests that this can function as a poverty trap. Data shows that substantial differences remain in the asset holdings of poor and affluent households. Insurance products, luxury electronic equipment are bought almost exclusively by the most affluent. Debt is more evenly distributed, but more accessible to the affluent.

The World Bank has developed an interesting methodology of contrasting the life chances of two individuals from different starting circumstances, which they refer to as human opportunity. Figure 1 uses this approach to show the likelihood that children aged between 10 and 14 from opposing ends of the spectrum in terms of home background would reach various benchmarks or live in certain circumstances.

	Child poverty 2001	Child poverty 2007	Adult poverty 2007	% of children in households whose head is employed, 2007
Western Cape	41%	25%	15%	67%
Gauteng	47%	33%	20%	63%
Northern Cape	67%	42%	27%	49%
Free State	75%	52%	34%	48%
North West	75%	54%	35%	41%
Mpumalanga	77%	54%	37%	49%
KwaZulu-Natal	78%	58%	40%	39%
Eastern Cape	83%	63%	44%	32%
Limpopo	84%	65%	49%	31%

FIGURE 1: Estimated probability (%) of reaching various benchmarks for children from contrasting socio-economic backgrounds (Source: Based on NIDS 2008)

A 'deprived background' is here defined as the situation of a child drawn from the bottom two quintiles (40%) of income per capita, having at least one biological parent living in the household but with neither parent having completed primary school.

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A 'privileged backgrounds' is defined as being from the top income quintile, living with both biological parents and with at least one parent who has completed matric or achieved tertiary education.

The figure shows that living in a disadvantaged household reduces the chances of reaching Grade 7 on time from 88% to 52%. Outcome differences are especially large in terms of the chances of a child from a poor socio-economic background living in a household with access to adequate sanitation, with only 20% of children from deprived backgrounds living in a house with a flush or chemical toilet,

whilst 96% of children from privileged households do so. Only 34% of deprived children have piped water in the dwelling, on site or in the yard, but 98% of privileged children do. These basic household amenities affect susceptibility to serious illnesses like cholera.

The chances of having access to a car (4% vs. 83%) or a computer (0.4% vs. 73%) are virtually nil for children from a deprived background. Thus deprived households have fewer assets, which in themselves determine other life chances. Poor children are also considerably less likely to live in households with access to electricity and where no overcrowding occurs. On the other hand, there seem to be only small differences in the likelihood of the child being underweight or stunted. These figures highlight the unequal life chances faced by children born into a life of privilege and those born into poverty. It is significant that data shows that a feeling of dissatisfaction with life appears to emerge at a relatively young age amongst poor children. This is reflected in differing life satisfaction of emerging adults from opposite end of the socioeconomic spectrum, with 'privileged' youth generally satisfied while the majority of youth from deprived backgrounds are far less so. At age 21 youths who grew up in poor households are much less hopeful about the future.

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BOX: MODELLING SOCIAL MOBILITY AND POVERTY TRAPS

Using a theoretical framework of Carter and May (2001) and NIDS data, poor households with children were categorised as either 'structurally' or 'transitorily' poor. Those structurally poor are stuck in a poverty trap. The method requires derivation a basic 'asset threshold' consistent with the poverty line. This asset line is then used to measure the relative means of escaping poverty. The term 'assets' is used here in the broadest sense, including "…conventional, privately held productive and financial wealth, as well as social, geographic and market access positions that confer economic advantage" (Carter & Barrett, 2006, p. 179). Based on their assets and how these assets are related to income earning opportunities, households were then classified into four groups:

➢ The stochastically non-poor are in danger of slipping into poverty because of limited assets.
➢ The structurally non-poor are non-poor and expected to remain so because of adequate assets.
➢ The stochastically poor's assets make it more likely that they will escape poverty
➢ The structurally poor are those who are poor and likely to remain so because of their low assets.

To place households into categories, their expected income is predicted based on their asset endowment. Then it is a simple matter of determining whether they are actually poor and to compare that with whether the model predicts them to be poor (i.e. whether they are above the asset threshold required to predict that they would not remain poor).

Between 2008 to 2012, 39% of children in the NIDS sample were structurally poor, and 25% structurally non-poor. Another 15% were structurally upwardly mobile (below the poverty line, but with enough assets that they could expect to escape poverty over time) and 6% structurally downwardly mobile (currently non-poor but in danger of slipping back into poverty due to limited asset holdings).

Applying this framework to the NIDS data, it is also possible to observe who is chronically poor. Those in chronic poverty are usually also structurally poor, i.e. their asset endowment makes it unlikely that they would escape poverty.

Initial conditions in poor households already diverged. Households in structural poverty were significantly poorer in asset-ownership. Children in these households faced more crowded living conditions, with more individuals per household. These households were also less likely to have access to insurance, mothers were less educated, households were more likely to experience child hunger, and children were more likely to be stunted and to have repeated a grade. All these factors take their toll on average levels of satisfaction with life, which are significantly lower than for other poor households. Indeed, considering respondents reported life satisfaction, it paints a stark picture of how happiness and life satisfaction differ among young people based on their position in the income distribution.

For instance, contrasting those who were chronically poor in the period 2008 to 2012 against those who started poor but moved out of poverty, the differences in terms of assets are stark: The former had an asset index 0.81 standard deviations below average, the latter only 0.33 SD below average. Whereas 46% of the former lived in crowded dwellings in 2008 (when both groups were poor), this figure was only 35% for the group that subsequently escaped poverty, even though they had similar income levels to start with. Only 7% of the chronically poor had insurance, against 40% of those who escaped poverty in this period. 35% versus 57% owned a dwelling, 50% vs 70% owned a television, and 34% of children in chronically poor households went hungry always or often, as against only 24% of children in households that later escaped poverty. Thus asset holdings are a good.

Conclusion

When poverty is likely to be temporary, it implies that the poor may cross over the poverty line at some stage. In this case policy may be designed either to hasten the exit from poverty, such as was done with the Child Support Grant, or to insure those at risk against temporarily dropping into poverty. In the presence of a poverty trap, where the poor do not have the assets to escape poverty, a different policy orientation is required, since temporary support is likely to be ineffectual in ensuring convergence to a stable non-poor outcome. More fundamental changes in society as well as in policy are required where the low assets of the household leave them vulnerable, and with limited means to escape poverty. That is, unfortunately, a problem that is still pervasive in South Africa.

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> ### HOW LACK OF ASSETS AFFECT CHILD POVERTY AND SOCIAL EXCLUSION
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> ➢ **Assets influence life chances, and this is true for both tangible assets and intangible ones (e.g. education)**
> ➢ **There are much fewer opportunities and worse outcomes in terms of important benchmarks for children from deprived backgrounds than for those from privileged backgrounds.**
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> **Most of the chronically poor (those who remain poor over time) are also structurally poor, i.e. they lack the assets that would predict that they are likely to be non-poor.**

The South African Human Rights Commission Report:

Poverty traps and social exclusion among children in South Africa

http://www.sahrc.org.za/home/21/files/Poverty%20Traps%20Report.pdf

http://www.sahrc.org.za/home/21/files/Poverty%20Traps%20Report%20Summary.pdf

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