Investments in Children among Low-income Families

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Parents of all social strata hope that their children will succeed and try to invest in their children to help ensure that they do so. However, not all parents have the same capabilities for investments, especially for monetary investments like spending on high-quality child care and education. Lower-income parents, whose budgets are stretched from expenditures on a range of necessities like food and housing, could reasonably be expected to forgo some spending on children as they simply do not have the necessary disposable income.

Yet recent evidence (Kornrich and Furstenberg forthcoming) suggests that there may be a 'floor' for monetary investment in children. Parents in the bottom two to three deciles of the income distribution spend similar dollar amounts as middle-income households on their children, suggesting that parents are unwilling to forgo certain sets of investments even when they are going through financial distress. Indeed, low-income parents also spend higher shares of income, suggesting that they borrow money for spending or cut back on other categories of expenditure to accommodate their investments in their children. Clearly, although money is limited, low-income parents still want to and do invest in their children. It is unclear, however, how some low-income parents are able to spare money for child-based expenditures given their lower incomes. To the extent that there are systematic differences between these and other parents, it may indicate ways in which policies could help enable investments among low-income parents and potentially reduce the reproduction of inequality.

In this paper, we take up the puzzle of how low-income households who engage in substantial monetary investments in their children balance their budgets. We ask whether and how their income, expenditures, and assets differ from those of other low-income households. We examine three possibilities: first, that households spending more on children expend less on other discretionary goods, freeing up money for their children. Second, we investigate whether households with expenditures report owing more to individuals outside the household or receive other transfers from outside the household which are not counted in income. Third, we investigate whether households draw down stocks of wealth or borrow to facilitate spending.

Investments in Children

Higher parental spending presumably buys children higher quality home environments and makes possible or improves access to early childhood, primary, secondary, and tertiary education. Certainly, there are other important influences on children, such as neighborhoods, schools, peers, and family processes. Parental spending, however, is likely to be unequal given substantial inequalities in income which produce constraints on income. Higher-income parents are likely to be able to purchase more items for their children outside of those to meet basic needs than lower-income parents, presumably helping create a long-term advantage for children in higher-income families.

Low income families must make serious choices about the goods they consume, as they spend higher proportions of their income on necessities than families with higher levels of income. Yet, there is heterogeneity among low income households in the proportions of income spent on various goods. For example, low income households with more children spend more on food and clothing than households with few. Among low income households, those in the lowest income deciles spend the most on food in the home and on housing, but the least on transportation, health, and food outside of the home (Castner and Malbi 2010). For this paper, we are primarily concerned with the question of how families with limited resources accommodate investments *most* related to children's educational achievement in the long-term at each stage of development. We thus examine three distinct types of investments: child care and enrichment items for households with children under the age of six, enrichment items and education for households with children age six to eighteen, and expenditures on college for households with children over the age of eighteen.

Variation in investments across families

The types of investments in children depend on both the age of children and family characteristics. For young children, monetary investment in early childhood education can have an influence on soci-emotional well-being, cognitive abilities, and economic success. Studies reveal short and long term benefits of center-based care for children (Barnett and Ackerman 2006). Some suggest, however, that this effect pales in comparison to other parental investments. For example, one study found no direct effects of the cost of child care or the extent to which home environments were enriching on child outcomes, but some indirect relationships (Yeung, Linver, and Brooks-Gunn 2002). However, the magnitude of effects varies with the quality of childcare. Higher quality child care in general has significant effects on the long-term achievement of young children, as experimental studies find modest but consistent effects, particularly for low-income children (Campbell and Ramey 1995; Vandell and Wolfe 2000; NICHD ECCRN and Duncan 2003; Schweinhart et al. 1993; Loeb et al 2004).

For older children, parents' ability to fund education plays a crucial role in determining children's school attendance and choice of schools (Steelman and Powell 1991). College costs have steadily risen over the past few decades in terms of tuition and activities to prepare for college. The decreasing affordability of college hit low income families the hardest. Low income youth are less likely to receive merit based grants for their higher education (Choy and Berker 2003; Perna and Li 2006). As such, low income families take out more loans or opt out of paying for their children to attend two- or four-year universities.

Alternative resources for investment

One concern in measuring the extent of parental investment purely through expenditures among low-income households is that the amount paid for services may not equal the value of the services received. Scholarships for higher education, subsidized child care for some low-income parents, and other possibilities may mean that children receive investments without paying for them. Government investments in children are typically designed to either offer the greatest investment to those in need or at the very least to offer equal opportunities to all children (Jencks et al. 1972). While qualification for and use these subsidies varies widely across states, the number of children receiving subsidies toward their childcare has steadily increased through the turn of the century (Collins et al 2007). Low income families that receive childcare subsidies are more likely to enroll their children in center-based programs than those that do not receive the funding assistance (Ertas and Shields 2012). In the case of scholarships, we are able to determine whether households receive these (provided they are reported), as they are counted as a source of household income. This may even be the case for items for younger children, as parents may receive these items as gifts or receive them through church or community group outreach programs.

Part of the difference between reported expenditures and incomes may also result from misreporting of total income and financial assistance received. Income is often under-reported, not least in part because respondents rarely report unofficial income. For example, single mothers ‘make ends meet’ through a variety of strategies including kinship support (Edin and Lein 1996, 1997). More recent research supports this, finding that low-income households may use a variety of strategies to try to deal with material hardships, including social program participation or reliance on social networks (Heflin, London, and Scott 2011).

Data

For our analysis, we utilize data from the 2000-2003 Consumer Expenditure Survey (CES) (U.S. Dept. of Labor 2003a, 2003b, 2005, 2007). The CES is a nationally representative survey of households in the United States administered annually by the Bureau of Labor Statistics. The rich expenditure data available in this survey makes it well-suited for our analysis of consumption patterns. Selected households are surveyed on a quarterly basis for one year about their payments, purchases, and sales. Because inquiries concerning income are only conducted annually, we average all other values across the quarters to create aggregate measures of annual expenditures and household characteristics. Though this strategy limits our ability to track variation in expenditures over time, it allows us to efficiently deal missing values on specific quarters across households. We pool CES data from the years 2000 to 2003 to increase sample size and limit bias that may be created from examining one year. Values are inflation adjusted to express constant 2008 dollars using the CPI-U-RS (Sahr 2010). We limit the sample to only low-income households because our central interest is in variation in expenditures among this subpopulation.