

The Cost of Raising Children: Setting the Agenda for Canada

Cost of Raising Children Symposium
March 7, 2017
Ottawa



CAMPAIGN 2000
END CHILD & FAMILY
POVERTY



FAMILY SERVICE TORONTO
For People. For Change.

Outline

- Knowing the Cost of Raising Children Matters
- Setting the stage:
 - Difficulties in estimating the cost of raising children
 - Cost estimates in Canada
- Review of methods:
 - Expenditure survey
 - Equivalence scales
 - Budget standard
- Recommendations

Knowing the Cost of Raising Children Matters

- Has implications for families planning their futures
- Provides evidence for public policy, e.g.:
 - How will we know how much the CCB is helping?
 - How do we know if child maintenance guidelines are adequate?
 - Does the poverty line accurately account for the needs of children?
- Should be the basis for determining what affordability means for childcare and housing

Difficulties in estimating the cost of raising children



Difficulties in Estimating the Cost

- Which costs count?
 - Direct costs?
 - Indirect costs?
 - Intangible costs?
- Which question do we want to answer?
 - How do children affect family spending?
 - How much do families need to spend?
 - How much do families actually spend?
 - How much money do families with children need to be as well off as comparable families without children?

School
supplies

Health care

Transportation

Household
operations

WHICH
COSTS?

Recreation

Housing

Childcare

Food

Clothing

Personal care

Difficulties in Estimating the Cost

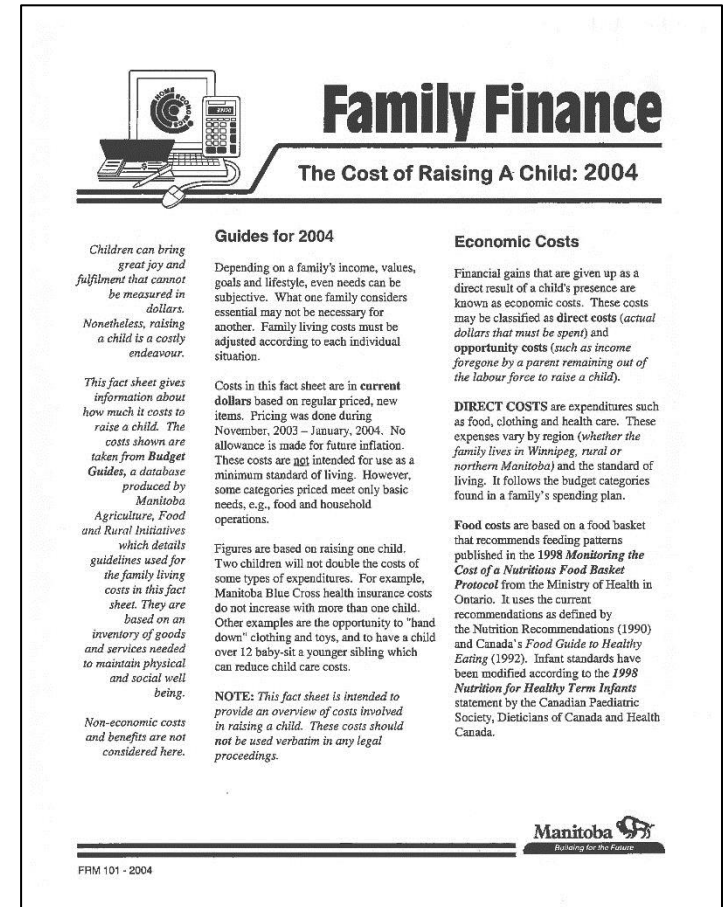
- Lack of detailed data that:
 - Attribute expenditures to individuals within a household
 - Capture variation due to family characteristics such as:
 - Having a child with a disability
 - Living in a remote or Northern community
 - Culturally derived food preferences
- No generally accepted costing method

Canadian cost estimates



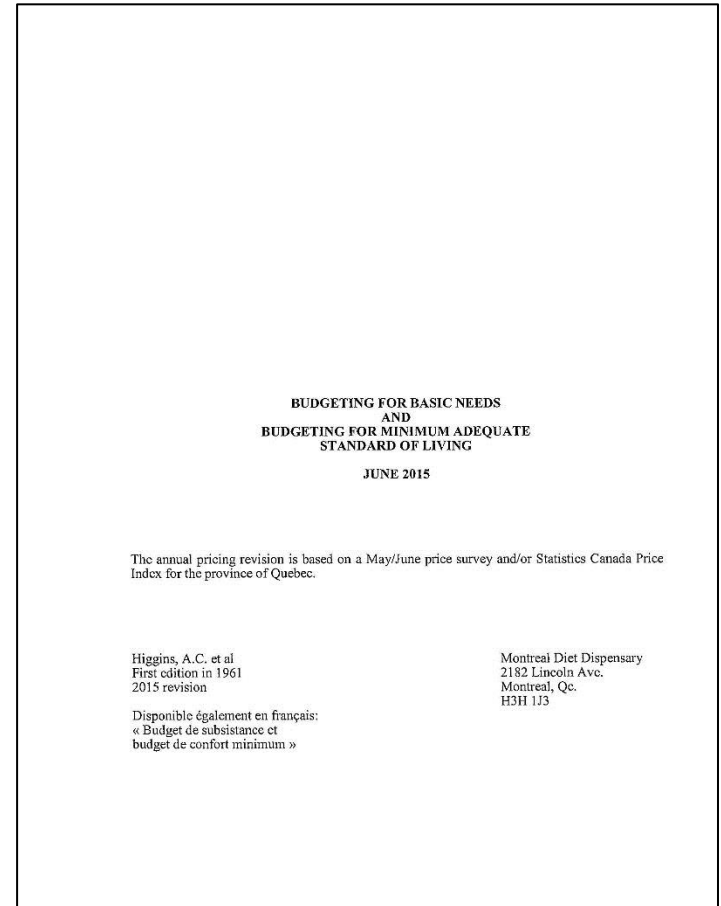
Manitoba Agriculture

- Estimated by the Home Economics section
- Based on *Budget Guides*, comprehensive cost estimates for Manitoba
- Last estimated in 2004
- Total cost of raising a child to age 18 (not including inflation):
 - Girl: \$166,971
 - Boy: \$166,549



Montreal Diet Dispensary (MDD)

- Estimated since 1959
- Estimates the cost of meeting basic needs in the Montreal area
- Cost of raising children not specifically estimated, but these costs can be pulled out of the report



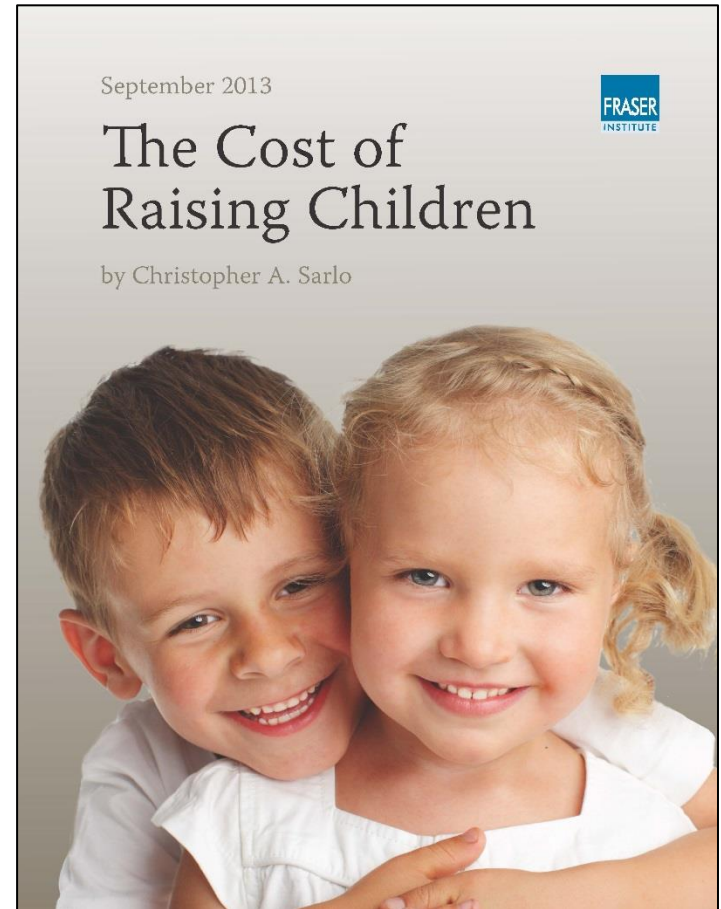
MoneySense Magazine

- April Cornell and Roger Sauvé in 2011
- Calculated the average cost of raising a child at different income levels
- Used a variety of data sources, including the Survey of Household Spending (Statistics Canada)



Fraser Institute

- Estimated for 2010 by adjusting the Manitoba Agriculture and Montreal Diet Dispensary estimates
- Removed costs related to childcare and housing
- Minimized the cost of transportation



Department of Finance

- Estimate generated for Finance Minister Joe Oliver, 2015
- Appears to have been based on the Manitoba Agriculture estimates



Review of methods



Expenditure Survey Approach

- Calculates the cost of children from household expenditure survey data
- Statistics Canada has collected the Survey of Household Spending (SHS) annually since 1999

The SHS consists of:

- Interview part: regular payments, such as rent, utilities, childcare fees, and durables
- Expenditure diary: everyday expenditures

Expenditure Survey Approach

The United States Department of Agriculture (USDA)

2011-15 Consumer Expenditure Survey (CE)

Married-couple families

- three income groups
- various regions

Single-parent families

- two income groups
- the United States overall

Expenditure Survey Approach

Items included in USDA estimates

Expenditures clearly defined as child-related

- clothing
- child care and
- education

Expenditures defined at the household level

- housing
- food
- health care
- transportation
- miscellaneous goods and services

Expenditure Survey Approach

Advantages

- Provides estimates of the average actual amount spent on children
- Produces estimates that are more reasonable than those obtained by other methods

Expenditure Survey Approach

Disadvantages

- Housing, transportation and other cost allocations are done arbitrarily
- Ignores parental preferences in decision making by specifying expenditure share rules on spending
- In practice, housing costs do not always increase with an additional child
- Expenses not included: cost of college education, expenses on children not living with parents, prenatal care, adoption costs

Equivalence Scales Approach

- Engel (or iso-prop) method
- Rothbarth (or adult goods) method
- Complete demand system method

Engel Method

- The difference between the total spending of a couple with children and a childless couple, while holding their well-being at the same level
- Well-being measure: share of income spent on food

Rationale:

- Cost of children is equivalent to additional income required to bring back the family to the food share of childless couple

Rothbarth Method

- Compares the spending of childless families and families with children on adult goods, such as adult clothing, alcohol or tobacco

Rationale:

- Cost of children is equivalent to additional income required to bring back the family to the share of income spent on adult goods by childless couple

Equivalence Scales Approach

Advantages

- Relatively easy to estimate
- Provides estimates of the marginal cost of adding a child to the family
- Captures income effects, that is, how the demand for a good changes when families' purchasing power changes

Equivalence Scales Approach

Disadvantages

- The use of food (Engel) and adult goods (Rothbarth) are not suitable proxies for well-being
- Do not directly estimate the actual costs of raising children
- Neither approach is based on economic theory

Complete Demand System Method

- A system of equations is used to estimate how much families spend in each category of goods and services to capture the effect that changes in one category have on another

Rationale:

- Addition of children to the family changes not only real income of parents, but also spending patterns

Complete Demand System

Advantages:

- Based on economic theory
- Accounts for income and substitution effects

Disadvantages:

- Requires data detail that is often not fully available

Budget Standard Approach

- A basket of goods and services is chosen
- The basket is priced
- The total cost to purchase the basket is the cost of raising a child
- The basket categories are determined by experts and sometimes members of the general public
- The basket can reflect various levels of well-being and family composition

Budget Standard Approach

Advantages:

- Transparency—anyone can see what is in the basket
- Flexibility—can scale to a chosen standard of living

Budget Standard Approach

Disadvantages:

- Subjectivity—who determines what goes in the basket?
- Variances between the budget standards and actual household behaviour and expenditures
- Baskets need to be updated regularly to ensure they continue to be relevant in terms of content and current prices

Recommendations

CAMPAIGN 2000
END CHILD & FAMILY
POVERTY



Recommendations

- Match the method to the purpose
- Improve the quality of data
- Develop:
 - A comprehensive, detailed standard budget
 - Estimates based on a complete demand system
- Analyze any differences between the two and use to improve estimates from both approaches
- Capture family diversity

Match the Method to the Purpose

- Budget standard approach
 - For public policy decisions
 - Because:
 - It answers the question: What do children need?
 - It can be developed using scientific, professional and experiential expertise
 - It is transparent and flexible

Match the Method to the Purpose

- Expenditure survey or complete demand system:
 - For private decisions, e.g., financial planning, child maintenance after marital breakdown
 - Because:
 - It reflects actual expenditure patterns of diverse households
 - It can be estimated for households at various income levels

Improve Data Quality

- Improve Statistics Canada's Survey of Household Spending
 - Expand questions related to childcare expenses
 - Ask questions that will help determine how much of, e.g., transportation expenses are made for children
 - Follow families over time



Capture Family Diversity

- Both standard budget and complete demand system approaches should capture diversity related to:
 - Geographic location (urban, rural, North, remote)
 - Family structure
 - Culture and ethnicity
 - Disability and health status of children

THANK YOU!

Anita Khanna
C2000 National Director
AnitaKH@familyserVICetoronto.org
416-595-9230 x.250

Karen Duncan
Associate Professor
University of Manitoba
Karen.Duncan@umanitoba.ca
204-474-6702

Sid Frankel
Associate Professor
University of Manitoba
Sid.Frankel@umanitoba.ca
204-474-9706

Dana Bazarkulova
Assistant Professor
Nazarbayev University
danabaz@gmail.com

Website: campaign2000.ca
Twitter: @Campaign2000
Facebook: Campaign 2000

CAMPAIGN 2000
END CHILD & FAMILY
POVERTY



FAMILY SERVICE TORONTO
For People. For Change.



The Muttart Foundation

Canadian
Home Economics
Foundation



La Fondation
canadienne
pour l'Économie familiale