



Labour Market Matters

Special points of interest:

- Increasing costs of post-secondary education means that family income is becoming a greater determinant of post-secondary attendance than 25 years ago.
- Children living in single-parent, single-income, and/or divorced families are among those also most likely to be stuck living in poverty

"[T]he study findings overwhelmingly suggest that family resources are an important component of post-secondary schooling decisions for recent cohorts—much more so than in the early 1980s."



Lance Lochner (University of Western Ontario)

Volume 2, Issue 6

June 2010

The Effect of Family Income and Increased Borrowing Constraints on Post-Secondary Attendance

Post-secondary education has become much more costly in North America in the last two decades. Students in recent decades may be faced with increasing borrowing constraints in terms of financing their educations. Much of the recent evidence arguing that borrowing constraints at post-secondary attendance ages are unimportant is based on the 1979 National Longitudinal Survey of Youth cohorts (NLSY79) – a sample of youth making their post-secondary attendance decisions over twenty-five years ago. Since then the returns to school in the labour market and tuition costs have increased while real student loan borrowing limits have eroded. This suggests that borrowing constraints may be a barrier to education for many more youth today than in the early 1980s.

A CLSRN study entitled **"The Changing Role of Family Income and Ability in Determining Educational Achievement"** ([CLSRN Working Paper no. 2](#)) by Philippe Belley and Lance Lochner (both of the University of Western Ontario), documents a dramatic increase in the effect of family income on post-secondary attendance rates. The study also examines the effect increased borrowing constraints on financing increasingly expensive post-secondary education has had on post-secondary attendance. The study uses U.S. data from the 1979 and 1997 National Longitudinal Survey of Youth cohorts (NLSY79 and NLSY97).

Youth in the NLSY97 from the highest income quartile were six-

teen percentage points more likely to attend a post-secondary institution by age 21 than were youth from the lowest income quartile. This difference was only nine percentage points in the NLSY79. Combining the effects of wealth and family income in the NLSY97, Belley and Lochner find that someone from the highest wealth and income quartiles was nearly 30 percentage points more likely to attend a post-secondary institution than someone from the lowest wealth and income quartiles. Additional estimates suggest that the effects of higher income on completion of two or more and four or more years of post-secondary schooling have also increased over time. Overall, the study findings overwhelmingly suggest that family resources are an important component of post-secondary schooling decisions for recent cohorts – much more so than in the early 1980s. In contrast, the study finds little change in the effect of income on high school completion after controlling for ability and family background.

To further explore the effects of family income on other margins of choice (particularly those that may be affected by borrowing constraints), the effect of family income on the choices of: type of post-secondary institution attended, college/university delay, or work during the academic year for both the NLSY cohorts are examined. The researchers found that family income has a larger effect on the 'quality' of institution attended for the 1997 cohort, but had little effect on the choice of college/university delay in either samples. The choice of college/university delay appeared to be related to a lower quality of institution attended for both NLSY cohorts. Finally, family income had a



Philippe Belley (University of Western Ontario)

significantly negative relationship on work activity among the most able in the NLSY97 but not in the NLSY79, meaning that with higher family income there tended to be less work activity.

The study's findings suggest that family income has become a substantially more important determinant of post-secondary attendance in recent years. This is consistent with the reality that since the early 1980s, returns to school in the labour market and tuition costs have increased while real student loan borrowing limits have eroded in the face of increasingly costly tuition. Smart but low-income youth appear to alleviate the effects of borrowing constraints by working part-time while enrolled in school, as evidenced by the finding that higher family income significantly reduces hours of work during the school year among the most able. The results of the study suggests that borrowing constraints may be more of a barrier to education for many more youth today than in the early 1980s.



Peter Burton
(Dalhousie University)

“40 percent of children in the group studied had been exposed to a position of low-family income”



Shelley Phipps
(Dalhousie University)

Family Income and Childhood Development

What are familial factors that render some children more likely to be exposed to sustained poverty and why? What are the chances that children escape familial poverty? A study by CLSRN affiliates Peter Burton and Shelley Phipps (both of Dalhousie University) entitled “*The Prince and the Pauper: Movement of Children Up and Down the Canadian Income Distribution, 1994-2004*” ([CLSRN Working Paper no. 31](#)), uses data from the Statistics Canada National Longitudinal Survey of Children and Youth (NLSCY) to study patterns of family income experienced by a cohort of children who were aged 0 to 7 in 1994 until they are 10 to 17 in 2004

The study examines five key questions with regards to family income and childhood development: one, what happens to average levels of real income experienced by Canadian children as they grow from pre-schoolers to teenagers? Two, what happens to inequality of family income? Three, How much movement up or down the income distribution takes place? Four, which starting point (1994) characteristics are associated with higher risk that a child will ever or always be at the bottom of the income distribution during the 1994 through 2004 period? Finally, what changes in family characteristics have the largest associations with movements up or down the

relative family income distribution experienced by children?

Phipps and Burton find that, average real levels of real income experienced by the group of Canadian children studied, have increased at all points of the income distribution, and that the level of income inequality has neither increased nor decreased for *this group of children* has neither increased or decreased in the ten year period studied. In terms of movement up or down the income distribution, the study found considerable “stickiness” of position – meaning that about half of the children who were in the bottom quintile of the group’s income distribution in 1994 were again observed in same position in 2004. Only 4 percent of these children had moved up to the top quintile of the income distribution during this time.

The study also found that 40 percent of children in the group studied had been exposed to a position of low-family income that would place them in the lowest 20 percent of their cohort. More children of immigrant parents have ‘ever’ been in the bottom quintile of the studied income distribution (54.5 percent compared to 40 percent) and more children of immigrant parents have been “stuck” at the bottom of the studied group’s income distribution (9.2 percent compared to 4.7 percent).

In terms of children who experienced low family income year after year, the following factors, in order of size of association, increased probability of always being in the bottom quintile of the relative income distribution: living in a lone-parent family, having a parent without paid work, living in one of the Atlantic Provinces, or having a parent who is non-white.

Family characteristics that have the largest associations with movements up or down the relative children’s income distribution, in order of size of association, were: divorce/re-marriage of parents, regional migration, changes in employment status of parents, having a parent return to or complete school, and changes in the number of siblings present are most important.

The study’s findings shed light on some important issues from a policy standpoint. The study found that 40 percent of the children sampled had at some point experienced a position of poverty. Children who were more likely to be exposed to low-income situations year after year, were those who most likely came from single-parent families, families where a parent may be out of work, large families, and/or families that have undergone significant family changes – such as divorce of parents.

Endnotes

Labour Market Matters is a publication of the Canadian Labour Market and Skills Researcher Network (CLSRN). The CLSRN is supported by Human Resources and Skills Development Canada (HRSDC) and the Social Science and Humanities Research Council of Canada (SSHRC). Opinions expressed in this publication do not necessarily reflect the views of HRSDC or the SSHRC.

Articles in *Labour Market Matters* are written by Vivian Tran - Knowledge Transfer Officer, CLSRN, in collaboration with the researchers whose works are represented. For further inquiries about *Labour Market Matters* or the CLSRN, please visit the CLSRN Website at: <http://www.clsrn.econ.ubc.ca> or contact Vivian Tran at: vivtran@interchange.ubc.ca