

Does Money Matter? Exploring a Causal Link between Family Income and Educational Spending and Child Outcomes through National Child Allowance Policy

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Abstract

We examine the causal effects of family income on child outcomes and household's educational spending using the JCPS. Our identification strategy relies on the largely exogenous, discontinuous changes in the Child Allowance Policy (CAP) in Japan that took place between 2010 and 2012. We examine whether an exogenous variation in family income due to policy changes in the child allowance payment schedule has any causal effects on children's cognitive and non-cognitive outcomes and on a household's educational spending. Our empirical findings suggest that, while we observe significantly positive correlation between household income and children's cognitive and non-cognitive outcomes as well as parent's educational investment, these relationships are not necessarily a causal effect of household income. When using simulated changes in the child allowance payments as an instrument, in most cases, household income in levels or differences tends to have statistically insignificant impacts on child outcomes. An exception would be for the household's educational spending where we find a weak evidence of positive income effect.

Keywords: Child allowance; family income; educational spending; cognitive and non-cognitive outcome

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