Analysing motives for parental money transfers in Europe

(Extended Abstract)

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Important efforts have been made to understand and uncover the motives behind decisions on monetary and time (help, companion, etc) transfers between parents and children. At first glance, this topic seems more suitable to study under methods of other social science disciplines as Anthropology or Sociology since a sort of reciprocity may raises to connect such decisions. And when some motivations such as altruism and egoism appear as the key concepts driving transfer behaviour, one could think in approaches given by Psychology.

However, the worry of economists is genuine since the final effect of public policies on intergenerational redistribution depends on how are linked the family members; particularly they are interested to know how would be the responses of parental-children transfers due to application of a particular redistribution policy. If families are tied by altruism, effects of policies could be neutralized by parents compensating children with more transfers. But if families are driven by exchange (i.e. the help provided by children to parents is rewarded with money transfers), the effects of such policies might even be reinforced.

This paper contributes to the discussion on intergenerational transfer motives by testing the well known exchange model (Cox, 1987 and Cox & Rank, 1992) in eight European countries with homogeneous data from the application of standardised surveys by the SHARE-Project. Mostly, research on that topic had been undertaken with US data with a few exceptions.

Following Cox (1987) and Cox & Rank (1992), the parent is altruistic and hence she cares about the well-being of her child, so that child utility function should be one of the arguments of her own utility function. By contrast, the child has exchange motivations and offers “services” (companion, visits, contact, etc.) to his parent which are rewarded with monetary transfers. The parental utility is:

\[ U = U(C_p, S, V(C_k, S)) \]  

(1)

Where \( C_j \) is the consumption of \( j \) (p=parent, k=children), \( S \) indicates services provided by the child to the parent and \( V(.) \) is the utility function of the child. The utility functions are separable and consumption is a normal good. \( U_v > 0 \) indicates the altruistic nature of the parent. The child obtains disutility for the provision of services, \( V_S < 0 \). The constraints are:

\[ C_p \leq I_p - T \] \hspace{1cm} (2) \hspace{1cm} \[ C_k \leq I_k + T \] \hspace{1cm} (3) \hspace{1cm} \text{and} \hspace{1cm} \[ V(C_k, S) \geq V(I_k, 0) = V_0 \] \hspace{1cm} (4)

Where \( I_j \) denotes pre-transfer income of \( j \) and \( T \) is the transfer from parent to children. Equation (4) is the participation constraint. The solution is obtained as the maximization of (1) w.r.t. to \( T \) and \( S \), subject to restrictions (2)-(4). There are two regimes: if participation constraint is not binding, the motivation is altruism; otherwise exchange is the motivation that leads transfer behaviour at the margin. The key variable to determine the motive is the derivative of transfers w.r.t. child income. A positive relation is necessary to accept exchange, while a negative relation is compatible with altruism. Likewise, given the assumption on inelastic price demand for services, the exchange regime predicts \( \frac{\partial T}{\partial S} < 0 \).
Those predictions are testable using a Tobit model to regress transfer amounts on some demographic variables for children and parents at child level for each country. Results allow reject exchange motivated transfers for four European countries (Germany, Netherlands, Denmark and Greece) in favour of altruism. In those countries the transfer amounts and incomes show a statistically significant negative relation, a fact that run counter the key prediction of the exchange motive. Additionally, the exchange regime might be refused for other three countries (Austria, Italy and France) on basis of the significant positive relation found for child services and the transfer amounts. Spain is the only country where it is not possible to suggest a conclusion.

However, it is more convinced to think that transfer motivations are lead for a mix of altruistic and exchange feelings instead of a pure model. With the use of a collapsed sample that includes two or more siblings, results from comparing transfers and incomes among siblings show that altruism and exchange motives co-exist in the same country. And most importantly, approximately two thirds of the parental household units from the analyzed sample distribute transfers equally among the children; a fact very different from previous studies made mainly with US data.

In the theoretical section of the paper, equality on transfers is treated as the existence of a constraint on parents to be fair and hence to give equal transfers to their children in order to keep peace inside the family (Laitner, 1997; Wilhelm, 1996). However, if differences among child’s income are not tolerated from the parents’ view, they will refrain from that constraint and then they will compensate the poorer children with larger transfers, i.e. parents will behave as the altruistic model predicts. Support is given to this hypothesis with the help of a probit model: the more child income inequality exists among children from the same household, the more probability for a parent to favour the poorer child with larger transfers. Additionally, it is possible to show how a parent shifts from giving equal transfers to give unequally by looking which threshold on child income inequality causes a change in the parental behaviour. Using the same probit equation, a significant linear threshold on child income inequality is found. In rough terms, a parent gives equal transfers to her children if the income of the richest child is not more than 15% of that of the poorest one; for higher differences, the parent will compensate the poorest child with larger transfers.

European countries show a different picture concerning transfer behaviour with respect to previous studies. A large number of households give equal transfers to children which precludes parents to equalize marginal utilities on consumption among children and hence the neutrality result does not hold. Then, there is still room for redistribution policies to affect wealth distribution.

References


