

Parental Job Loss and Children's Educational Attainment

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Parental labor market experiences can have far-reaching consequences. Opportunities, conditions and experiences at work not only influence parents' own attitudes and expectations, but can extend across generations to affect the life-course trajectories of their children as well. In this paper, I explore the intergenerational impact of the labor market using the data drawn from the 1968-2001 waves Panel Study of Income Dynamics (PSID). Specifically, I examine the educational attainment of 1,064 children whose parents report having lost their jobs involuntarily. As a group, these children drop out of high school at a greater rate and attend and finish college at lower rates than their counterparts whose parents have not experienced the loss of a job.

Numerous studies have documented the associations between job loss, income, household environment and child development. Unexpected job losses often lead to dramatic and persistent earnings losses (see e.g., Ruhm 1991; Jacobson, LaLonde & Sullivan 1993; Stevens 1997; Stephens 2001), which may affect the home environment and educational opportunities parents are able to provide their children (Yeung & Hofferth 1998; Yeung, Linver & Brooks-Gunn 2002). Ultimately, the income shocks precipitated by parental job loss may affect children's educational attainment (Levy & Duncan 2000).

A handful of recent studies provide some evidence that parental job loss can have such an intergenerational effect. Kalil & Ziol-Guest (2004) found significant negative effects of fathers' multiple job losses on the children's probability of grade repetition, on school suspension/expulsion and on children's school attainment. Using Canadian data, Oreopoulos, Page & Stevens (2005) found that unexpected job loss is associated with a persistent reduction in

the wealth of the displaced individual and the labor market outcomes of their children. Also using Canadian data, Coelli (2005) found that unexpected parental job loss leads to a higher probability of leaving high school early and a lower probability of university entry.

My paper examines the associations between parental job displacement and children's educational outcomes. I first consider the financial link. If a separation is especially traumatic, as the literature suggests it often is, and results in an extended period of unemployment, a family's reserve or cautionary resources may be depleted in order to smooth consumption. Moreover, if subsequent levels of employment, wages and earnings demonstrate low levels of resilience then the opportunities to replenish those resources are severely constrained. If children's educational opportunities are to any significant degree financially dependent on parental transfers then these opportunities may likewise be severely constrained or at the least altered, even if these children do become eligible for government assistance.

I also consider the developmental link. Carneiro & Heckman (2003) argue that "Families with higher levels of resources produce higher-quality children who are better able to perform in school and take advantage of the new market for skills" and that "children's tastes for education and their expectations about their life chances are shaped by those of their parents....The influence of family factors present from birth through adolescence accumulate to produce ability and college readiness." An unexpected loss in earnings may contribute to a household environment less-conducive to in-home educational pursuits and may constrain parents' ability to invest in early formative inputs. Furthermore, the added stress placed on the parent, on the marital relationship and on the family's stability may further inhibit skill formation and social adaptation. Finally, the parents' experience may provide an example detrimental to the child's

own expectations and incentives to acquire more education (this effect could work in the other direction as well, with children hoping to avoid a similar experience).

My sample is drawn from the 1968-2001 waves of the PSID. In 1968 the PSID selected and interviewed a nationally representative sample of 4,800 families. In the years since the sample has grown to include the households of children of the original sample families so that the study now contains over 30 years of data on more than 7,000 households. Thus the PSID is ideally suited for this analysis because it combines intergenerational household and demographic information with detailed income and employment information.

For my purposes specifically, every year household heads who report being either unemployed or at current job tenure for less than a year are asked what happened to their last job. Those who report that their employer “folded, changed hands, moved out of town, died, or went out of business” are categorized as displaced. I am primarily interested in this group because they are the least likely to have self-selected into unemployment or new employment. Therefore the experiences of this group and their children over the length of the survey provide the variation with which I hope to identify the effects of parental job loss.

Under this definition 2,470 heads have experienced at least one job displacement. Of these, 1,064 have resident children (under the age of 18) who appear at some point later in the survey as heads of their own households. I restrict my sample in this way because of the detailed demographic, education, employment and income information available for household heads in the PSID. As a group, these children drop out of high school at a greater rate (26 vs. 21 percent) and are less likely to either attend (21 vs. 26 percent) or finish (11 vs. 16 percent) college than children who experience no such shock.

Following Coelli (2005) I will use a multinomial logit technique to model the educational attainment of my sample children as a function of parental job displacement and other demographic and environmental factors. The longitudinal aspect of the PSID allows me to control for the age of the child at the time of the parental displacement as well as the subsequent income shock (if any) and, to a more limited extent, any changes in consumption levels and wealth holdings. This will allow me to untangle to some degree the different possible links described earlier, describe their relative importance and discuss the implications.