

# Wealth and the Extended Family: Evidence from the 2002 Child Development Supplement (CDS) and the Panel Study of Income Dynamics (PSID)\*

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## Research Questions

Does grandparent wealth influence child outcomes? And, are there differences, among different subgroups of the population, in the amount of resources available in this branch of the family tree?

## Abstract

This paper uses data from the Panel Study of Income Dynamics and the Child Development Supplement to examine the role that grandparents' wealth plays in shaping children's opportunities and outcomes. After providing descriptive statistics that paint a portrait of the volume of wealth that is available in the different generations of a child's family tree, the paper uses multivariate probit analysis to analyze the relationship between grandparent wealth and children's educational circumstances.

## Introduction

Wealth represents a pool of resources, beyond income, that families use to sustain themselves and to provide support to their offspring. Accordingly, knowing how families can use their wealth to aid their children is important, and certainly as important as understanding how parental income affects children. While there have been several theoretical and empirical studies of the relationship between parents' income and children's outcomes (Loury, 1981; Becker and Tomes, 1986; and Mayer, 1997), researchers only recently have turned to examining family wealth. The existing literature reveals that the amount of wealth that parents have has bearing on a range of adolescent, young adulthood, and mature adult outcomes, including the probability of completing high school; the probability of obtaining a college degree; non-marital childbirth; and the inheritances and inter-vivos transfers that adult children sometimes receive, which ultimately affect their levels of wealth and the degree of social mobility in society (Conley, 1999; Kotlikoff and Summers, 1988 for example). Other recent evidence suggests that parents may sometimes look outside the nuclear family to find resources that can be used on behalf of their children (Shapiro 2004, for example). More specifically, this ethnographic research suggests that wealthy parents often help their adult children secure quality schooling for their offspring, either by assisting with home purchases in good neighborhoods or by paying for private school tuition in instances in which the adult children are unable to afford to do such independently. This suggests that the size of grandparents' portfolios also may be an important determinant of child outcomes. While there are studies that examine the effect of parental income and parental wealth on educational outcomes, scholars have yet to empirically ask questions about the resources that children's grandparents have. Accordingly, it is not yet known whether there is a strong empirical connection between grandparent wealth and grandchildren's educational outcomes at the national level. Also unknown is what implications grandparent assistance might have for racial differences in opportunities and outcomes. The existing literature on wealth inequality reveals substantial racial differences in parental wealth (Oliver and Shapiro, 1995; Conley, 1999). And, it is important to inquire about whether these differences exist for many generations in the same family, and about whether the existing racial differences in extended family wealth explain some of the difference in experiences that black and white children have. The work of Shapiro and Johnson (2000) and Shapiro (2004) begins an inquiry into the role of grandparent wealth in perpetuating social inequality. Our research contributes to the discussion.

## Methods and Results

◇ Modified version of the Becker/Tomes parental investment model that extends the analysis to three overlapping generations provides the theoretical framework for the empirical analysis

◇ Multivariate probit analysis employed to examine the effects of grandparent wealth

· Parental education, child's age, family size, race, long-run average income, parental wealth, and grandparent wealth as regressors.

· Two specifications for each model: (a) regressions using family wealth in levels; (b) regressions using a dummy variable indicating whether parents (grandparents) have no wealth, as opposed to positive net worth.

◇Data sources and discussion of the data

·*The Panel Study of Income Dynamics (PSID)*

-Nationally representative survey that has followed U.S. families and their offspring since 1968.

-A rich source of demographic and socio-economic information about families and the individuals residing in them.

-Over 7,000 families in 2001

·*The 2002 Child Development Supplement*

-Representative sample of 2,907 children, age 5-18, from PSID families

-Information collected about children including their educational circumstances, neighborhood quality and school environment

·*My sample:*

-1668 CDS kids that could be matched to their parents & their grandparents, and for whom parental and grandparent wealth data was available

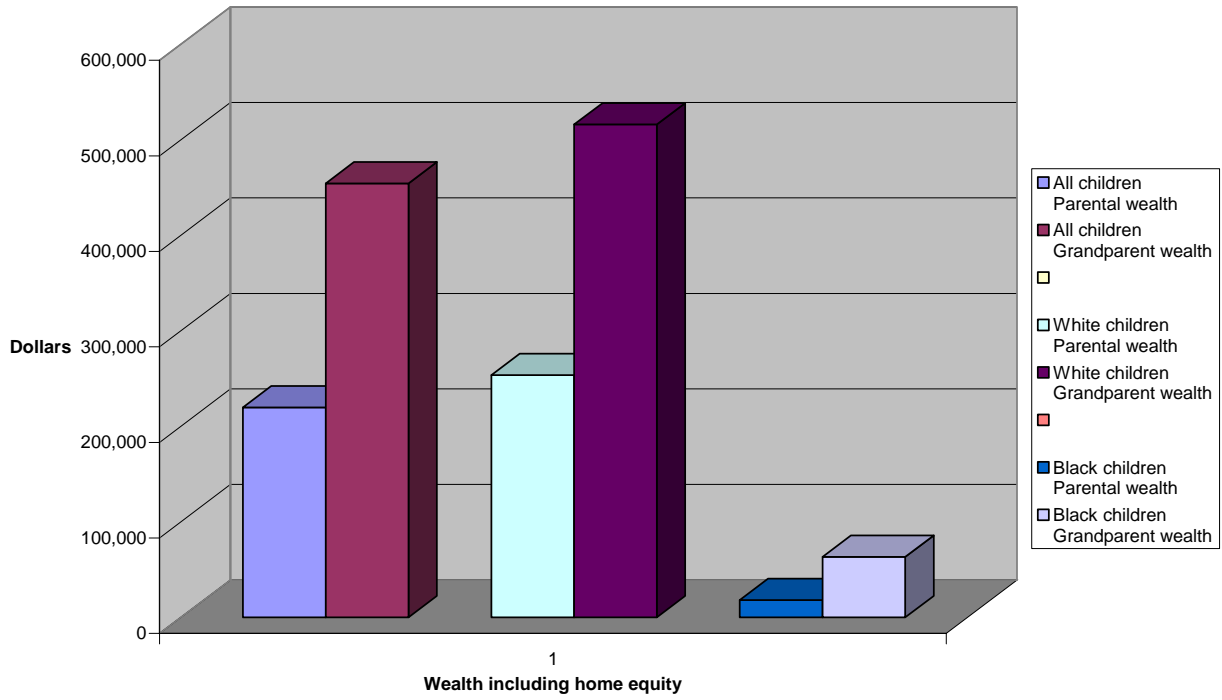
·*CDS outcome variables analyzed*

College choice (Will the child need to choose a school based on how much expenses, such as tuition, will be?)
College fund (Has the child's primary caregiver or other caregiver put aside funds for child to attend college or other future schooling)
College loan (Will the child need student loans or scholarships to help pay for college?)
Private college (Will the child consider private schools to attend?)
No private college (Will private schools not be considered because of the amount it costs to attend?)
Level of schooling desired (...in the best of all worlds, how much schooling would you <u>like</u> the child to complete?)
Level of schooling expected (Sometimes children do not get as much education as we would like. How much schooling do you <u>expect</u> that the child will complete?)
Neighborhood ok? (How the primary caregiver rates the neighborhood as a place to raise kids)
Child attending private elementary or secondary school?

◇ Findings

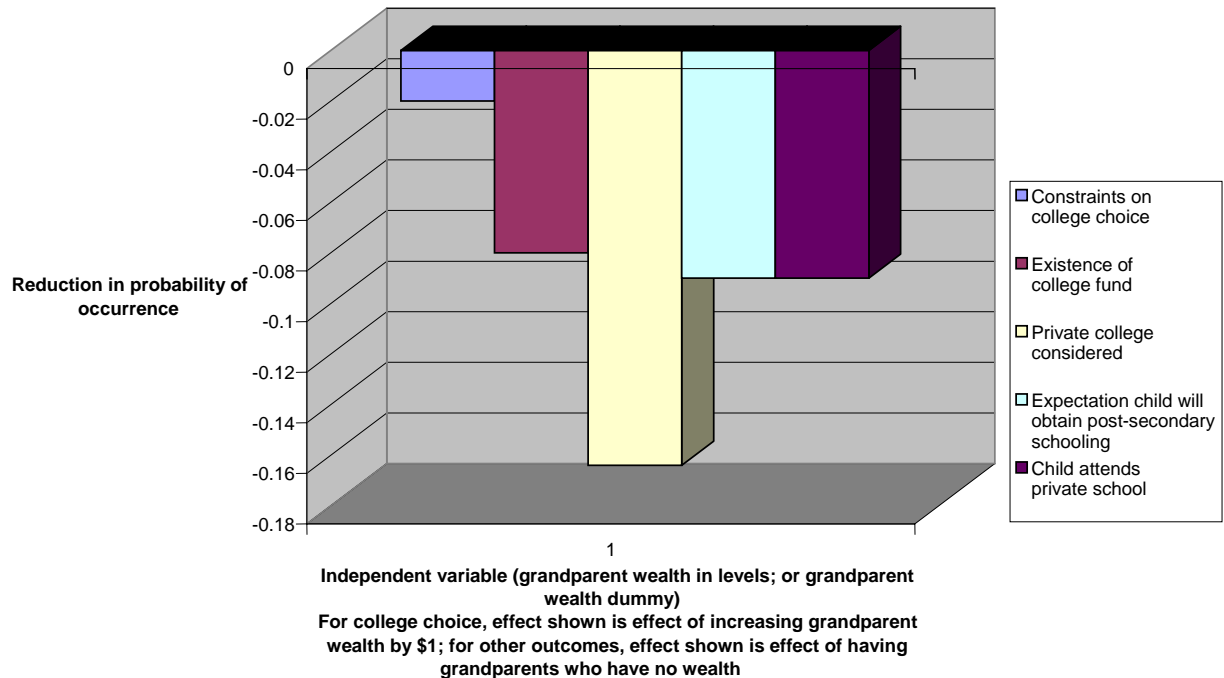
How much wealth exists in the average child's extended family?

**A Portrait of Family Wealth**



How does grandparent wealth effect child outcomes and opportunities?

**Marginal effects for the different outcomes (for statistically significant associations)**



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Acknowledgements

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