The Impact of Wealth on Child Development Outcomes

Invited Testimony to the Senate Finance Committee,
Subcommittee on Social Security and Family Policy

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Thank you, Senators Santorum and Conrad and Members of the Senate Finance Committee Subcommittee on Social Security and Family Policy, for inviting me here today. I am honored to give this testimony.

It is well documented that income poverty has negative consequences for children (Duncan & Brooks-Gunn, 1997). But if a poor family accumulates wealth, does this ameliorate negative consequences (wealth building as a promotive or protective factor)? In the last decade, with more attention being given to wealth as an indicator of inequality, several authors have included it as an aspect of household socio-economic status (SES) when considering child outcomes. Conley (1999) tests the hypothesis that most of the differences attributed to race are actually class differences defined primarily by wealth. Measuring the adult outcomes of children born since 1962, Conley analyzes differences in net worth, high school graduation, college graduation, repeating a grade, labor force participation, wages, welfare receipt, and pre-marital childbearing (for daughters) and finds that racial differences are either no longer significant or dramatically lessen once parental wealth is added to the equation. Shapiro (2004) makes a similar case using qualitative interviews to demonstrate how parents use either personal wealth or money inherited from their own parents' wealth to create transformative opportunities for children, particularly via enrollment in better schools.

It is difficult, however, to disentangle the effects of wealth, income, parental education, home environment, and neighborhood effects on child outcomes. Thus some doubt whether encouraging asset building would be most beneficial to children as a policy option. I have tried to respond to this conversation in two ways. Firstly, by examining the impact of wealth on child development outcomes using a longitudinal nationally representative dataset, the Panel Study of Income Dynamics (PSID) and its 1997 Child Development Supplement. Most of the research presented here comes from this secondary analysis. But secondly, I am also currently working with colleagues to gather primary data that directly tests the efficacy of children's savings accounts (more information on SEED demonstration and research is provided later).

My initial research question is simply: what is the impact of household wealth on the academic and behavioral outcomes of young children?

A second research question is: Do racial disparities in child outcomes decline as wealth is added to regression models? This inquiry reflects the idea that large and longstanding differences in wealth by race may be an important contributing factor to racial disparities in a variety of child outcomes.

Using PSID data, I examine the impact of household wealth on multiple child development outcomes for Black, White, and Hispanic children between the ages of three and twelve. Overall, household wealth is a significant predictor for academic achievement test outcomes and reported behavior problems even at these young ages. In a few instances, not only does having information about household wealth over and above traditional SES measures such as income and parental education add explanatory value, but it also reduces the statistical significance of income. Turning to the issue of

racial differences, disparities in the academic achievement domain by race go away or are significantly reduced as wealth and the other SES variables are added to the model. Initially there are no racial differences in reported behavior problems. After all the SES measures are added, however, Blacks and Hispanics become less likely to have such problems. (See Tables 1-2 in the Appendix to observe selected specific statistical findings).

A third question is whether household wealth is of benefit to children in families that are poor or face other disadvantages. Thus far, it has been established that even when controlling for other important variables, wealth seems to influence child outcomes. But is this a robust finding or does it really just confirm that households with few assets also have less of other resources so wealth just serves as a proxy for these other things? The issue is complex because so many of these factors are interconnected. In an attempt to address this question, I divide the sample into four groups based on whether the household is income poor and or asset poor. Income poverty is based on the standard definition of whether household income falls below the federal minimum for a given family size. Asset poverty is based on a measure of net worth including home equity. Households that are in the bottom quartile of the wealth distribution (net worth <$750) are defined as asset poor.

The distribution of these various subcategories can be found in Chart 1. Although a slight majority of the income poor is also asset poor, 40 percent of these households do have a net worth higher than $750. And although the majority of those above the poverty line have some wealth, 18 percent are poor in assets, with a net worth of lower than $750. Given that there is some differentiation of asset holdings within income groups, it becomes possible to examine income poor households that have some assets to see if their children fare better than poor households with few or no assets. It is also possible to consider households that are above the poverty line but have few assets and examine if their children fare worse than households with more wealth.

Summaries of dependent variables, independent variables, and mediating variables for the four combinations of income and asset poverty can be found in Table 3. Analysis of Variance (ANOVA) was conducted to test for significant differences between groups. When a group's mean for a variable is significantly higher than the groups below it, the value is in bold type. When a group's mean is significantly lower than the groups above it, the value is marked with a "+". As can be seen in the table, outcomes often increase in an orderly fashion from the most disadvantaged group (Asset poor and Income Poor) to the most advantaged group (Asset rich and Income Rich).

There are several interesting patterns that emerge. For many measures, the most advantaged group (Income rich and Asset Rich) is far ahead of all other groups. This is true for the academic test scores, the behavior problem index, parental expectations and economic strain. For other measures, the two Income poor groups are similar and the two Income rich groups are similar, regardless of asset level. This is true for several of the physical health outcomes and parental depression. For some measures, the two mixed groups are similar with the advantaged group faring significantly better and the more

disadvantaged group (Income Poor and Asset Poor) faring significantly worse. This is true for homeownership, neighborhood rating, and the food security scale. Overall, assets don't seem to help much in terms of the physical health variables although even within households with incomes above the poverty line, children in those with assets have statistically higher birth weights. For school attendance (days absent), those that are income poor but asset rich are not statistically different from either of the non-poor groups.

Income poor asset rich households tend to have the most favorable outcomes within the intermediary variables. In a sense, they look more like the non-poor households. Excluding parental depression, HOME scores, and economic strain, the income poor households with a net worth above $750 are most similar to the income rich asset poor group. They rate their neighborhoods as a better place to raise kids, they read to their young children, they are less likely to experience food insecurity, they have higher expectations for their child's schooling, and their children watch less television on average. Thus, it is possible to make the case that community and family processes differ for households with assets. This criteria alone might lead to the expectation that children in income poor, but asset rich households are better off than children income poor households without assets.

Of course, assets are not a panacea for all potential problems that are associated with income poverty. However, in most instances children living in households with higher levels of net worth seem to have consistently better results than those in households with little or no net worth. This seems to hold true even for those households that fall below the income poverty line. These analyses were done with a low threshold for asset poverty (net worth including home equity < $750). This is reflective of the UK finding that even low levels of savings and assets seem to make important differences (Bynner, 2001). Patterns are similar, however, when higher levels of wealth are considered. Chart 1 demonstrates how the distribution of households in each category changes with a higher cut-off point. When summarizing the same variables in Table 3 defining asset poverty using the higher $5000 threshold, results are almost identical.

Although there are benefits to using large-scale nationally representative longitudinal datasets to address important policy concerns, there are also limitations. In the PSID, there are possibly unobserved variables that influence parental economic situation as well as child outcomes. Thus, any significant findings may not be solely due to the effects of assets.

Arnold Sameroff in his studies of child development in the context of environmental risk finds that any one risk factor (such as low-income or single parent households) does not guarantee poor child outcomes. Typically it is a constellation of multiple high-risk variables that is most predictive of the most negative child results. In fact, he consistently finds that a competent child with a high level of human capital living in conditions of high environmental risk does worse than children of low competence in low-risk environments.

A second way to examine the impact of wealth and asset accumulation on child development is through primary data collection where families in a variety of contexts are offered the opportunity to participate. With support from philanthropic foundations, a group of national partners is undertaking an intensive multi-year initiative known as SEED—Saving for Education, Entrepreneurship, and Downpayment. This demonstration will develop and test the efficacy of matched savings accounts and financial education for children and youth. For more information on the specifics of SEED, visit the website www.cfed.org.

I am co-investigator for the impact assessment portion of SEED where in the context of a quasi-experimental design, 500 low-income families with pre-school children will be offered college savings accounts in Michigan. These families will be followed over a four year period and compared with a control group on a variety of parental and child outcomes. Wave One surveys have already been completed and the families are now being recruited to sign up for accounts.

As we look forward to the findings of the SEED initiative to address questions about the possible impact of child accounts more concretely in the near future, there is one result my colleagues and I found from in-depth interviews with ADD (American Dream Demonstration) participants I would like to highlight. In addition to saving money and over time possibly acquiring an asset such as a home or secondary education, being in the program seemed to create focus and generate hope, even in economically fragile households. This focus and hope was not found at the same level in the control participants.

In the SEED impact assessment survey, we ask questions about parental expectations for their child's future and how much money is being put aside for their child's education. We know from theoretical work by Jackie Eccles that the beliefs and expectations of a child's socializer can impact their own self-schemas, which in turn affects a child's achievement related choices and performance over time. If findings similar to those from ADD can be found in SEED, we might note that parents have more hope and focus on helping their children reach goals of education and personal betterment using money set aside in these specially designated accounts. Based on my analyses of data from longitudinal nationally representative datatsets, it is feasible that assets and household wealth can lead to better outcomes for children. The potential, at least, is that with child accounts or some focused asset-building plan more young people could have glimpses of hope rather than expectations of repeating intergenerational experiences of failure both academically and economically.

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Appendix

Table 1: OLS Regression Model Predicting Applied Problem
(N=1466)

Independent Variables	Model I B(s.e)	Model II B(s.e)	Model III B(s.e)	Model IV B(s.e)	*Beta*
Child Controls					
1. Female	-3.36 (1.1)**	-3.04 (1.1)**	-3.11 (1.0)**	-2.97 (1.0)**	-.09**
2. African-American	-13.05 (1.2)***	-7.68 (1.3)***	-7.27 (1.3)***	-6.25 (1.4)***	-.13***
3. Hispanic	-15.47 (2.3)***	-10.92 (2.0)***	-10.90 (2.1)***	-10.29 (2.3)***	-.21***
4. Number of children	-1.01 (.6)	-1.20 (.5)*	-1.08 (.5)*	-.95 (.6)	-.06
5. Age of child	.87 (.2)***	.89 (.2)***	.84 (.2)***	.78 (.2)***	.17***
Parental Controls					
6. Female-headed household		.51 (1.3)	2.09 (1.4)	2.72 (1.4)	.07
7. Education of head		1.52 (.3)***	1.08 (.3)***	.91 (.3)**	.15**
8. Parental Skills Test		.60 (.1)***	.54 (.1)***	.52 (.1)***	.15***
Income					
9. Permanent Income			.60 (.2)***	.34 (.2)	.08
Wealth					
10. Net Worth				.45 (.2)**	.11**
11.Cash Accounts (Dummy)				2.67 (1.4)	.07
12.Debt/Cr.Cards (Dummy)				-2.99 (1.0)**	-.09**
13.Stocks/IRA (Dummy)				1.01 (1.3)	.03
R^2	.13	.21	.22	.24	
R^2 Change	--	.08	.01	.02	
F-value	32.77***	37.63***	34.99***	27.60***	

Note: Models I-IV contain unstandardized coefficients; analysis weighted by 1997 child level weight.
* p < .05, ** p < .01, *** p < .001

Table 2: OLS Regression Model Predicting Behavior Problem Index
(N=1885)

Independent Variables	Model I B(s.e)	Model II B(s.e)	Model III B(s.e)	Model IV B(s.e)	*Beta*
Child Controls					
1. Female	-1.06 (.5)*	-1.12 (.5)*	-1.09 (.5)*	-1.07 (.5)*	-.07*
2. African-American	.87 (.5)	-1.58 (.7)*	-1.85 (.7)*	-1.70 (.8)*	-.08*
3. Hispanic	-1.70 (1.4)	-2.84 (1.3)*	-3.08 (1.2)*	-2.68 (1.3)*	-.12*
4. Number of children	-.11 (.2)	-.25 (.2)	-.24 (.2)	-.28 (.2)	-.04
5. Age of child	.09 (.1)	.10 (.1)	.12 (.1)	.14 (.1)	.07
Parental Controls					
6. Female-headed household		2.32 (.7)***	1.73 (.8)*	1.76 (.8)*	.09*
7. Education of head		-.29 (.1)*	-.08 (.1)	-.08 (.1)	-.03
8. Employment Status of Head		-3.55 (1.2)**	-3.33 (1.2)**	-3.29 (1.1)**	-.14**
Income					
9. Permanent Income			-.26 (.1)***	-.19 (.1)*	-.09*
Wealth					
10. Net Worth				-.18 (.1)*	-.10*
11. Cash Accounts (Dummy)				-.03 (.8)	.00
12. Debt/Cr.Cards (Dummy)				1.48 (.5)**	.09**
13. Stocks/IRA (Dummy)				.43 (.7)	.03
R^2	.01	.06	.07	.08	
R^2 Change	--	.05	.01	.01	
F-value	2.37*	6.01***	7.10***	6.17***	

Note: Models I-IV contain unstandardized coefficients; analysis weighted by 1997 child level weight.
* p < .05, ** p < .01, *** p < .001

Table 3 Variable Summaries, by Income Poverty and Asset Poverty (Net Worth, <$750)

Variable		Group 1 : Asset Poor and Income Poor		Group 2 : Asset Rich and Income Poor		Group 3 : Asset Poor and Income Rich		Group 4 : Asset Rich and Income Rich	
	N	Mean	s.d.	Mean	s.d.	Mean	s.d.	Mean	s.d.
Dependent Variables									
Letter-Word Identification	1663	94.5	14.1	97.1	19.2	99.4	16.3	**106.1**	17.8
Applied Problems	1656	97.1	17.6	98.7	15.5	101.9	15.8	**108.7**	17.3
Sum of Digit Span	1820	10.1	4.7	9.5	5.0	10.2	4.9	**11.3**	5.1
Passage Comprehension (Children 6-12)	1153	95.3	14.8	98.6	14.1	100.4	15.3	**106.8**	15.6
Calculation Standard Score (Children 6-12)	1148	94.7	15.4	95.7	17.5	97.6	16.1	**104.0**	17.9
Birth Weight	2910	6.73	1.6	7.04	1.54	7.24	1.4	**7.49**	1.3
Health at Birth	2923	1.88	.57	1.88	.57	1.82	.56	1.79	.57
Disability	2933	.06	.24	.09	.29	.03	.18	.03	.17
Child's Current Health	2919	2.05	.99	2.06	.87	**1.79**	.88	**1.61**	.76
Specific Medical Conditions	2936	1.18	1.7	1.16	1.3	.92	1.4	.90	1.2
Behavior Problem Index	2230	43.8	10.8	42.1	9.4	41.0	9.1	**39.2**	7.5
Repeat a Grade	1467	.15	.35	.15	.36	.10	.30	.06	.24
School Attendance	863	2.17	3.9	1.28	1.4	1.53	3.1	.77	1.8
Independent Variables									
Permanent Income (average of 1994-1997)	2933	$9,511	6,667	$17,918	12,773	**$30,139**	20,205	**$56,635**	36,216
Homeownership	2936	.08+	.26	**.38**	.49	.36	.48	**.76**	.43
Change in net worth, 1994-99 (truncated)	1967	$6,258	18,583	$-3,828	26,983	**$17,778**	30,465	$24,065	52,514
Net Worth 1994 (top-coded at 100,000, bottom 0)	2076	$56	157	**$25,201**	32,567	$58	153	**$49,839**	38,299
Intermediary Variables									
Neighborhood Rating	1852	3.29+	1.04	**2.79**	1.08	2.60	1.09	**2.11**	1.09
Parent Reads to Child	2928	3.82	1.7	4.24	1.81	4.23	1.66	4.13	1.78
HOME Scale	2936	17.78	3.01	18.60	3.00	**19.52**	2.89	**21.03**	2.77
Parental Depression	1829	4.12	.74	4.06	.77	**4.30**	.67	**4.44**	.48
Food Security Scale	2936	1.25+	2.79	.61	2.79	.44	2.51	**-.43**	1.63
Parental Expectations	2877	4.00	2.08	4.48	1.89	4.68	1.93	**5.47**	1.65
Economic Strain	1796	2.50	1.90	2.40	2.15	2.05	1.73	**1.55**	1.78
Television Use (hours a day)	1731	8.34	4.35	7.44	5.54	6.24	4.32	**5.30**	3.64

Note: **Bold** denotes that the group mean differs significantly from all groups below, + denotes a sig. difference from all groups above.

Chart 1 Alternative Cross-tabulations of Income Poverty and Asset Poverty

With asset poverty threshold set at $750

	Income Poor	Income Rich
Asset Poor	200	317
Asset Rich	131	1426

With asset poverty threshold set at $5000

	Income Poor	Income Rich
Asset Poor	250	480
Asset Rich	81	1263