The Preoccupied Parent

How Financial Concerns affect Child Investment Choices

Sergiu Burlacu (FBK-IRVAPP) | Ermas 2021 Conference | Sibiu 30 Jul 2021

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"I had a thousand dollars in my bank account ... A thousand dollars. Extra. That I did not immediately need. It took weeks for me to come to terms with this fact, but as I did, I began to experience the most powerful advantage of money: the ability to think of things besides money."

Tara Westover - Educated

Poverty and Parenting

Low SES associates with low parental investment in human capital

- Commonly attributed to lack of knowledge, resources or wrong beliefs on the returns to investment

Early years: key window of opportunity to reduce human capital gaps (Almond and Currie, 2011, Walker et al., 2007, Heckman et al., 2013)

- Traditional interventions (home visits, workshops etc.) are costly and treatment effects on parenting fade out (Gennetianand Shafir, 2015)
- Simple interventions (text messages, reminders) equally promising at zero cost (Mayer et al., 2015, York et al., 2018, Cunha et al.,2017)

Problem: little attention paid to circumstances of being a parent living at risk or in poverty

Poverty and Parenting

Cognitive resources are limited and are directly taxed by poverty (Mullainathan and Shafir, 2013, Mani et al., 2013, Schofield and Venkataramani, 2021)

- Poverty shifts attention towards urgent needs at the expense of other domains (e.g. long term investments) (Shah et al., 2015, Shah et al., 2018)
    - When basic needs are met with difficulty - engaging with the child shifts out of focus
    - Cognitive mechanisms which can generate a behavioral poverty trap even if parents have the skills and correct beliefs on returns to investment

Research Questions

RQ1: Do financial worries triggered by poverty affect the allocation of resources between pressing needs and long term investments (in human capital)?

RQ2: Can a subsidy be an effective incentive to increase investments?

- Small costs at the expense of pressing needs can impede the adoption of beneficial technologies (Cohen and Dupas, 2010, Banerjee et al., 2010)

RQ3: Do financial worries change how parents respond to incentives?

- Parents can change behaviors in response to outside inputs (Das et al., 2013, Pop-Eleches and Urquiola, 2013)

Experimental Design

Setting

Conducted online on Prolific in May, 2018 (N = 349):

- Eligibility:
  - UK residents
  - a child below the age of 4
  - Yearly household income < £50,000

Outcome: £30 budget allocation in an experimental market between:

- groceries (pressing needs)
- educational goods for children (long term investments)
- luxury personal goods ("temptation")

2x2 designs combining the treatments:

- Psychological manipulation triggering financial worries
- 50% subsidy on educational goods for children

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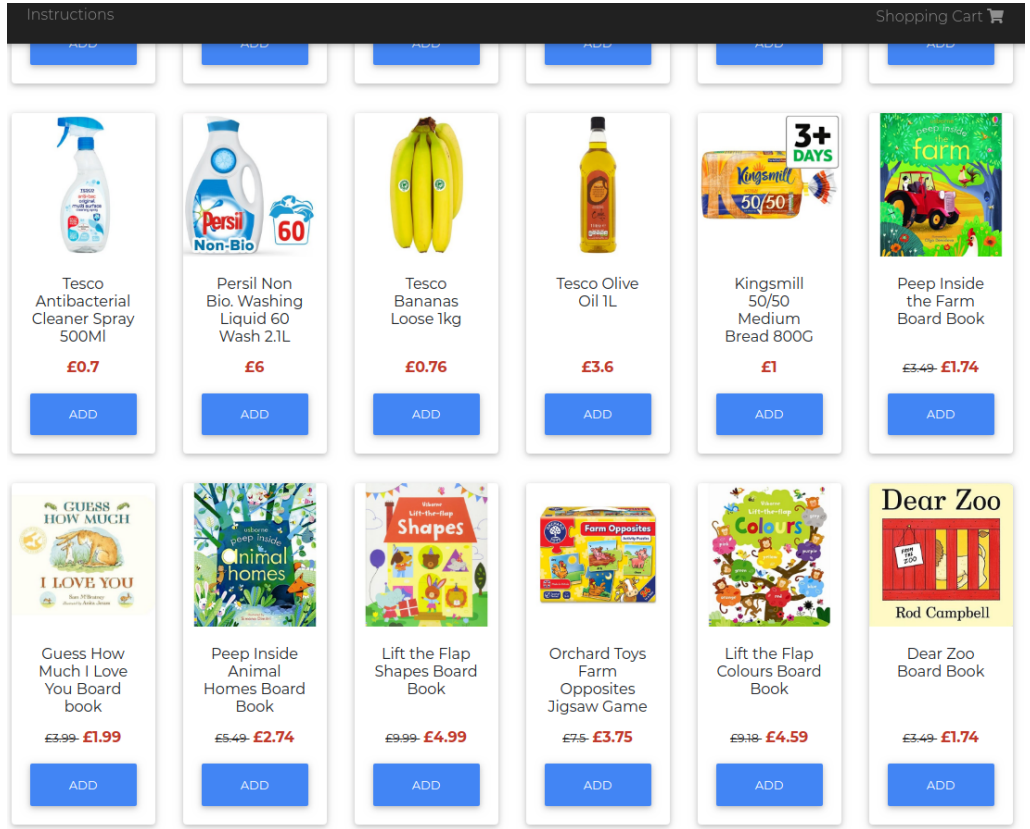

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Financial Scenarios

- Imagine that an unforeseen event requires of you an immediate £2000/100 expense. You need to raise the money in less than a week.
- Due to a national policy change, there is an increase in the monthly cost of childcare by £200/100, which amounts to a total cost increase of £2400/120 a year. This increase is not reimbursable by any government funding scheme and it applies to all forms of childcare (nursery, kindergarten, childminder, nanny, au pair etc.).
- Imagine that the economy is going through difficult times. Your household's monthly expenses increase by £300/15 due to higher food, energy and housing prices.

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Treatment groups

- Easy: easy scenarios and no discount
- Hard: hard scenarios and no discount
- Discount: easy scenarios and 50% discount
- Hard Discount: hard scenarios and 50% discount

Descriptives and Balance

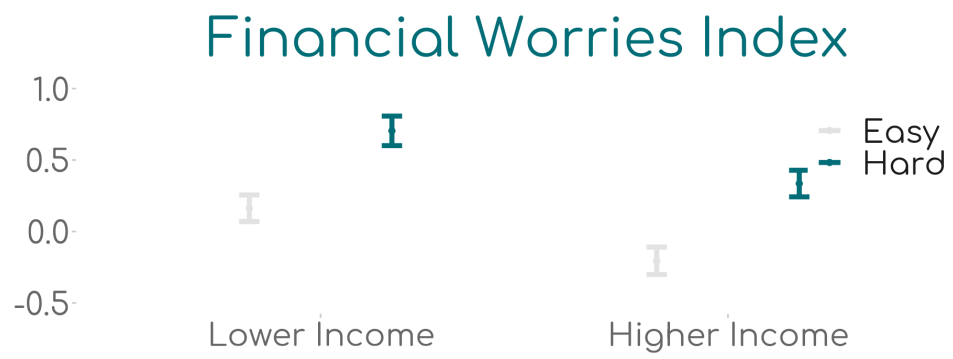
	Easy	Hard	Discount	Hard Discount	p-value
Child gender (Male)	0.43	0.53	0.44	0.50	0.56
Age in months	21.31	23.00	22.84	23.80	0.43
No formal childcare	0.46	0.41	0.45	0.44	0.92
Any sibling bellow 4	0.35	0.33	0.36	0.34	0.97
Age of parent	30.92	31.99	31.74	31.39	0.54
Gender of parent (male)	0.09	0.14	0.24	0.23	0.02
Completed higher education	0.51	0.45	0.47	0.55	0.60
Student	0.12	0.06	0.03	0.05	0.08
Nationality UK	0.89	0.95	0.90	0.92	0.47
Country of birth UK	0.88	0.93	0.90	0.88	0.75
Language English	0.93	0.95	0.94	0.93	0.93
Household size	3.98	3.65	3.97	3.80	0.20
Number of children	2.02	1.79	2.02	1.88	0.43
Spouse or cohabiting partner	0.89	0.88	0.88	0.92	0.81
Yearly income per adult equivalent	14.27	14.73	15.06	15.48	0.65
Yearly household income	27.85	27.78	29.17	29.72	0.66
Material Deprivation	-0.03	0.07	0.04	-0.05	0.56
Perceived SES (1-10 ladder)	4.81	4.76	4.76	4.92	0.91
Parent is employed	0.53	0.56	0.64	0.64	0.30
Spouse is employed	0.72	0.75	0.76	0.76	0.94
Any payments received in past month	0.61	0.71	0.67	0.58	0.27
Any payments received in past month (spouse)	0.59	0.77	0.70	0.54	0.02
Days since last payment	12.50	11.48	13.47	13.33	0.66
Has a credit card	0.68	0.74	0.64	0.69	0.61

Results

Hypothetical scenarios and financial worries

Did the psychological manipulation actually work?

- after the scenarios and before the task:
  - How worried do you feel about your financial situation?
  - How worried do you feel about not being able to find money in case you really need it?
- indexed in a standardized score



Both income groups affected by the treatment:

- similar jump in magnitude
- can we expect a linear effect of worries on household choices?

Treatment effects on household choices

- Y = expenditure at baseline prices in £
- covariates included + goods order FE
- OLS estimator with robust SE

	Lower Income		Higher Income	
	Child	Groc	Child	Groc
Hard (H)	-0.57	-0.44	3.14	-2.40
	(1.93)	(2.02)	(2.32)	(2.33)
Discount (D)	7.39***	-1.57	5.38*	0.44
	(2.73)	(1.99)	(3.02)	(2.27)
Hard Discount (HD)	1.90	3.79**	7.82***	-2.74
	(2.51)	(1.71)	(2.54)	(2.07)
Easy Mean	7.14	20.00	6.40	20.59
Controls	Yes	Yes	Yes	Yes
Adj. R2	0.04	0.07	0.02	0.07
Observations	182	182	167	167
p-values - Tests:				
D = HD	0.078	0.005	0.454	0.166
H|LI = H|HI	0.220	0.526		
D|LI = D|HI	0.621	0.506		
HD|LI = HD|HI	0.099	0.016		

Treatment effects on household choices

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Heterogenous effects by N days since last paycheck

	Lower Income		Higher Income	
	Child	Groc	Child	Groc
Hard (H)	-1.68	-1.47	3.58	-2.68
	(2.49)	(2.86)	(4.44)	(4.57)
Discount (D)	13.2***	-8.13**	10.9	0.91
	(4.45)	(3.41)	(7.14)	(5.73)
Hard Discount (HD)	**11.6****	**-3.50**	**7.45**	**-2.16**
	(5.15)	**(3.08)**	**(7.04)**	**(6.37)**
Days since last payment (Pay)	-0.014	-0.039	-0.10	0.20
	(0.22)	(0.21)	(0.21)	(0.21)
H x Pay	0.23	-0.092	-0.22	0.14
	(0.23)	(0.25)	(0.28)	(0.28)
D x Pay	-0.31	0.44*	-0.16	-0.13
	(0.29)	(0.25)	(0.36)	(0.30)
HD x Pay	**-0.66****	**0.39***	**-0.038**	**0.040**
	(0.30)	**(0.23)**	**(0.39)**	**(0.34)**

Discussion

Limitations: only scratching the surface (hopefully inspiring future work):

- low external validity, small sample, weak incentives, replicability?
- may not actually capture investment behaviors but only intentions
- limited in making normative statements

Contribution:

- channel which may contribute to the inter-generational transmission of poverty
    - potential explanation for the success of low-cost parenting interventions
- flexible tool to measure parental investment in the field without relying on self-reported or invasive and costly measures
- social policies reducing financial uncertainty may positively impact human capital investments