

Household Balance Sheets: Education & Social Development Discussion

Robert A. Pollak

Washington University in St. Louis

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Roadmap

Discuss the papers in reverse order, then balance sheets

- * Huang, Sherraden, Kim, and Clancy, "An Experimental Test of Child Development Accounts on Early Social-Emotional Development" -- hereafter, **Experimental Test**
- * Elliott and Nam, "The Negative Effects of Student Loans on Family Net Worth is Jeopardizing the Long-Term Financial Health of US Households" -- hereafter, **Student Loans**

- * Balance sheets
 - why do we need wealth/balance sheet information?
 - what belongs on balance sheets?
 - whose balance sheet? households? families? individuals?

Experimental Test - 1

- empirical social science evidence
- qualitative vs quantitative work
- ethnographic work
- observational data
- lab experiments
- field experiments

Experimental Test - 2

- Social experiments/ field experiments
- Heckman and Smith, "Assessing the Case for Social Experiments," *JEP* 1995
- Heckman and Vylacil, "Econometric Evaluation of Social Programs," *Hbk of Em* 2006
- Deaton, "Instruments, Randomization, and Learning about Development," *JEL* 2010
- Duflo and Banerjee, *Poor Economics*, 2011.
- NRS and NAS, *Using Science As Evidence in Public Policy* 2012

Experimental Test - 3

- Scope and limits of field experiments
- Need for theory: generalizability --
 - Suppose you modified the treatment slightly?
- Limitations of field experiments
 - External validity
 - Who participates?
 - What population do they represent?
 - Long-run outcomes
 - General-equilibrium effects

Experimental Test - 4

- some specific questions about the paper
- other outcomes for the focal child?
- short-run outcomes
- long-run outcomes
- effects on siblings?
- substitution within family
- “fly-paper effects”
- effects on parents?

Student Loans - 1

- Observational data
- mainstay of empirical work
- cross-section data
- as opposed to panel data
- Wealth and balance sheets
- Survey of Consumer Finances

Student Loans - 2

- Why we care about student loans?
 - macro finance issues
 - subprime mortgage debacle
 - securitization
 - government insurance
 - micro efficiency issues: investment in human capital
 - who goes to college and who does not?
 - are the right people going to college?
 - are the wrong people going to college?
 - type I and type II errors
 - distributional issues: inequality of income and wealth
 - who pays for college?

Student Loans - 3

- suppose student borrows, goes to med school, and repays her loans
- she has increased the present value of her lifetime earnings by more than enough to pay off her student loans.
- she is better off for having borrowed the money but this will have a negative effect on her balance sheet unless we recognize the effect of education on the present value of her lifetime earnings

Student Loans - 4

- Does the availability of student loans enable people to make good investments in their own human capital?
- Does the availability of student loans encourage people to make bad investments?
- To think about student loans, we need to think about the returns to education (i.e., the increase in the present value of lifetime earnings) as well as about the cost

Student Loans - 5

- We would like students to invest in higher education if and only if the net present value is positive (This isn't quite true, but is a good first approximation.)
- Are there lots of student who should go to college but don't because of the cost?
- Are there lots of students who should not go to college but do because of the availability of student loans?
- Both of these are problems
- Type I and Type II errors

Student Loans - 6

- Type I and type II errors
- Do student loans encourage students to sort themselves optimally?
- Do students know enough to sort themselves optimally?
- Do colleges (for-profit and not-for-profit) provide information that will help students sort themselves optimally?
- Heckman, Lochner, and Taber, "General Equilibrium Effects: A Study of Tuition Policy," *AER*, 1998

Student Loans - 7

- Alternatives to student loans
- Our med student would be even better off if she had a full scholarship or grants
- Tuition subsidies and grants
- Private returns vs social returns to schooling
- Who benefits? who pays?

Transition

- These two papers share a concern with poverty and inequality
- College is expensive
- Government resources are scarce.
- It is mostly the middle class kids who benefit from subsidizing college
- Who pays for these subsidies? Is this redistribution to the middle class?
- Heckman argues that the returns to early childhood education are high
- Should we subsidize college education or early childhood education?

Balance Sheets - 0

- Wealth is important, so balance sheets are important
- What belongs on balance sheets?
- Suppose we look only at financial assets and liabilities
- Then if you buy a house, your net worth goes down -- you have a mortgage -- a liability.
- What is the rationale for including student loans and ignoring human capital? present value of lifetime earnings

Balance Sheets - 1

- I come to this from the economic of the family -- this is the messy two-sex version of the economics of the family, not the clean one-sex "dynastic family" version
- "Family" is not the same as "household"
- Who lives with whom is endogenous as we learned again during the Great Recession

Balance Sheets - 2

- Pooling of income within households?
- Control over resources and bargaining power.
- Empirical work shows that control over resources affects expenditure patterns of married couples
- Lundberg, Pollak, and Wales, JHR 1996
- My work (with Lundberg) on bargaining in marriage and on the marriage market

Balance Sheets - 3

- Pooling of assets and liabilities within households?
- Economists usually think of control over resources in terms of income
- We should also think of assets and liabilities
- Wealth is important and, hence, balance sheets are important
- We need to link balance sheets to behavior
- But whose balance sheet and whose behavior?

Balance Sheets - 4

- We need to consider balance sheets for individuals, not "primary consumption units"
- Whose balance sheet?
- Households? Families? Individuals?
- Survey of Consumer Finances
 - "Primary Economic Units"
- Other data sets use "households"
- For many questions we need to look at more than one individual's balance sheet, but what is the right grouping? Are "households" right?
- Spouses; Cohabiting partners; Parents; Grandparents

Balance Sheets - 5

- Marriage
- If all assets and all liabilities were "marital property," this would not be an issue
- After divorce some liabilities (e.g., student loans) remain the responsibility of the individual who incurred the liability
- Individual assets and individual liabilities may also play a role in the marriage market.
December New York Times article about credit scores and dating.

Balance Sheets - 6

- Cohabiting couples
- assets and liabilities not "partnership property"
- The distinction between individuals' balance sheets and household balance sheets is especially important for cohabiting couples
- There is a strong SES gradient in marriage -- less marriage and more cohabitation among low SES individuals.
- So the treatment of cohabiting couples is especially important for understanding inequality

Balance Sheets - 7

- Parents and children
- Intergenerational transmission of wealth
- Suppose that her parents pay her tuition.
- Then her balance sheet is unaffected
- But what about the impact on her parents, on her siblings and, perhaps, on her in the future?

Balance Sheets - 8

- Grandparents and grandchildren

Balance Sheets - 9

- Implications of government grants
- Who pays?
 - -- current and future tax liabilities
- General equilibrium effects

Balance Sheets - 10

- Intergenerational transmission of wealth within families
- Inter vivos transfers to children;
- Inter vivos transfers to grandchildren
- Bequests

Conclusion

- Wealth is important,
- so balance sheets are important
- We need to think more about
 - How does wealth affects behavior?
 - What belongs on the balance sheet?
 - Whose balance sheet?
- Thanks to the authors for interesting and provocative papers
- Thanks to the conference organizers for inviting me to discuss them
- And thank you for your attention.