

# Measuring

In response to recent calls for the re-examination of the costs of children (Commonwealth Parliament 1994), the Australian Institute of Family Studies is arranging to look again at this issue (see boxed inset). This article briefly discusses contemporary approaches to studying the costs of children and observes that, in 1989 at least, families were spending more than they made and that to a certain extent the amount of overspending was a result of the number and ages of their children.

There are three main approaches to assessing the cost of children (see McDonald 1990):

- *opinion survey approach*, in which 'the researcher simply asks a representative sample of families how much it costs to keep their children';
- *basket-of-goods approach*, in which 'the researcher specifies a standard "basket" of goods that a child of a given age (and sex?) would need';
- *expenditure survey approach*, in which the researcher 'compares the household expenditure of a couple with children and a couple without children who have an equivalent standard of living' and attributes the difference in the expenditures of the two households to the cost of children.

These three approaches share several common features: most essential is their focus on *cost* (that is, expenditure rather than income which in any given period in a family's lifetime are unlikely to be the same); each approach can only produce approximate and, more importantly, average figures; and the approaches are valid only at the time the measurements are made – that is, they require periodic updating (and each is expensive to update).

As reported in the last issue of *Family Matters* (Harrison 1994, and see also Margaret Harrison's article elsewhere in this issue), the Family Court of Australia is likely to rely on estimates derived from the expenditure survey approach. This approach (long the most widely accepted approach internationally) is certainly less prescriptive than the basket of goods approach, assuming that individual families determine the best way to allocate their own resources, including non-cash income and available credit, and it is far less subjective than the opinion survey approach, since it relies on records kept by families rather than recollection or anticipation.

If it is assumed (as it is by the Family Law Act) that children of intact or separated families are entitled to expect that their genuine costs be met, then some measure of these

# the Cost of Children

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costs based on actual household expenditure should be used when determining, for example, amounts of maintenance to be provided by non-resident parents, appropriate levels of family payments and (the usually partial) reimbursement of expenses incurred while fostering children.

The difficulty remains, however, not so much in assessing costs of children at any one time – even though using a single approach such as that of the expenditure survey may yield various estimates which are equally defensible – as of updating these figures. The most recently available are for 1988–89 (with the 1991–92 data expected later this year).

## Expenditure versus Income

Reliable estimates of changes in household income and consumer prices are available from the Australian Bureau of Statistics on a quarterly basis. Updating of the quarterly cost of children figures presented regularly in *Family Matters* is based on these. Unfortunately such periodic and recent updates on household expenditure are not available.

If expenditure and income were equal throughout the family life course, then annual weekly earnings updates would be sufficient. But, at any given time, expenditure may exceed income or vice versa. This reflects the fact that many families attempt to apply a model of 'rational economics' – that is, saving during times of relative wellbeing and spending more than their incomes (if possible) during lean times; it will also reflect the effects of unanticipated economic fortunes and misfortunes.

In preparation for the forthcoming workshop mentioned in the accompanying boxed inset, the Institute is examining 1988–89 household expenditure data. One observation made as part of this examination is that at the time of the 1988–89 survey (updated to June quarter 1989 CPI), the average two-adult family reported weekly expenditure \$53.41 greater than their reported income.

Looking at this from a slightly different perspective, Travers and Richardson (1993) have noted: 'It is implausible to suppose that 60 per cent of households are persistently dissaving, and this result invites the conclusion that either expenditure is being over-estimated by respondents or income is being under-recorded.'

The term 'dissaving' as used by Travers and Richardson (and adopted in the remainder of this article) refers to the fact that families need not be going into debt when spending more than they make; they

may, for example, be drawing on earlier savings, or on gifts of cash.

The Institute's preliminary analysis of these same data from the perspective of the cost of children suggests an alternative conclusion to that of Travers and Richardson's suggestion of measurement error. While it may be implausible that 60 per cent of households are 'persistently dissaving', it is not implausible nor is it inconsistent with basic

expenditure on their children (for example, from grandparents or other relatives), and others may tighten their belts regardless of the number and ages of their children, in 1988–89 the average family went into debt because of their children. This would go some way to answering the many enquiries received by the Institute about how children can cost so much, given levels of parental income.

## The Table Explained

The accompanying Table presents results of a simple regression analysis showing the effects of this on average weekly debt in 1988–89. The figures relate to two-adult households in which both adults were under the age of 60 years. The first column shows the full equation, including statistically insignificant coefficients in order to demonstrate more fully the fact that they increase with the age of children. The second column shows only statistically significant figures. (The lack of significance of the number and ages of children under the age of 10 is consistent with overseas studies; see, for example, Espenshade 1984.)

In short, the Table suggests that (in 1988–89) the average two-parent family with no children and income of \$560 per week would have had an average weekly debt of \$33.98 (\$414.78 - .68 x income). Families with one child aged 10–12 would 'dissave' an additional \$29.34 per week; with one child aged 13–14, \$39.81 per week; and one child aged 15–17, \$58.90 per week.

It must be noted that far more substantial research needs to be invested in this finding, that more sophisticated methodological techniques may need to be employed, and that this discussion represents only a 'snapshot' of one time in Australia's economic history. It does, however, shed some light on the question so often directed to this Institute: 'How can I be expected to spend so much on my children when I make so little?'

## References

- Commonwealth Parliament (1994), Joint Select Committee on Certain Family Law Issues, AGPS, Canberra.
- Espenshade, T. (1984), *Investing in Children: Estimates of Parental Expenditure*, The Urban Institute, Washington DC.
- Harrison, M. (1994), 'News from the Family Court: cost of children', *Family Matters*, No.39, December, pp.8–9.
- McDonald, P. (1990), 'The costs of children: a review of methods and results', *Family Matters*, No.27, November, pp.18–22.
- Travers, P. and Richardson, S. (1993), *Living Decently: Material Wellbeing in Australia*, Oxford University Press, Melbourne, p.25.

## Family 'dissaving' in 1988–89 as a function of the number and ages of children

	Parameter estimates/regression co-efficient	
	Non-significant estimates included	Significant estimates only
Constant	\$434.17	\$414.78
Household income	x - .68	-.68
Number of children aged		
0–2	x -25.62	–
2–4	x 2.13	–
5–9	x 7.65	–
10–12	x 25.35	29.34
13–14	x 38.25	39.81
15–17	x 57.97	58.90
R <sup>2</sup>	.391	.390

Number of cases: 2645

Note: Equation parameters will vary by the number of children, ages of the parents, and whether both parents work.  
Source: ABS 1988–89 Household Expenditure Survey.

Examples (when income is \$560 per week):

No children: \$414.78 - .68 x \$560 = \$33.98  
One child aged 10–12: \$414.78 - .68 x \$560 + \$29.34 = \$63.32  
One child aged 13–14: \$414.78 - .68 x \$560 + \$39.81 = \$73.79  
One child aged 15–17: \$414.78 - .68 x \$560 + \$58.90 = \$92.88

rational economic principles that 60 per cent of families at any one time are 'dissaving' while the other 40 per cent are saving.

Indeed, basic analyses of the 1988–89 data suggest that the average family spends more than it makes as a result of the number and ages of its children. While some families may have alternative sources of funds for

## COSTS OF CHILDREN WORKSHOP PLANNED FOR JUNE

So that there may be agreement on the most appropriate method for updating estimates of the cost of children, and so that appropriate methodologies and databases can be reassessed, the Australian Institute of Family Studies is arranging to bring together a small but representative group of experts in the field at a workshop (probably in June 1995 in Canberra). It is intended that the preliminary findings of the workshop be presented in the next (Winter) issue of *Family Matters*.

In the meantime the Institute will continue to publish its regular *Cost of Children Update* column in these pages.

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