

Parental background and child outcomes: how much does money matter, and what else matters?

There is considerable evidence that children from low-income households often do less well at school and in many other ways than better off children. The welfare of our children, especially those in poor households, has been a high priority for government policy since 1997. The aim of this project was to see if we could find evidence that giving more money to low income parents (for example through the tax and benefit system) is likely to improve outcomes for their children, and to ask what else matters for child outcomes.

There is extensive knowledge within the research community about the negative outcomes *associated* with low income, but we know much less about whether low income *causes* these outcomes. This is because low income often goes hand in hand with difficult home environments, bad neighbourhoods and low quality schools. A major challenge for the project has been to try to isolate the causal effect of money from the effect of those other associated factors. This can be a difficult task, but must be addressed in order to answer the question “will giving poor parents more money make for better outcomes for their children?”

The first stage in our research was to provide a review of the methodological challenges involved in isolating the causal effect of income. The next stage of the research was a series of our own research projects, each within the overall research agenda. Drawing the new findings together, we have found that:

Parental income and child outcomes:

- Children are less likely to progress in education if they come from a low-income family. We undertook two projects considering this issue. We found that:
 - Parental income is an important determinant of whether a child decides to leave school at age 16; long-term income is most important, but there is also some evidence that short-term income changes around the age of 16 can also matter. We also looked at the effects of parents’ education. Although the children of highly educated parents are much more likely to stay on at school post-16 than children of less-educated parents, when we use appropriate methods to isolate the causal effect of parental education, these effects become insignificant. This suggests that it is other characteristics of highly educated parents, like their higher long-term income, rather than their additional education itself, which encourages their children to stay on at school. (*Contact: Ian Walker*)
 - Most of the gap in post-compulsory schooling decisions between children from rich and poor backgrounds is due to long-run family background and environmental factors, rather than short-term financing constraints. Overall, our results do not point to particularly large fragments of the population being ‘credit constrained’ in their educational choices, although we found evidence that the importance of short-term credit constraints on the staying-on decision has increased for a cohort born in 1970 compared to one born in 1958. (*Contact: Barbara Sianesi or Lorraine Dearden*)
- There is an inverse association between parents’ socio-economic status and whether their children smoke, but this is mostly due to education and whether parents smoke rather than income differences. Our analysis

of sibling differences in smoking behaviour suggest that increases in household income do not decrease the probability of the younger sibling smoking. This suggests that, if income matters at all, then it is permanent, rather than transitory changes in income that affects youth smoking behaviour. (*Contact: Laura Blow, or Andrew Leicester*)

- Unanticipated changes in Child Benefit (CB) are spent differently from other income – disproportionately on goods consumed predominantly by adults, such as adult clothing, tobacco and alcohol, such as adult clothing, tobacco and alcohol. This suggests that such variations in CB may not be of much benefit to children. However, children gain when CB is anticipated. This is consistent with the view that parents place so much weight on the welfare of their children that they fully insure them against any unexpected policy changes. This suggests that families would gain from more certainty about their future benefit incomes. (*Contact: Laura Blow, or Ian Walker*)

Education and child outcomes

- Early education (before the age of 5) appears to have had long-lasting and positive effects on a group of children born in 1958, leading to improvements in cognitive tests at ages 7, 11 and 16; as well as small gains in educational attainment, employment, and wages. Evidence of its effects on social skills is mixed, but in any case these effects do not appear to be long-lasting. The additions to wages due to extra schooling before the age of 5, of around 3%, are small compared to the estimated gains from an extra year of schooling later on in a person's school career, which have been estimated at around 6%. (*Contact: Alissa Goodman, or Barbara Sianesi*)
- Since parents inevitably exercise some influence over where their children go to school, it can be difficult to separate the effects of school quality from the effects of a child's parental background on their schooling outcomes. We estimated the effects of class size changes by considering differences between siblings from a large sample of Danish families. We found that the effect of reducing the average class size for compulsory schooling by 1 child (i.e. about 5%) is to increase the amount of post-compulsory schooling but only about 1%. The costs of such a policy are incurred much earlier than the benefits are received and we find that the discounted benefits (in terms of future wages) fail to cover the additional costs. (*Contact: Ian Walker*)

Other issues

- Teenage motherhood is frequently associated with negative outcomes both for mothers and their children; for example teenage mothers have considerably lower family income at age 30 than women who were not teenage mothers. But those who become teenage mothers are different in many other ways to those who do not, for example many come from very disadvantaged backgrounds. Once we account for this, we find that the effects of teenage motherhood itself may not be as detrimental as previously thought. This suggests that effective policies should focus on alleviating the longer-term disadvantage experienced by teenage mothers in their own childhoods, rather than simply on interventions in the teenage years to persuade young women to delay child birth. (*Contact: Alissa Goodman*)
- There is considerable inequality in child outcomes even at birth. Gestation and birth weight, which have been shown to matter for cognition and health outcomes later in life, vary considerably according to a large number of parental background characteristics, including ethnic group. (*Contact: Lorraine Dearden or Alice Mesnard*)

ENDS

Notes to editors:

1. A summary of the full set of research conducted under this project, funded by HM-Treasury's Evidence Based Policy Fund, and co-funded by Department for Education and Skills, Department for Work and Pensions, Her Majesty's Revenue and Customs, and Department for Culture Media and Sport is available in: "Parental background and child outcomes: does money matter and what else matters?" by Laura Blow, Alissa Goodman, Ian Walker, and Frank Windmeijer, DfES Research Report 660. A list of relevant publications can be downloaded from the IFS website
2. Additional research on the role of credit constraints in educational choices was funded separately by the Department for Education and Skills and can be found in "The role of credit constraints in educational choices: evidence from the NCDS and BCS70", by Lorraine Dearden, Leslie McGranahan and Barbara Sianesi.
3. A summary of findings from this research will be presented at a briefing to be held on Friday, 30th September 2005 at the Institute for Fiscal Studies. To reserve a place, please contact Bonnie Brimstone on 020 7291 4800 or at bonnie_b@ifs.org.uk