

Excerpt from "The Economics of Parenting"

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- ▶ parents leisure is given by $L_t = 1 - X_t$, which implies utility is given by

$$-X_1 + Z((1 - \gamma)v + \gamma\tilde{v})$$

- ▶ where

$$v = a_2 l_2 + \beta V', \quad \tilde{v} = l_2 + \beta V'$$

- ▶ Skill formation is given by

$$h_2 = f_{h,1}(S, d_1) \quad a_2 = f_{a,1}(S, X_1, d_1)$$

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- ▶ In the second period (adolescence), adult skills are formed. At this stage, parents make no further direct investment and the ball is in the child's court
- ▶ The child skills formation technology is given by

$$H' = f_{h,2}(S, h_2, d_2, x_{h,2})$$

- ▶ Children ~~choose~~ ^{choose} occupation k , which is defined by by a triplet $\{\bar{x}_k, \bar{w}_k, \psi_k\}$. Where \bar{x}_k is the time required to learn the occupation, w_k is the basic wage and ϕ_k is the return to human capital.
- ▶ ^{The} Child potential income is given by

$$\xi_k [\bar{w}_k + (\psi_k H' w_H + (1 - \psi_k H') w_L)]$$

- ▶ Where ξ_k is the child "productivity shock"

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- ▶ The talent shock is realized in the second (adolescence) period, before the child decides on x_2 (so that the child does not face uncertainty), but after the parent's choice of x_1 and x_2 in the first period
- ▶ The setup captures that in some occupations, success hinges primarily on the child's talent and intrinsic motivation
- ▶ The child at the second period chooses

$$\max_{x_2 \in \mathcal{X}_2} a_2 (1 - (x_{h,2} + x_k)) + zV'$$

where V' is the adult earnings, as a function of the adult skill level

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- ▶ Now consider how economic conditions affect the choice of parenting style.
- ▶ Consider a simplified model in which parents can choose e between the three parenting styles: permissive (PE), authoritative (AV), and authoritarian (AR)

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- ▶ The permissive parent PE does not interfere with the child's preferences, so that $a_2 > 1$ and the child gets full enjoyment of adolescence, and also does not restrict the choice of occupation.
- ▶ The authoritative parent does not restrict the child's choice set, but molds her preferences. Specifically, this parent socializes the child into adult-like preferences, $a_2 = 1$. This "indoctrination" reduces in the child's enjoyment of adolescence while inducing her to make more forward-looking choices x_2 , to the extent that the child ends up choosing just what her parent would like her to. Indoctrinating the child requires effort $X_{AV}(S, d_1) > 0$, which is decreasing in both the skill of the parent and the quality of the neighborhood. This assumption reflects that better-educated parents possess superior soft skills to persuade their children.

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- ▶ The authoritarian parent AR forces the child into a particular occupation (i.e., the choice set X given to the child only includes the occupation k preferred by the parent). Authoritarian parents also impose control on the child's effort choice $x_{h,2}$. Imposing these restrictions requires costly monitoring and on the part of the parent, which is captured by a positive effort cost $X_{AR} > 0$
- ▶ Depending on the parent's skill and the neighborhood, X_{AR} may be larger or smaller than the cost of the authoritative style.
- ▶ A downside of the authoritarian style is that the parent locks the child into a particular occupation before the child's occupation-specific talent shock is realized.

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- ▶ Consider, first, a low inequality society, where the gap between w_H and w_L is small. In such a society, there is limited incentive for children to put effort $x_{h,2}$ into education. Parents are also less concerned about children's effort, and thus there is little scope for disagreement between parents and children. Therefore, most parents adopt a permissive parenting style
- ▶ Consider, a high-inequality society. There, the disagreement between parents and children is more salient, as parents want their children choose professions with a high return to human capital. In this society, a larger share of parents will be authoritative.
- ▶ Moreover, because of the comparative advantage of rich and educated parents in authoritative parenting, there will be a stronger socioeconomic sorting into parenting styles. Since an authoritative parenting style is conducive to more economic success, this sorting will hamper social mobility