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Estimating Child Costs

A critical review
of the underlying concepts and
methods of estimation

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1996

A Thesis

presented to

the Department of Social Policy and Social Work

at Massey University

in partial fulfillment of the requirements for

the degree of MA(Soc Pol)

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1 Introduction

The objectives of this research were:

- to identify and examine the concepts underlying the notion of 'the costs of children' in both the New Zealand and the international literatures on the subject; and
- to provide a critical account of how these costs have been estimated and an indication of the sorts of values that have been produced as a result.

This study represents the 'document research' component of a larger research project which aims to produce some credible New Zealand based estimates of child costs and to provide a critical account of the rationales for State financial support for children in New Zealand in recent years. While it gives some estimates of New Zealand child costs (mainly on the basis of studies done in other countries) and is cognizant of policy implications, it is primarily a preparatory conceptual paper that supports the rest of the project. A comprehensive bibliography forms part of the report.

In a recent brief review of the literature, the Office of the Commissioner for Children noted that '[t]he New Zealand research on the cost of children is sparse' (Robertson, 1994: 20). This report is a first step towards meeting the need and is designed to give the inquisitive non-expert mediated access to the vast, complex and often rather abstract literature (including the more technical papers) and to be a practical and updatable guide on the subject. It stops short of major technical discussion and exposition, but for those with more advanced mathematical and statistical skills and for those who may be working in a team with such colleagues, the study provides a solid conceptual framework and a full critical discussion of the issues raised in seeking to produce credible estimates of the cost of children.

Major themes

Four major themes are developed in the paper. *First*, there is explicit recognition that the question of child costs has to be set in the context of families and the society in which they are themselves embedded. It is families, or more precisely parents, who in the main have access to the financial and other resources which are then allocated among family members. In modern industrial democracies children are relatively powerless to change their lot of extended economic dependence on their parents as the processes of state-regulated advanced capitalism exclude adolescents from regular full-time paid employment. The other side of the issue is that parents are expected to provide for their dependent children who in turn cannot contribute significantly to the family's material well-being. This provision by parents is analysed in terms of both the direct costs (food, clothing, shelter, and so on) and the indirect costs (arising primarily from child care provided by a parent or purchased to facilitate parental employment).

The evidence from the literature is that both components, and especially the latter, require a considerable outlay.

The standard economic models are applied to the relationship of children to their parents and to society as a whole. They are viewed as social investment goods, as public goods with both positive and negative externalities and as consumer durables providing a welfare (or utility) flow to their parents. There is also the recognition that 'children tumble out of every category economists try to put them in ... [as they] ... are also people, with certain rights to life, liberty, and the pursuit of happiness' (Folbre, 1994b: 86). The importance of conceptualising child costs from the point of view of the well-being of the children themselves is acknowledged.

Second, it is shown how the apparently simple task of estimating the direct costs of children is complicated by several often interdependent factors such as the sharing of some goods within the family, living within a budget constraint, the possible spreading of the costs over the life-cycle and changing adult preferences due to the presence of the children. If there are significant wider family contributions directed to the children or changing government policies regarding direct private contributions to the cost of, say, education and health care, then the challenges multiply.

Third, this study questions two aspects of the received wisdom that is transmitted in some of the literature: (1) the claim or assumption that those methods that are based primarily on expenditure survey data are *ipso facto* superior to those that rely primarily on expert opinion or the views of ordinary citizens, and (2) the claim that the more mathematically sophisticated utility function methods based on the consumer demand theory of microeconomics are superior to other approaches, whether based on expenditure survey data or not. A key contributing factor to the positive assessment of the economics based methodology is the oft repeated claim that the scope for arbitrary decision and value judgements seems quite limited in contrast to the situation for the other methods. This paper does not share that optimism and seeks to show how there are significant judgements involved in the assumptions of the theoretical framework of these so-called more 'objective' approaches, assumptions which often end up hidden deep within the mathematics. On top of this there is the fact that the household expenditure survey data that the method uses reports on market transactions only. This is in itself an arbitrary decision with significant implications for estimates of the cost of children.

Fourth, because the literature on the costs of children has a large overlap with that on the generation of sets of equivalence scales, considerable space is devoted to a critique of the issues surrounding their development. In particular it is emphasised that, given that no method of estimating such scales is free of value judgements and given the wide range of cost estimates produced, the practical reality is that there is no escaping the need to exercise informed judgement so as to come up with some 'plausible' or 'credible' scales. This paper raises the question of the need to revisit the basis of the judgements which lie behind the current New Zealand de facto official scales, whether they are taken to be the revised Jensen scales (Jensen, 1988) or Whiteford's geometric mean scales (Whiteford, 1985).

The structure of this report

The next chapter outlines a model for the distribution of welfare-relevant resources within the family, identifies the various costs and benefits associated with the raising of children, presents a comprehensive rationale for the need to have credible estimates of child costs and briefly explains why the task is so difficult. A Synopsis follows which seeks in the one broad sweep to give an integrated account of these complicating factors and the estimation strategies which have been developed to overcome them. Chapter four outlines the various components of the conceptual framework for 'the costs of children', makes explicit several key assumptions that the literature makes about the children and their family and social context, before identifying and discussing the different concepts of direct child costs. Chapters five to ten provide a critical account of the main estimation strategies, with chapter seven giving a comprehensive introduction to equivalence scales. Chapter eleven reviews some estimates of indirect costs and addresses the question of the cost of children in sole parent families. Chapter twelve examines the relevant New Zealand research and the study concludes in chapter thirteen with some general conclusions and a summary of the empirical evidence.