The Evidence Does Not Show That Homeownership Benefits Children

David R. Barker
University of Iowa

Billionaires live in big houses, but aspiring tycoons would be mistaken if they concluded from this fact that upgrading their abodes would increase their chances of obtaining great wealth. Similarly, the fact that children of homeowners are better off than children of renters does not necessarily imply that every parent should own a house.

Believing that simple solutions will ease the problems of poverty and inequality is tempting, particularly when the solutions are promoted by armies of brokers, builders, and bankers who stand to profit from them. Factors influencing the well-being of children are particularly complex, however, and it is unlikely that merely switching families from renting to owning their homes would make a significant difference.

Homeownership may have positive effects on children, but negative effects may also exist, making the net effect difficult to determine. For example, home equity often represents a large fraction of a family's wealth, reducing the level of diversification in their investment portfolio, making them more vulnerable to economic fluctuations. Owning a home also makes it more difficult to move quickly in response to changes in employment opportunities. Lower family income can have a negative effect on children, possibly offsetting any positive effect of homeownership.

Perhaps the earliest research on the relationship between the well-being of children and homeownership was that of Harvard historian Stephan Thernstrom. Thernstrom (1964) studied records of children in 19th-century Newburyport, Massachusetts. Thernstrom found that homeownership was associated with less upward occupational mobility for children, probably because spending more money on housing made it harder to pay for education.

In contrast to Thernstrom's findings, modern data clearly show a positive correlation between child welfare and homeownership, but the question of causation is more difficult. The problem is not reverse causality, because it seems unlikely that having wonderful children causes parents to purchase houses, but that additional factors may affect the well-being of children and homeownership. Researchers must carefully control for the wide variety of factors that might simultaneously influence the well-being of children and homeownership.
One of these factors is building type. Research on the relationship between the well-being of children and housing during the 1960s and 1970s was mostly about the effects of building type rather than ownership (Conway and Adams, 1977). Large post-war public housing projects prompted concerns about the effects on families of living in high-rise buildings. Several researchers found that living on the upper floors of tall buildings had detrimental effects on children. These results are important in any investigation of homeownership because of the correlation between building type and ownership—most single-family houses are owned, but most multifamily units are rented. If, as older research suggests, building type can influence child welfare, then this factor must be carefully controlled in any investigation of the effects of ownership. Recent papers finding positive effects of ownership on children do not control for building type.

Mobility is another factor that is correlated with homeownership and the well-being of children. Most research on residential mobility shows that frequent moves have detrimental effects on the academic performance and the well-being of children. Because the costs of moving are higher for homeowners than for renters, families who expect to move in the near future are much more likely to live in rental housing. Although pushing families into ownership might reduce mobility, doing so might cause bigger problems, because families often move in response to loss of a job or because of crime or other problems associated with particular locations. Families might also move to place their children in better schools. Immobility resulting from subsidized homeownership can make such a move more difficult. Renting in a good school district, particularly with government rental assistance, is often the only affordable way for children in poor families to access high quality education.

Wealth is also an important factor in the well-being of children. Wealthy people tend to buy their homes, but poorer people tend to rent. Children obviously benefit in many ways from family wealth, and so any observed correlation between homeownership and the well-being of children might be because of these effects, rather than any direct effects of ownership. Having equity in a house provides a cushion against financial difficulties, but so does having money in the bank or in stocks, bonds, or a family business.

Many unobserved factors associated with child welfare are likely to also affect the propensity of families to purchase housing. Homeownership is something that many Americans desire for a variety of reasons. Capable people are more likely to attain goals such as homeownership, and they are also more likely to do a better job of raising their children. Observed correlations between homeownership and the well-being of children may be because of these unobserved characteristics of parents, rather than homeownership itself.

The first careful research to look specifically at the effect of homeownership on children was conducted by Green and White (1997). Controlling for several factors, they found that, on average, children of homeowners stay enrolled in school longer than children of renters. Aaronson (2000) found that controlling for mobility and self-selection into homeownership eliminated the statistical significance of Green and White’s results. Barker and Miller (2009) also reexamined Green and White’s data, finding that adding dwelling type, mobility, and wealth cast serious doubt on their results. In fact, we found that ownership of an automobile had a higher estimated effect on the well-being of children than did ownership of a home.
Haurin, Parcel, and Haurin (2002), using different data and corrections for self-selection and mobility, found positive effects of homeownership on measures of children’s academic performance and well-being. Barker and Miller (2009) also reexamined their results, finding that, when families switched from renting to owning, these measures did not improve, and when they switched from owning to renting, they did not deteriorate. Examining switches such as these is useful because it is a way of controlling for unobserved characteristics of parents that do not change when the switch is made.

Using new data that were available neither to Green and White nor to Haurin, Parcel, and Haurin, Barker and Miller (2009) found that controlling for child and family characteristics eliminated the statistical significance of homeownership. In fact, we found limited evidence of a negative effect, with homeownership associated with lower reading scores for young children.

The most recent work on the effects of homeownership and child welfare is a paper by Holupka and Newman (2012). These authors find little evidence of beneficial effects of homeownership and conclude that selection effects probably explain earlier findings of statistically significant positive effects. They also find that the effects of homeownership are different for White and African-American families. There is weak evidence implying a beneficial effect of homeownership for White children, but none showing such an effect for African-American children. Different results for different groups suggests that the effects of homeownership are not well understood, and perhaps that a factor other than homeownership itself is responsible for the correlations that have been observed.

Papers from a decade ago that show positive effects of homeownership on the well-being of children have been cited prominently in support of policies favoring homeownership. Subsequent research has cast serious doubt on these results. In addition, the nation has conducted a large experiment in expanding homeownership, which ended very badly. Since 2007, more than 20 million foreclosures occurred, which suggests that many families have been uprooted physically and financially as a result of the push for homeownership, justified in part by published studies showing that children would benefit. Now that the evidence suggests that no causal relationship is probable between homeownership and the well-being of children, policy neutrality toward housing tenure seems more appropriate.

Author

David R. Barker is an adjunct professor in the Finance Department at the University of Iowa.

References


