Non-Technical Summary of "Fostering Children"
Cameron Taylor
December 2019

Foster care is an incredibly important social service. One important input into this process is foster families – families that care for children. However, very little is understood about this behavior. It is a particularly remarkable behavior – families care for children that are not their own biological children for small stipends. These children also tend to be traumatized by abuse or neglect and so are more challenging to take care of than the average child.

The goal of this paper is to give one potential model or convincing framework to rationalize these decisions. The model is inspired by economics work that attempts to strip down an economic decision to its most basic form so that it looks like other forms of consumption which make more sense economically.

First, I look at the data on which families have foster children to motivate the use of a new model – classic models of altruism (pure altruism or warm glow) don't explain many of the important and interesting dimensions of the data, and in some cases get the signs of comparative statics seemingly completely wrong.

Next, comes the model. The model treats the fostering decision as a consumption decision in the sense that households are getting value from the human capital of the children they care for, like they would get value from the human capital of the biological children they could have. However, households can also get human capital from biological children, and importantly, households differ in their prices of having their own biological children. Similar to the previous economics of fertility literature, households have different wages which change their costs of having children. The model gives unique predictions on how a household's number of biological children and wage determine their willingness to be a foster family. The model also allows me to explore an important fact that older children are placed less often using the human capital of the child and makes predictions on how more fertile and richer families are willing to care for these older children.

Next, I test the predictions of the model in the data using innovative empirical strategies. To test whether biological children and foster children are substitutes, I use instrumental variables strategies. My first instrument is motivated directly by the model: I use same-sex couples as an instrument for number of biological children, as their production technology is more expensive. I also use the presence of twins as a plausibly exogenous shock to the number of children. To test whether families with higher wages are less willing to be foster parents I look at within occupation wage differences between households. Both find support. The other two predictions relating the age of foster children and the household's own fertility and wage also find support.

Finally, to wrap up I explicitly write down a simple version of the full model that combines both empirical strategies and also allows me to more directly compare the competing mechanisms. I find that the substitutability mechanism between biological children and foster children is far more important than the time-cost mechanism. If the price of having your own children went to infinity, we should expect to see four times as many foster parents (compared to a 50 percent

increase if wages were 0). Moreover, the model suggests that foster children and biological children are imperfect substitutes, likely because of reduced human capital. I also compare the empirical results and model to other theories, concluding that other theories struggle to explain the empirical results as a whole, though they are able to explain some facts in isolation.