Private transfers in France: Measures and motives

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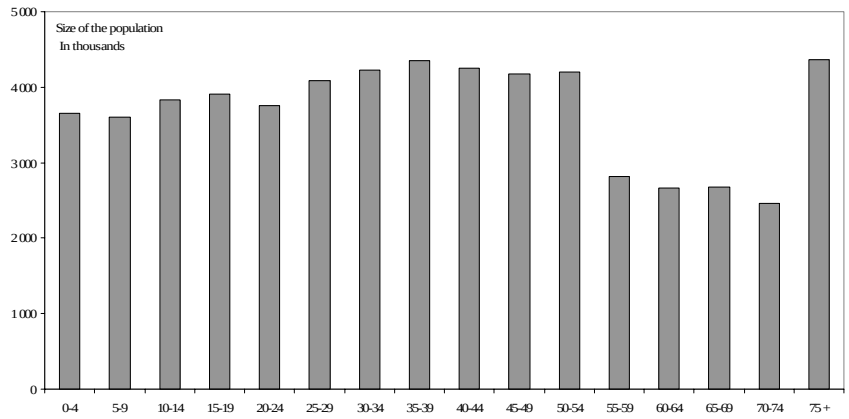
Introduction

- **Age structure of the French population has considerably changed over the last twenty years:**

Illustration:

Age	<20	>60
1950	30.2%	20%
1980	30.6%	22.7%
2000	25.6%	27.8%
2007		29.7% (prediction)

- **Increasing number of people older than 75 years:**
  - **1980 5.7%**
  - **1990 6.8%**
  - **2006 8.2%**
- **Ageing of the French population essentially stems from the continuous rise of the life expectancy (75.3 years for men and 82.8 years for women in 2000)**



Introduction

- **Key question: can the State afford the cost of pensions and health care for an ageing population like France ?**
- **Public transfers between generations have essentially been the focus of attention, whilst private exchanges occurring among families have been less taken into account.**
- **Need to take into account all the contributions that an individual make over the life-cycle (including those made to the society and to the family)**

Introduction

- **Purpose of the presentation**
- **(1) To shed light on the less visible transfers made by individuals, i.e. private contributions**
- **(2) To compare them with public transfers**
- **(3) To analyze the determinants of the provision of family transfers: do transfers depend on altruistic or exchange considerations ?**

=> implications for the interplay between public and private transfers at the individual level

Part 1.
Measures of private transfers

Measures of private transfers

- **Research question: comparison of the evolution of public and private transfers**
- **Public transfers are financial**
- **Many private transfers are non-financial: how important are these non-monetary flows ?**
- **Important to understand the interplay between private and public transfers**

A problematic scenario

- **Scenario 1.**
  - At date t=0, no public transfers, upstream cash private transfers
  - At date t=1, public transfers, no upstream cash transfers

  => Possible interpretation: *crowding out* ….

  ⇒ But also: *substitution between time and money to the elderly parents*

- **More generally, some difficulties**
  - Some private transfers are missing (all time transfers, grandchild care)
  - Problems of measurement of services among co-resident households (example: in a poor country, grandparents may raise the children and help them withhomework …)

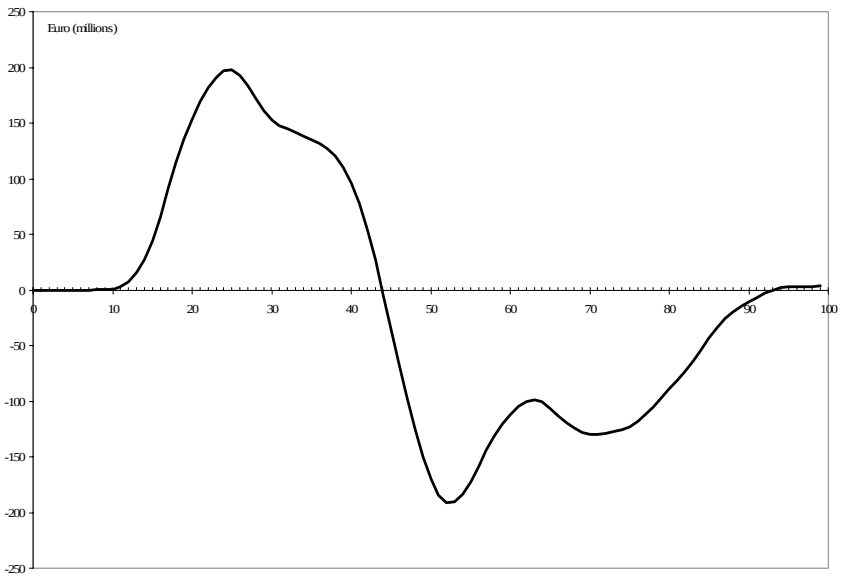
Cash gifts

- **Measurement of transfers in the form of donations and bequest [consumption survey Budget des Familles 2001]**
- **Individuals** **receiving cash gifts: 26%**
  receiving bequest and donations: 3.4%
- **Values of** **19.2 billions of euros for bequests and large donations**
  8.6 billions of euros for cash gift
  total **27.8 billions of euros (underestimated amount)**
- **Transfer given: 9.6 billions of euros**
- **Age profiles**
  Mean age at transfer receipt is **40.4 years.**
  39.5 for cash gifts
  47 for bequest
  Mean age of the donor is **55 years**

Table 1. Age profiles of financial transfers (including donations and bequests)

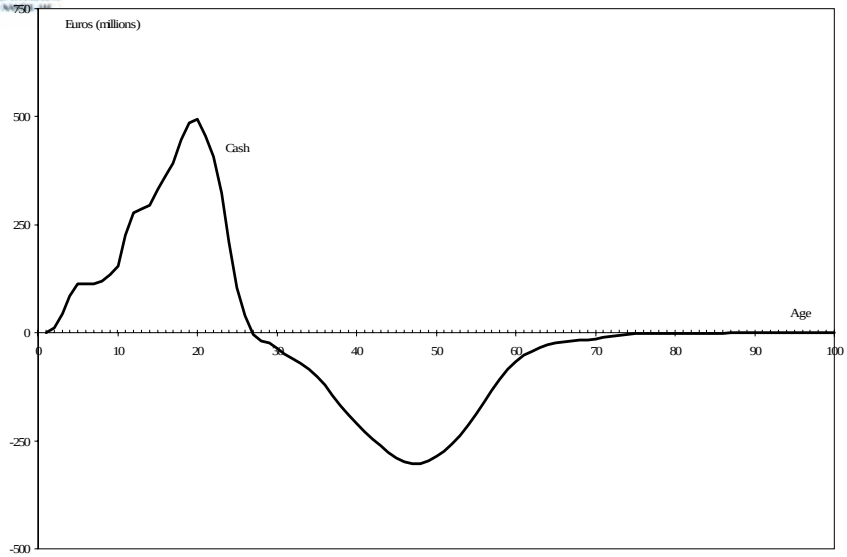
Age group	Money given		Money received	
	Value	%	Value	%
Less than 25	0.1	0.6	1.7	6.0
25-60	6.4	67.2	23.0	82.9
More than 60	3.1	32.2	3.1	11.1
All	9.6	100.0	27.8	100.0

Source: Survey Budget des Familles, 2001.
Amounts are in billions of euros.



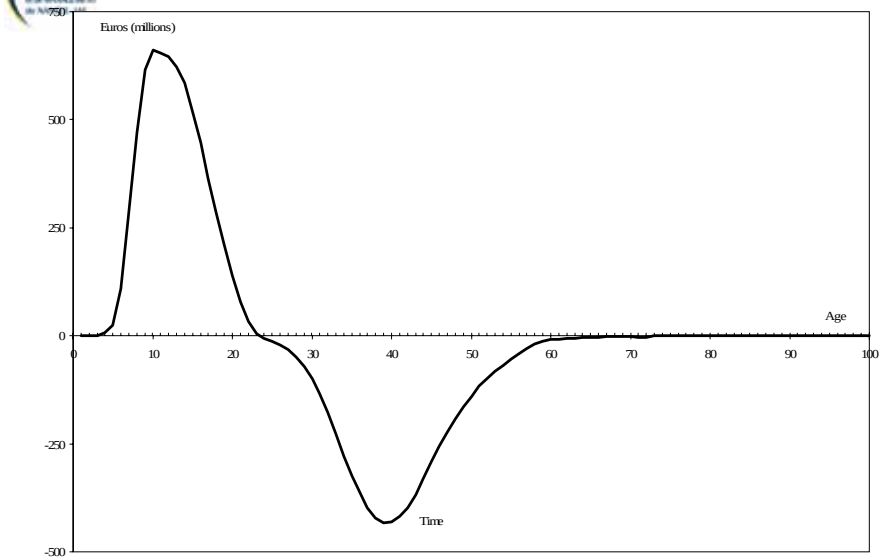
Money versus time

- **Example 1. the case of young children, educational transfers**
- **(1) Educational expenditures**
  Survey 'Budget des familles' 2001
  Age profile constructed through the regression method (with age-specific groups)
- **Financial resources devoted to education** **6.3 billions in 2001**
- **Age profile**
  mean age of the donor **45.4 years**
  mean age of the recipient **15.7 years**



Money versus time

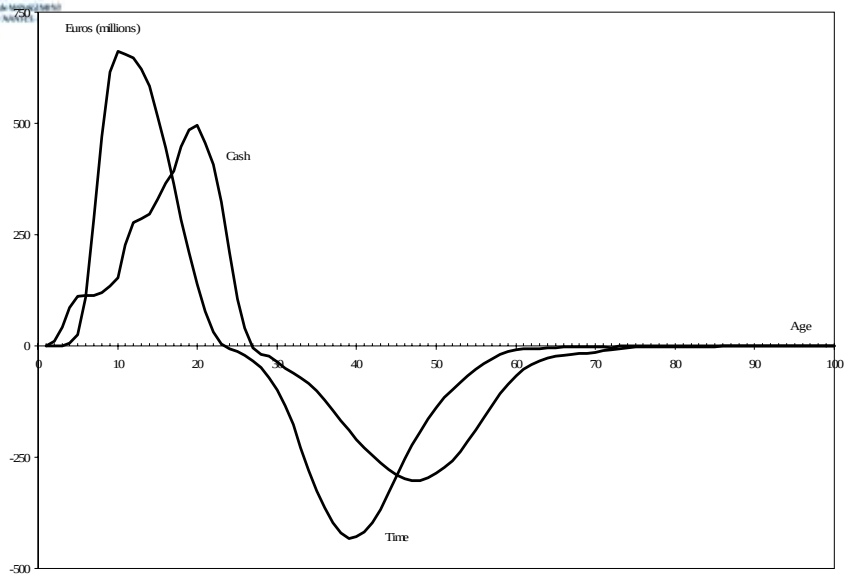
- **Example 1 (...). the case of young children, educational transfers**
- **(2) Time to homework**
  survey 'Education et familles' 2003
- **Mean time amounts (per year, for donors)**
  fathers 84 hours
  mothers 150 hours.
- **Evaluation on the basis of the minimum hourly wage**
- **Time transfers to children** **about 6.8 billions of euros**
- **Age profile**
  mean age of recipient **11.6 years**
  mean age of donor **40 years.**



Money versus time

- **Result 1**
  time transfers slightly more important than financial transfers

- **Result 2**
  evidence of substitution between the two types of transfers



Money versus time

- **Example 2. transfers to elderly parents**
- **SHARE Survey 2003, France**
  (like HRS, head older than 50)
- **Total value of upstream financial transfers: 445 millions**
- **Total value of time transfers 1892 billions**
  Number of hours to parents * minimum hourly wage
- **Comments:**
  (1) Time transfers are four times higher
  (2) Underestimation of time transfers (6.1 billions with a different survey)

Money versus time

- **Interpretation: in a country where pensions are high enough, resources devoted to the elderly mainly flow in the form of time instead of money**
- **This affects our understanding of the allocation of private resources between generations.**
- **Problem: The time-money ratio seems not constant along the life-cycle**
- **Time and money contributions made by respondents to adult children (Share 2003)**

  13.2 billions of euros for cash gifts
  1.7 billions for time help

- **Time-money ratio**
  0.13 for downward transfers
  4 for upward support to the elderly
  1.08 for schoolchildren
  …

Inter *vs* intra-household transfers

- **Coresidence**
  very infrequent with elderly parents
  question: who is the owner of the housing ?
  common for children till 20-25 (home-sharing as insurance against shocks)
  reallocation of resources within the household
- **Measures of intra-household transfers**

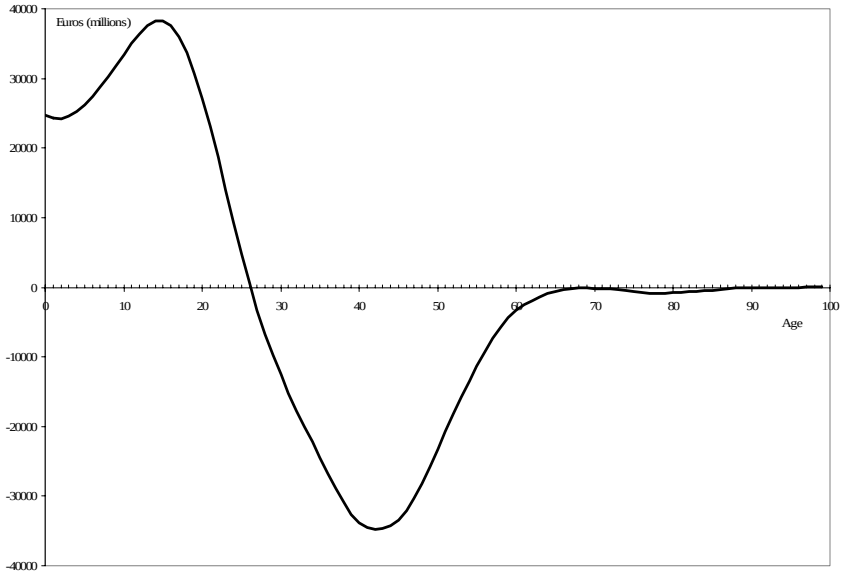
  total value 220.6 billions of euros in 2001
  more than 20 times the value of inter-household transfers given

- **Age profile**
  mean age of donor 45.4
  mean age of recipient 29.6
- **the ratio of net intra-household transfers to net intra-household inflows strongly varies across age.**
  about 1 till about 15
  0 at 26
  maximum at 43 years
  after, the ratio remains negative

Table 2. Age profiles of intra-household transfers

Age group	Inflows		Outflows	
	Value	%	Value	%
Less than 25	116.9	53.0	7.6	3.5
25-60	77.3	35.1	184.1	83.4
More than 60	26.5	12.0	29.0	13.2
All	220.7	100.0	220.7	100.0

Source: Survey Budget des Familles, 2001.
Amounts are in billions of euros.



Charitable transfers

- **Charitable contributions**
  - **Proportion of donors** **36.3%**
  - **Total value:** **1.3 billion**
- **Volunteer work**
  - **Aggregate number of hours** **1.3 billion**
  - **This resource represents 817000 full-time equivalent jobs**
- **Evaluation of volunteer work**
  - **Minimum wage rate** **11.57 billions of euros**
  - **Other opportunity costs** **Between 15.5 and 16.6 billions of euros**
    Between 0.76% and 1.1% of the GDP
- **The ratio of time to charitable transfers is above 10… and this ratio is not constant throughout the life cycle**
- **Mean age when volunteering is around 46 years**
  5 years younger than the mean age when making a cash gift
- **Unsolved question: who are the recipients of these transfers ?**

Table 3. Age profile of charitable contributions

Age group	Financial contributions		Volunteer work		Ratio time/money
	Value	%	Value	%	
Less than 25	34.3	2.6	3129.8	19.6	91.3
25-60	770.3	59.3	9175.5	57.4	11.9
More than 60	484.8	38.1	3689.4	23.1	7.6
All	1299.4	100.0	15994.8	100.0	12.3

Source: Survey Vie Associative, 2002.
Amounts are in millions of euros.

Remittances

- **About 5 millions of migrants living in France in 2004 (8% of the population)**
  Question: location of recipients => remittances ?
- **Survey 'Passage à la Retraite des Immigrés' 2003 (6211 foreign-born individuals > 45)**
- **Total value of both cash gifts and loans made by migrants: 2.1 billions of euros**
  Most of these transfers are gifts (72.3%, i.e. 1.5 billion)
- **Total amount of remittances** **0.59 billion of euros**
  40% of the total transfers made by migrants
- **Respondents may also send for themselves money to their origin country**
  1.25 billion
- **Age profile**
  remittances more important again younger age groups
  children receive 68.8% of the total transfers made by the migrants (970 millions)
  parents receive about 19% of the total amount (much higher than in France)

Table 4. Age profile of transfers made by older migrants

Age group	Remittances		Gifts in France		Ratio remittances/gifts
	Value	%	Value	%	
45-49	176.1	29.7	87.3	9.7	3.1
50-54	166.7	28.1	145.8	16.2	1.7
55-59	144.9	24.4	205.7	22.8	1.1
60-64	75.4	12.7	181.1	20.1	0.6
65 and above	30.7	5.2	283.0	31.3	0.2
All	593.7	100.0	903.0	100.0	12.3

Source: Survey Vie Associative, 2002.
Amounts are in millions of euros.

Private and public transfers

- **Private transfers between and within families (and also with non-relatives) are very important … but private transfers remain difficult to evaluate**

- **Examples:**
  - upstream transfers to elderly parents
  - downward transfers: time to grandchildren
    49% of donors in France
    in more half of cases, services provided on a weekly basis.

- **Difficulty of comparison:**
  the case of expenditures related to education
  public consumption: 82.2 billions
  cash transfers: 6.3 billions
  time to homework: 6.8 billions

- **But human capital investment in children cannot be restricted to educational expenditures**

  net intra-household flow to the 0-24 age group: 109.3 billions

Table 5. Age profiles of public transfers, France 2000

Age group	Health	Other social in kind benefits	Education	Other public consumption	Total
0-4	3.0%	0.0%	8.7%	6.2%	5.1%
5-9	2.6%	0.0%	18.7%	6.1%	7.5%
10-14	4.6%	0.0%	30.2%	6.5%	11.0%
15-19	4.7%	0.4%	28.4%	6.6%	10.6%
20-24	4.4%	3.1%	10.8%	6.4%	6.5%
25-29	4.8%	7.1%	1.8%	6.9%	5.2%
30-34	6.2%	10.0%	0.2%	7.2%	5.7%
35-39	6.4%	8.5%	0.2%	7.4%	5.5%
40-44	5.4%	8.9%	0.2%	7.2%	5.3%
45-49	5.3%	10.8%	0.2%	7.1%	5.6%
50-54	6.9%	16.0%	0.2%	7.1%	6.8%
55-59	4.7%	11.8%	0.1%	4.8%	4.7%
60-64	7.8%	5.2%	0.1%	4.5%	4.2%
65-69	7.8%	5.0%	0.1%	4.5%	4.2%
70-74	9.6%	5.0%	0.1%	4.2%	4.5%
75 +	15.9%	8.2%	0.2%	7.4%	7.6%
Less than 25	19.3%	3.5%	96.8%	31.8%	40.7%
25-60	39.7%	73.1%	2.9%	47.7%	38.8%
More than 60	41.1%	23.4%	0.5%	20.6%	20.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Amounts are in billions of euros.

Transfers from adult to children

- **We consider the group of children aged less than 25**

1) **total value of public expenditures: 135 billions**

2) **private financial contribution made by parents: 110 billions**

3) **Time transfers: we use the measure of Bichot (1994) – about 7.7 billions of hours to children in 1989: 45 billions of euros**

Total value of investment in youth: 290 billions

Transfers to the elderly (60+)

- **We consider transfers from the middle-aged adults to the older age group.**

1) **We find a total amount of 68 billions concerning public expenditures related to health, social in-kind benefits and other public government consumption**

2) **Most important component of transfers from the working to the dependent age groups is pensions: 186 billions (12.9% of the GDP)**

3) **Financial transfers to old-age care remains negligible, while elderly parents make significant transfers through gifts and donations, about 25 billions**

4) **We assume that services given to and made by the older age group are equivalent in terms of number of hours.**

Total value of 230 billions of euros flowing to the elderly

Exchanges between generations

- **Setting: stationary environment, economic and demographic conditions being those of 2000, and a zero value for the discount rate**

- **Case 1. Public transfers only**

  135 billions of euros to the young generations
  255 billions to the older generations

  given the relative size of the two groups,

  total investment in a young 180000 euros (over 25 years)
  total transfer to retired people 318000 euros (over 35 years).

Exchanges between generations

- **Case 2.Public and private transfers.**

  Total transfers to old people 230 billions
  Total transfers to the young 290 billions

  a young receives on average 386500 euros over 25 years,
  but will contribute to old-age for 286500 euros when being adult

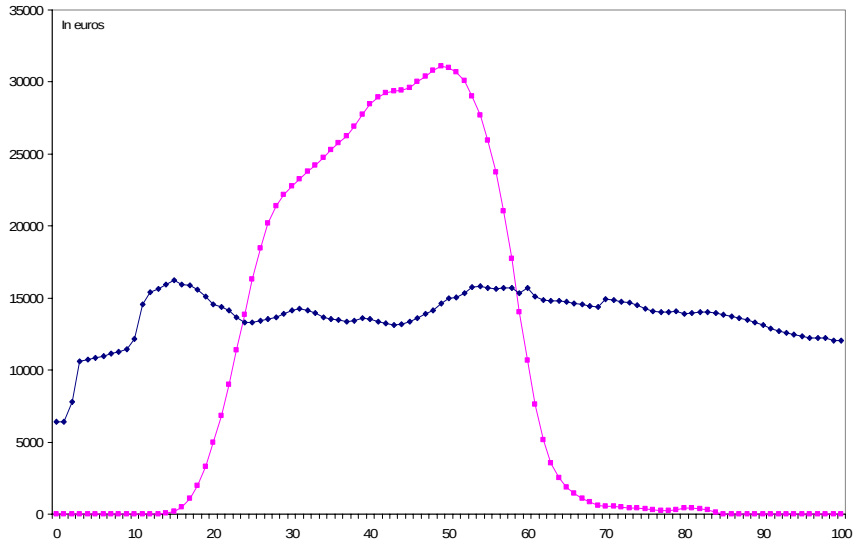
- **Concluding comments:**
  1) irrelevance of the stationary framework ! So be cautious with the result

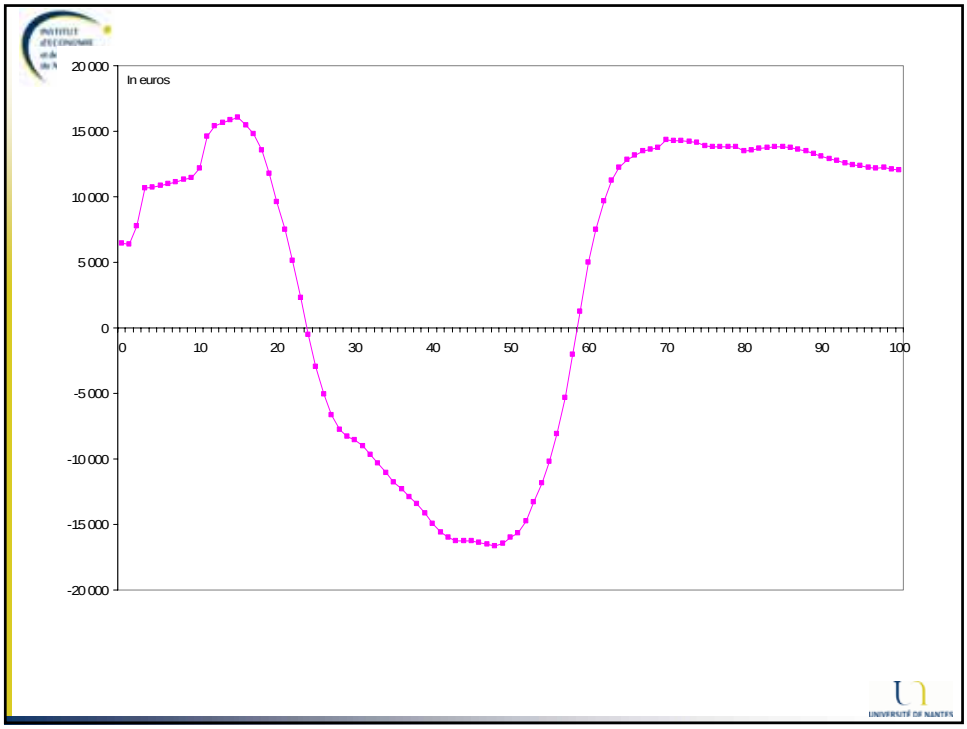
  2)investing in children is extremely costly for those who have to support all their private costs, i.e. families, but is highly profitable for the social protection system

Finally, …

- **Description of the life cycle age profile**
- **Any interpretation concerning the interplay between private and public transfers ?**
- **Problems of causality …**
  - Do families reduce their transfers because public transfers are extended?
  - Or does the State do more because insufficient family support?

⇒ Precious comparative results with NTA, …
… but very difficult interpretation with aggregate data





Part 2.
Motives of private transfers

Theoretical motives

- *Motive 1:* **altruism (Becker)**

  parents take into account the level of well-being of their children when making transfer decisions

  transfers are a means to redistribute money across generations

- **Predictions:**

(1) **individual levels of consumption should not depend on the distribution of income among the various family members.**

(2) **richer parents are expected to increase the value of their transfers**

(3) **the amount of transfer received is lower when the child is richer**

(4) **a redistribution of resources between parents and children should lead to a perfect adjustment in the transfer value (neutrality property)**

(5) **Parents are expected to favor their less well-off children**

Theoretical motives

- **Motive 2: exchange (Cox, 1987, 1990)**

  reciprocity between generations

  financial gifts made by parents are a payment for services and visits provided by children

  family loan model: parents lend money for consumption, to be repaid in the future with a presumably above-market interest rate

- **Prediction**

(1) **the relationship between the amount of transfer received and the recipient's level income can be either positive or negative**

  children with more resources will receive more money from their parents.

Policy implications

- **Knowing the relevant motive, i.e. either altruism or exchange, matters!**
- **Consider a setting where:**
  - parents are perfectly altruistic
  - they give money to their children
  - now suppose that these children benefit from a public transfer
  - Question: will parents adjust or not their own private effort ?
- **Under altruism, parents will perfectly lower their own contribution to the children**
  - Pure crowding-out effect
  - The public policy is ineffective
  - The true (unintended) recipients of the public support (Lampman and Smeeding, 1983).
- **But under exchange:**
  - since children receive public transfers, they have now more personal resources and parents may offer them higher transfers to receive upstream contact
  - crowding-in effect (Cox and Jakubson, 1995).

Transfers to children

- **Econometric analysis of financial transfers made by parents to their adult children**
- **Probability for a child to receive a cash gift from the parents as a function of both parental and child's characteristics**
- **758 families, with 1542 parent-child pairs**

Table 6. The determinants of transfers from parents to adult children

Variables	(2)		(3)	
	Coef	t-test	coef	t-test
Characteristics of parents				
Head: age	0.289*	(1.81)	0.294*	(1.84)
Head: age² (/100)	-0.232*	(1.89)	-0.235*	(1.92)
Years of education	0.956***	(4.61)	0.920***	(4.46)
In job	0.165	(0.57)	0.174	(0.61)
Income (log)	0.177*	(1.96)	0.184**	(2.05)
Characteristics of child				
Age	-0.125	(1.64)	-0.123	(1.63)
Age² (/100)	0.125	(1.29)	0.121	(1.25)
Further education	-0.009	(0.06)	-0.019	(0.12)
Student	0.356	(1.12)	0.415	(1.32)
Unemployed	0.717**	(2.07)	0.673**	(1.97)
Not active	-0.656**	(2.07)	-0.631**	(2.02)
Contact with parents (/100)	0.145**	(2.41)		
Distance to parents (/100)			-0.131	(0.48)
Number of observations	1542		1542	
Number of families	758		758	

Source: SHARE survey, 2003.

Transfers to children

- **Test of the neutrality property:**

  E[dT/dYp – dT/dYk | T>0] = 1

  but need of data on two generations

- **We estimate E[dT/dYp | T>0] and E[dT/dYk | T>0] using the Altonji-Ichimura estimator to control for selectivity bias**

- **Results from the survey 'Budget des Familles'**

- **We only consider cash gifts made and received**

Table 7. Effect of changes in income on cash transfer amounts

Age group	Impact of donor's income (transfer given)		Impact of recipient's income (transfer received)		Difference in corrected income derivatives
	Uncorrected	Corrected	Uncorrected	Corrected	
Less than 40	0.0063	0.0106	-0.0108	-0.0132	0.0238
40-60	0.0031	0.0062	-0.0163	-0.0125	0.0187
More than 60	0.0029	0.0047	-0.0173	-0.0406	0.0453
All	0.0046	0.0080	-0.0148	-0.0128	0.0208

Source: Survey Budget des familles, 2001.

Transfers among migrants

- **Migrants are characterized by specific transfer decisions, are their motives like those of natives ?**
- **Survey 'Passage à la Retraite des Immigrés' sample of 13762 parent-child pairs corresponding to 4999 families**
- **Parents mainly behave in an altruistically way.**
  - they give more often to those who have a fair or poor financial status.
  - the probability of transfer is higher for children not living in France, while geographic location in France plays no role.
- **But there may be additional cultural differences**
  - Muslims versus non-muslims in France
  - parental resources do not really affect the transfers made by Muslim migrants

Table 8. The determinants of transfers to children among migrants living in France

Variables	(2)		(4)	
	coef	t-test	coef	t-test
Characteristics of parents				
Head: age	0.428***	(3.14)		
Head: age² (/100)	-0.379***	(3.19)		
Years of education	0.055***	(4.69)		
Income (log)	0.325***	(4.29)		
Characteristics of child				
Age	0.079*	(1.82)	0.051	(0.56)
Age² (/100)	-0.102	(1.54)	-0.041	(0.29)
Financial status: fair	0.234***	(2.81)	0.541***	(2.78)
Financial status: poor	1.004***	(9.26)	1.602***	(6.87)
Distance: in France, >10kms	-0.063	(0.79)	-0.180	(0.96)
Distance: not in France	0.852***	(7.55)	1.035***	(4.02)
Number of observations	13762		1449	
Number of families	4999		401	

Source: SHARE survey, 2003.

Transfers to parents

- **Trade-off between giving time versus money**
- **Endogeneity of public transfers… any instruments ???**
- **Needs of natural experiment …**

Table 9. The determinants of transfers received by respondents

Variables	(2)			
	Time		Money	
	coef	t-test	coef	t-test
Constant	3.657*	(1.70)	-0.144	(0.05)
Head : female	0.227**	(2.19)	0.199	(1.23)
Head: age	-0.169***	(2.83)	-0.058	(0.70)
Head: age² (/100)	0.141***	(3.32)	0.042	(0.69)
Head: in couple	-0.559***	(4.57)	-0.578***	(3.18)
Size of the household	-0.070	(1.13)	0.181**	(2.45)
Head health: good	-0.026	(0.17)	-0.583***	(3.14)
fair	0.193	(1.22)	-0.210	(1.03)
poor	0.481**	(2.56)	-0.470	(1.55)
Years of education	-0.226**	(2.37)	0.164	(1.15)
In job	-0.282*	(1.68)	-0.174	(0.84)
Income (log)	0.039	(0.82)	-0.042	(0.60)
Receipt of professional aid	0.518***	(4.45)	0.171	(0.87)
Coefficient of correlation	0.274 (2.65)			
Number of observations	1217			

Source: SHARE survey, 2003.

Other aspects of transfers

- **Transfers affect the behavior of recipients**
  - Do receipt of transfers affect the child's decision to work ?

  (1) For schoolchildren, no !

  (2) For grandparental care: young adult women are more likely to have a job

  (3) What about large transfers ?????

Other aspects of transfers

- **Transfers affect the behavior of donor**
  - Do care to the elderly affect the child's decision to work ?

  (1) Working more allows to give money

  (2) Working less allows to give time

  => Complex tradeoff (no clear effect in France)

Concluding comments

- **Construction of transfers accounts as a first step**
- **Transfers accounts very informative for cross-country comparison .. and also for comparison over time**
  - France like other countries for life cycle deficit age profile
- **Problem of construction of transfer accounts:**
  - How can we interpret the results if some transfers are missing ? Especially if there are specific-country transfers ? (like upstream care in developed countries …)
- **Information of NTA about interplay between private and public transfers : any causal relationship ?**

Concluding comments

- **Where are we going now ?**
  - i.e. once transfer accounts are constructed…
- **As a complementary approach, need to turn to individual data for more formal analysis related to motives of private transfer (financial, time, co-residence)**
- **Use of Panel data and natural experiments to better understand the interplay between private and public transfers**