

The (Macro-)Economics of Parenting



Matthias Doepke
Cartagena, June 2023

What is the Economics of Parenting?

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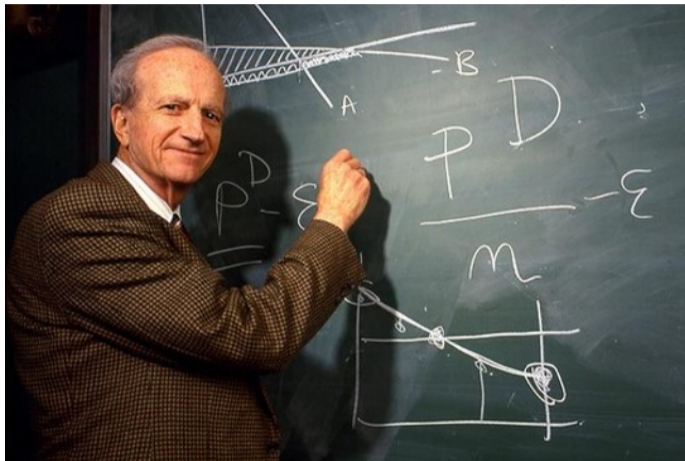
Is this even economics?

What is the Economics of Parenting?

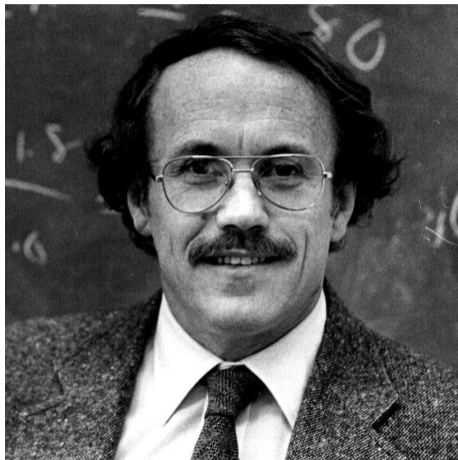
Is this even economics?

Is this even macroeconomics?

Gary Becker



Bob Lucas and Ed Prescott



The Family and Macroeconomics

- Barro and Becker (1989) and Becker, Murphy and Tamura (1992) put family choices at the heart of models of economic growth.
- Bob Lucas with “[The Industrial Revolution: Past and Future](#)” got me and many others excited about the links between demographics, human capital accumulation and growth.
- Lucas also got Ed Prescott interested in these issues, hence “[Malthus to Solow](#)” (with Gary Hansen).

Outline

1. **Little kids:** The economics of parenting style.
2. **Big kids:** Parenting and peer effects.
3. **The bigger picture:** Parenting and macroeconomics.

1. The Economics of Parenting Style

Different Facets of Parenting

- Initial focus on parental decisions on fertility and human capital.
- But parents decide on other things, too:
 - **Transmission of values and attitudes.**
 - **Parenting style.**
 - **Decisions that shape peer effects.**
- These decisions have been the focus of my work on the economics of parenting with Fabrizio Zilibotti and others.

The Economics of Parenting Style

- "Parenting with Style: Altruism and Paternalism in Intergenerational Preference Transmission"
(Econometrica 2017, with Zilibotti)
- "Love, Money, and Parenting: How Economics Explains the Way We Raise Our Kids"
(2019, with Zilibotti)
- "The Economics of Parenting"
(AR 2019, with Zilibotti and Sorrenti)



Love, Money, & Parenting

HOW ECONOMICS AFFECTS THE
WAY WE RAISE OUR KIDS

Matthias Doepke & Fabrizio Zilibotti

Parenting Style in Developmental Psychology

- Three parenting styles (Baumrind 1967):
 - **Permissive parenting**
 - **Authoritative parenting**
 - **Authoritarian parenting**
- Also:
 - Neglecting parenting (Maccoby and Martin 1983).
- Focus in psychology is on effects of parenting style on children.

The Economic Perspective

- Focus on how parents choose a parenting style in response to incentives shaped by economic conditions and institutions.
- Parents have **altruistic** and **paternalistic** motives.
- Parenting style is about how parents manage conflict and disagreement with their children.

A Model of Parenting Style

- A single parent and a single child. Each period (**childhood** and **adulthood**) comprises two subperiods.
- Parent maximizes:

$$V(S) = U_1(C_1, L_1|A) + U_2(C_2, L_2|A) + Z((1 - \gamma)v + \gamma\tilde{v}).$$

- S is a skill vector including cognitive and noncognitive skills, $S = \{H, A\}$.
- Parent derives utility from the child in two different ways.
 1. The child's actual lifetime utility v (*altruism*)
 2. A different function \tilde{v} based on her own preferences (*paternalism*).

A Model of Parenting Style

- The child's value function is:

$$v = u_1(c_1, l_1|a_1) + u_2(c_2, l_2|a_2) + zV'(S').$$

- In a dynastic model, $V = V'$.
- The parent's paternalistic concern for the child is:

$$\tilde{v} = \tilde{u}_1(c_1, l_1|A) + \tilde{u}_2(c_2, l_2|A) + zV'(S'),$$

- The parent can shape the child's choices through molding her preferences a_1, a_2 (persuasion) or by shaping her choice set \mathcal{X}_t (coercion).

Disagreement

- Key implication of paternalism: may **disagree** with the child.
- **Parenting Style** is the manner in which this disagreement is resolved:
 1. A parent who let's the child have her own way is **permissive**.
 2. A parent who molds the preferences of the child is **authoritative**.
 3. A parent who restricts the choice of the child (small \mathcal{X}_t) is **authoritarian**.

The Tradeoff in Choosing a Parenting Style

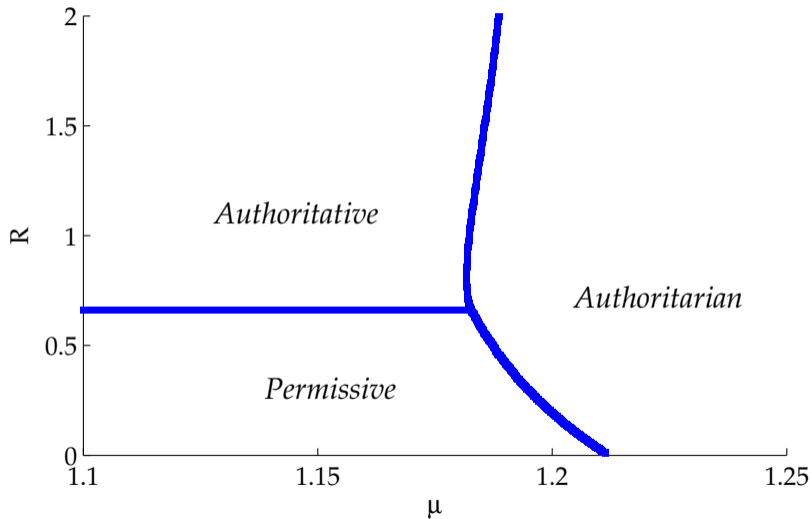
- Indoctrinating and restricting children takes effort and undercuts altruistic motive:
→ Be **permissive** when stakes are low.
- For authoritarian strategy to work, need to exert control and know what to do:
→ Be **authoritarian** when stakes are high and parents have control and information.
- Otherwise, indoctrination is the only option:
→ Be **authoritative** when stakes are high, but children have to make big decision on their own.

Getting Kids to Apply Themselves

The tradeoff in Doepke and Zilibotti (2017):

- Children decide how much effort to put into education and which career to choose—follow in the parent's footsteps or follow their own inclination.
- Parents would like their kids to work hard, but can exert direct control only if the children choose to remain in their occupation.
- Variation (over time or space) in the **Return to Education R** and the **Incumbency Premium μ** .

Equilibrium Parenting Style



Application to History of Parenting

Until nineteenth century: **Authoritarian parenting** (e.g., corporal punishment widely recommended).

- The Bible:
 - *"He who spares the rod hates his son, but he who loves him is careful to discipline him"* (Proverbs 13:24)
- Plumb (1975):
 - *"of two hundred counsels of advice on child-rearing prior to 1770, only three failed to recommend that fathers beat their children"*



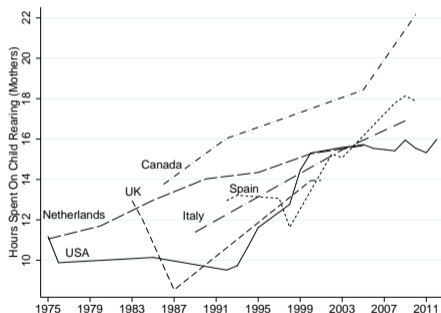
Application to History of Parenting

Twentieth century until 1970s:

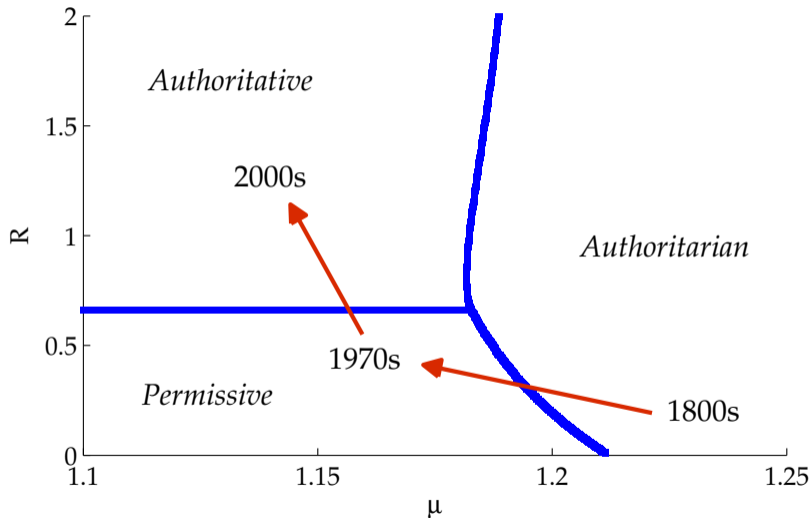
- Increasingly **permissive** parenting.

Since the 1980s:

- Rise of **authoritative** and intensive parenting.
- Especially among upper middle class parents.
 - *rug rat race, helicopter parenting, tiger moms*



History of Parenting in the Model



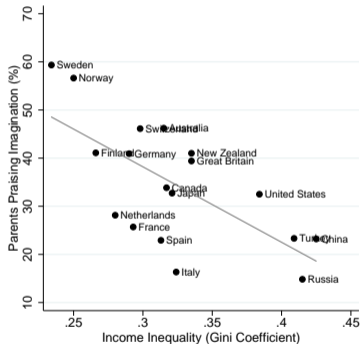
Application to Parenting Across Countries

- Intensive parenting styles (**authoritarian** and **authoritative**) are associated with high stakes
- World Value Survey question:

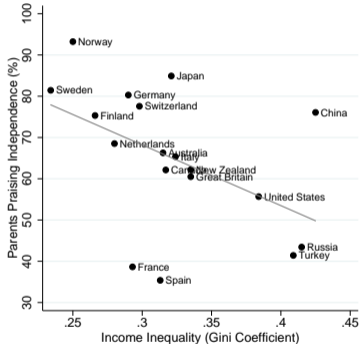
"Here is a list of qualities that children can be encouraged to learn at home. Which, if any, do you consider to be especially important?"
- Examine correlation of answers with inequality, especially:
 - imagination
 - independence
 - hard work
 - obedience

Inequality and Parenting Values

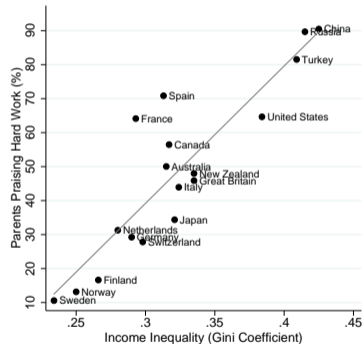
Imagination



Independence

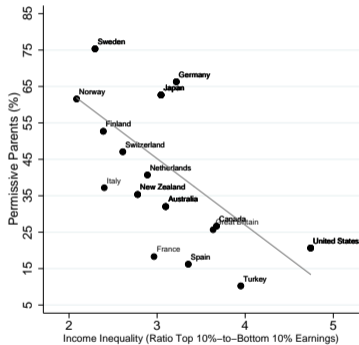


Hard Work

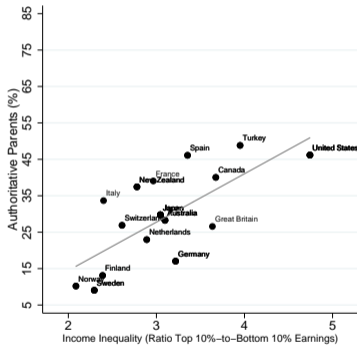


Inequality and Parenting Styles

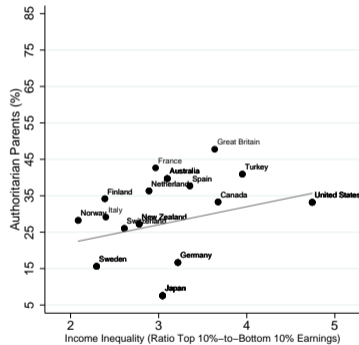
Permissive



Authoritative



Authoritarian



2. Parenting and Peer Effects

Baseline Model: Children are Actually Listening to Parents



What Once They Don't?



Then Peers Matter!



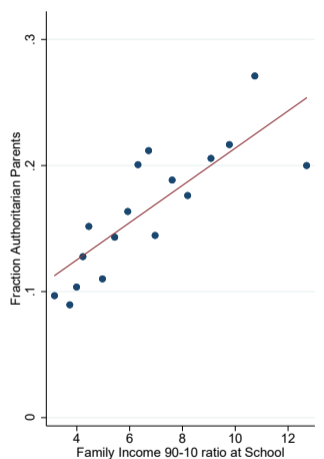
How Parents Shape Peer Effects

- Question in Add Health in-home survey:

“Do your parents let you make your own decisions about the people you hang around with?”

- If child answers “No” parent is classified as **Authoritarian about Friends** (14 percent of parents in Add Health).

Parents Intervene when Potential Peers are Heterogeneous



| | (1) | (2) | (3) |
|-----------------------|----------------------|--------------------------------|---------------------|
| | | Authoritarian about Friends | |
| Mean GPA within Grade | -0.135*** (0.039) | | -0.049 (0.038) |
| SD GPA within Grade | | 0.389*** (0.078) | 0.249*** (0.089) |
| Controls | No | No | Yes |
| School F.E. | Yes | Yes | Yes |

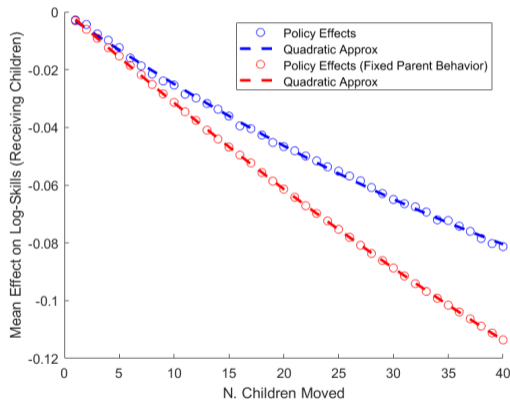
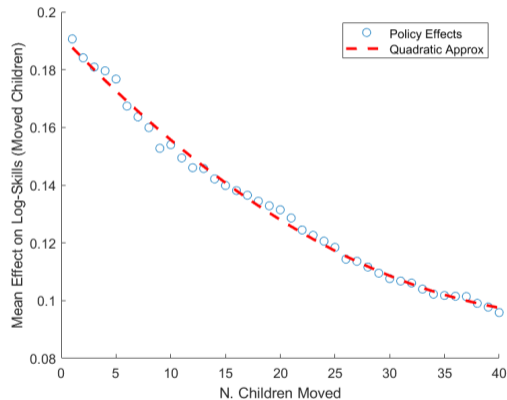
It Takes a Village: The Economics of Parenting with Neighborhood and Peer Effects

(with Francesco Agostinelli, Giuseppe Sorrenti, and Fabrizio Zilibotti)

- Develop model of parenting with peer effects.
 - Parents care about skills; kids care about fun with friends; parents can penalize befriending low-skill peers.
- Match the model to the data.
- Policy analysis: Moving children to a better environment.

Elusive Gains from Integration

Reducing inequality through integration is difficult, in large part because parents push back.



3. Parenting and Macroeconomics

Back to Macroeconomics

Family decisions matter for macro outcomes, and classic equilibrium macro mechanisms play a crucial role:

1. **Expectations of the (distant) future shape decisions.**
2. **Equilibrium interactions matter both in the present and for future expectations.**
3. **Policy effects cannot be properly understood without taking general equilibrium into account.**

Recent Issues where Family-Macro Interaction is Key

- **Long-run implications of Covid learning loss** (Fuchs-Schündeln, Krueger, Ludwig, Popova 2022, Jang and Yum 2023; Agostinelli et al. 2022).
- **Endogenous segregation and macroeconomic inequality** (Durlauf and Seshadri 2017, Fogli and Guerrieri 2019, Eckert and Kleineberg 2021, Gregory, Kozlowski, Rubinton 2022, Fogli, Guerrieri, and Prato 2023, Monge-Naranjo, Ludwig, Syrichas 2023).
- **Family labor supply and business cycles** (Albanesi 2020, Ellieroth and Michaud 2023, Moreno-Maldonado 2023, Alon, Coskun, and Olmstead-Rumsey 2023; Karabarbounis, Chang, and Halvorsen 2023).

Some Open Issues in Family Macro

- **Demographics and Growth:** Population collapse in rich countries and China; Africa's demographic dividend; migration.
- **Family Culture:** Persistence of social status within families; persistent economic success (or lack thereof) in culturally cohesive groups; underpinnings of technological creativity and entrepreneurship.
- **Gender Equality, Labor Supply, and Fertility:** Convergence or non-convergence of women's and men's roles and contributions; role of employment flexibility; implications for level and inequality in fertility.

Summary

- Economic approach successful at explaining a lot of parenting behavior in the data.
- Parenting matters for macro outcomes, and macro tools (i.e., dynamic equilibrium models) are essential for understanding the wider implications of parenting decisions and the policies that shape them.

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- Parenting matters for macro outcomes, and macro tools (i.e., dynamic equilibrium models) are essential for understanding the wider implications of parenting decisions and the policies that shape them.
- **I look forward to learning more about the economics of parenting at future editions of the SED!**