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Costs of Raising Children and Expenditures on Children

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Views expressed here are those of the author and
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Overview

- Child support guidelines recent adjustments
- Estimates for the costs of raising children
- Challenges in the estimation process
- Advancements in estimation techniques
- WI guidelines relative to national estimates

Wisconsin Child Support Calculations

- Income-Shares Approach is now the baseline assumption for the state
 - Both parents' income is considered
 - Percent of income standards can still be applied in sole-placement circumstances
- Continuity of Expenditure – A child's standard of living should not change as a result of their parents no longer living together

Estimating Costs

- Historically, many studies have relied on **marginal cost** approaches
- This can be intuitively appealing, as we compare the differences in expenditures between a house with children to one without children, or in the case of multiple children, a two-child household to a three-child household.
- The differences observed represent the *marginal cost of adding a child* to a household

Estimating Costs

- Two common approaches:
 - **Engel**- Expenditures on food (%)
 - **Rothbarth**- Expenditures on luxury goods and savings levels (%)
- Concern: True *marginal cost* approaches?
- Failings of these approaches: *Economies of Scale* and *Substitutability of Goods*
- Significant empirical red flag: **Inconsistency**

Estimating Costs

- Alternative:
 - USDA and the Consumer Expenditure Survey
 - 2017 = most recent data (in 2015 dollars)
 - Both *direct* and *indirect* measures
- Important Factors:
 - Geographic region/Level of urbanization
 - Age and number of children

Expenditure Categories

- **Household-Level** measures for:
 - Housing
 - Food
 - Transportation
 - Health Care
- **Child-Specific** measures for:
 - Clothing
 - Childcare
 - Education

Households in the Midwest compared to WI Guidelines

Table 1. Percentage of Income Spent on Children

	Number of Children				
	One	Two	Three	Four	Five
Consumer expenditure data					
All children	17.1%	26.9%	30.7%	41.0%	51.2%
Per child	17.1	13.5	10.2	10.2	10.2
Wisconsin Guidelines					
All children	17.0%	25.0%	29.0%	31.0%	34.0%
Per child	17.0	12.5	9.7	7.8	6.8

Note: These percentage estimates can be determined via multiple methods. An alternative approach is provided in Appendix A Table 3. Additionally, an explanation of the calculations for Tables 1 and 3 of Appendix A is provided in Appendix B.

Important Takeaways

- Estimating costs of raising a child is challenging
- WI Guidelines appear pretty accurate, though *may be too low* in certain circumstances.
- Expenditure amounts for larger households (e.g., 4 or more children) are likely insufficient under current guidelines

Questions?

Thank you!

Please contact me with questions:

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