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RESUMO/ABSTRACT

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Keywords: Inter-Household Private Transfers, Altruism, Exchange, Capital Market Imperfections.

JEL Codes: D19, O16, I30, H55

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Abstract

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1 Introduction

In the presence of operative inter-household private transfers, the effects of income redistribution policies become uncertain and dependent on the motives underlying inter-household private transfers. For instance, Becker (1974, 1993) shows that if inter-household private transfers are operative and are an outcome of altruistic feelings satisfaction, households can completely neutralize the effects of income redistribution policies, by adjusting the levels of their transfers (see also Altonji, Hayashi and Kotlikoff (1997)). However, if households are motivated by exchange, that is, if households give because they expect something in return, this result does not hold (Altonji, Hayashi and Kotlikoff (2000), Bernheim, Shleifer and Summers (1987) and Cox (1987, 1990)). Hence, if one is interested in anticipating the outcome of a given income redistribution policy, one must understand the motives behind inter-household private transfers. This paper does just that, looking at the case of Bulgaria.

In particular, this paper tests the empirical relevance of two hypotheses - the altruism hypothesis and the exchange hypothesis - which have been accepted in the literature as the main driving forces behind inter-household private transfers (see Cox et al. (1998)). As its name suggests, under the altruism hypothesis households give to satisfy their altruistic feelings. In turn, under the exchange hypothesis, households give because they expect something in return, namely a future repayment. While it is likely that both motives are at work, it is plausible that they may not work to the same extent. Therefore, it is important to test which motive dominates at an empirical level in order to anticipate the outcome of a given income redistribution policy. This empirical question has important implications for a number of policies. If the altruism hypothesis is the main driving force behind inter-household transfers, then households may neutralize not only income redistribution policies, but also tax and debt policies, as several authors in the macroeconomics and public finance literature have argued (see, for instance, Barro (1974)).

Inter-household private transfers are also important for reallocating resources. Cox and Jimenez (1990) document for a large sample of countries that more than half of the households engage in private transfers. In addition, and quite interestingly, Cox and Jimenez also show that it is often the case that the amount of transfers received is large in the sense that it constitutes an economically important fraction of the household's overall income. Hence, studying inter-household transfer behavior is important not only for a better understanding of allocation of resources but also to how safety nets work. Therefore, the empirical work in this paper also sheds light on important relationships that structural models of the household must rationalize.

We use microeconometric data to carry out our empirical work, for Bulgaria, collected by the World Bank, which allows us to control for an interesting number of household economic and demographic characteristics. We follow Altonji, Hayashi and Kotlikoff (2000), Cox, Jimenez and Okrasa (1997), Cox, Jimenez and Eser (1998), Cox, Hansen and Jimenez (2004), among others, and estimate a microeconometric model of the determinants of the incidence of transfers and

of the amount of transfers received. Our contribution is, thus, empirical.

The paper is organized as follows. Section 2 presents a simple model that guides the econometric work. Section 3 describes the data. Section 4 documents the empirical work. Finally, Section 5 concludes with policy implications.

2 Theory on Motives for Inter-Households Private Transfers

This section presents a simple model of the decision to transfer income between households in order to motivate and guide the empirical work. To test which motive - altruism vs. exchange - is the most important driving force underlying inter-household transfers one must look at the relationship between the recipient's pre-transfer income and the transfer amounts received. Under the pure altruism hypothesis this relationship is always negative. The exchange hypothesis, in turn, is not inconsistent with either a positive or a negative relationship between these two variables. Moreover, and still under the exchange hypothesis, and in the presence of capital market imperfections, transfer amounts received should rise with low levels of pre-transfer income and decline for high levels of pre-transfer income. That is, transfer amounts received is non-linear and concave in pre-transfer income, and hence non-monotonic.

Capital market imperfections are likely to be a strong cause of private transfers. If we consider households who wish to smooth their real consumption levels over their life-cycle, then if capital market imperfections bind, they will be unable to achieve their first-best real consumption path (Cox (1990)). This fact may prompt households to engage in private transfers with other households. This observation becomes clear if we assume for simplicity that capital markets are "perfectly imperfect". In particular, young households whose actual income is lower than their permanent income cannot borrow against their potentially higher income that they will receive while middle aged. Similarly, middle aged households whose actual income is higher than their permanent income cannot save for their retirement. What actions can these households take to ease the restrictions that they face? To answer to this question, we present below simple models of both the altruism hypothesis and of the exchange hypothesis that help us in setting up the empirical work. Admittedly, we do not fully develop the models as they are developed elsewhere. Our goal here is to provide enough intuition to develop our empirical tests.

Altruism Consider first altruistically motivated private transfers. The model presented to illustrate this hypothesis features utility interdependence and is due to Becker (1974). Suppose that parents care about their children, so that when children's income is low enough, as it would be early in the life-cycle, parents transfer income to their children. In addition, children care about their parents' well being, so that when the parents' earning power is low - i.e. retirement years - children transfer income to their parents. Formally, this utility

inter dependence setting can be expressed by the following set of equations:

$$U = U(c_p, V) \tag{1}$$

where U denotes parental utility, a positive function of parental consumption c_p and children's utility V. Since we assume that altruism is mutual, there is an analogous expression for the children's well being:

$$V = U(c_k, U) \tag{2}$$

where c_k denotes children's consumption (k is a mnemonic for kids). The following budget constraints capture capital market imperfections:

$$c_j = I_j + T_j,\ j = p, k \tag{3}$$

where T_j denotes transfers received, net of transfers given by person j, and I_j denotes person j's pre-transfer income.

Assume that parents and children overlap for 2 periods, 1 and 2. Period 1 is youth period for children and middle age for parents and period 2 is middle age for children and retirement for parents. In terms of pre-transfer income configuration, we have the following pattern:

$$\begin{aligned} I_{k,1} &: low;\ I_{k,2} : high \\ I_{p,1} &: high;\ I_{p,2} : low \end{aligned}$$

The main insight of altruistically motivated private transfers is very simple: Private transfers can help overcome capital market imperfections, as parents transfer income to children in the first period and children transfer income to parents in the second period. A key prediction of this model is that an increase in pre-transfer income is always associated with a decline in transfers. Children with higher $I_{k,1}$ require smaller T_k to attain the level of consumption that is optimal from the parents' perspective. This results holds for Tp in the second period. In terms of derivatives, we have $\frac{\partial T_k}{\partial I_{k,1}} < 0$ and $\frac{\partial T_p}{\partial I_{p,2}} < 0$ regardless of income levels.

Note that transfer behavior has two dimensions. The first is to transfer or not (the decision) and the second, contingent on deciding to transfer, is the amount to transfer. An increase in $I_{k,1}$ reduces the parents' marginal utility of transferring income to the children and thus we expect a negative relationship between the incidence of transfers (likelihood of being a net receiver) and the recipient's pre transfer income under the altruism hypothesis.

Exchange This section presents a simple model of the exchange hypothesis taken from Cox et al. (1998). Suppose that parents and children realize the potential to engage in mutually beneficial income transfers. Parents transfer to children in the first period and are paid back in the second period. Assume Nash bargaining. The parent's and children's lifetime utilities are defined as follows:

$$U = U_1(I_{p,1} - T) + \frac{U_2(I_{p,2} + R)}{1 + \rho} + \beta V \tag{4}$$

$$V = V_1(I_{k,1} + T) + \frac{V_2(I_{k,2} - R)}{1+\rho} + \gamma U \tag{5}$$

where ρ is the subjective rate of time preference, which for simplicity is assumed to be the same for parents and children. The parental loan is denoted by T and the repayment is denoted by R. Altruism is not dispensed in this particular bargaining framework. But this depiction of altruism differs from the altruism hypothesis above, in which one agent implicitly dominates the bargaining arrangement. The levels of utility that parents and children can obtain on their own - the threat points - are given by:

$$U^0 = U_1^0(I_{p,1}) + \frac{U_2^0(I_{p,2})}{1+\rho} + \beta V^0 \tag{6}$$

$$V^0 = V_1^0(I_{k,1}) + \frac{V_2^0(I_{k,2})}{1+\rho} + \gamma U^0 \tag{7}$$

As usual, the solution to the Nash bargaining problem is given by:

$$\max_{T,\ R} N = (U - U^0) * (V - V^0) \tag{8}$$

The implications of the bargaining solution are easiest to see with a simulation exercise. Consider logarithmic functional forms for equations (4)-(7) and suppose that $I_{k,2} = 150$, $I_{p,1} = 150$, $I_{p,2} = 20$, $\rho = 0.25$ and $\beta = \gamma = 0.30$. Figure 1 displays the results of varying $I_{k,1}$ from 1 to 30 on the value of first period transfers T. Transfers initially rise with $I_{k,1}$, which contradicts the results from the altruism model.

When $I_{k,1}$ increases two effects take place. The first effect is that the children's liquidity constraint is eased, which reduces the first period transfer. The second effect is that the children's threat point utility rises. This second effect causes an increase in transfers, because the terms on which the children can borrow improve: The implicit interest rate for intergenerational loans, $(R-T)/T$, declines as $I_{k,1}$ rises. If the second effect dominates the first effect, $\frac{\partial T}{\partial I_{k,1}}$ is positive. Furthermore, since the second effect is stronger at lower levels of $I_{k,1}$, $\frac{\partial^2 T}{\partial I_{k,1}^2}$ is negative under the exchange hypothesis.

Under the exchange hypothesis, an increase in the recipient's pre-transfer income reduces the chances that intergenerational lending is mutually beneficial. Thus, the incidence of transfers is inversely related to own pre-transfer income, just as under the altruism hypothesis. However, while the exchange hypothesis implies that an increase in the income of potential recipients should decrease the likelihood of receiving transfers it can increase the amounts transferred.

3 Data

The data set used in the empirical work is the Bulgarian Living Standards Measurement Survey (BLSMS), conducted by the World Bank and Gallup International Sofia. The BLSMS collected socioeconomic information for a sample of

2468 households and 7199 individuals. The interviews took place in May 1995. Households constitute the unit of analysis. Households with missing information for age, education, and gender of the head of the household, and households with no residents were deleted from the sample. The final sample has 2427 observations. Income variables are presented and analyzed on a monthly basis.

Almost 30% of the sample engaged in private transfers, or about 700 households. Of these, about 15% received a private transfer, while 13.7% gave private transfers. Only 50 households both donated and received transfers. For the subsample that received a transfer, private transfers averaged 2602 leva, roughly 23% of this same group average pre-transfer income. Social security benefits averaged 2194 leva for all sample. From these descriptive statistics, one can see that private transfers may play a crucial role in poverty alleviation, income redistribution and their interaction with public policies is, thus, potentially intense.[1] Households were asked to specify the sources of transfers received and destinations of transfers given. The table below summarizes the relative frequency of sources of transfers:

Relationship	Source of Transfer (%)
Parents	68.35
Children	17.17
Other Relatives	5.39
Brother/Sister	5.39
Spouse	1.68
Non-relatives	2.02
Total	100.00

Perhaps as expected (Altonji, Hayashi and Kotlikoff (1996)), the bulk of transfers occurred between parents and children. The main source of transfers was from parents to children (68%). The second most important source of transfers was from children to parents (17%). Transfers among non-relatives occurred only in 2% of the cases.

4 Empirical Work

4.1 Empirical Model

In order to learn about the determinants of inter-household private transfers behavior - incidence and volume - we follow the literature (see Cox, Hansen and Jimenez (2004), Cox, Eser and Jimmenez (1998) and Cox, Jimenez and Okrasa (1997), among others) and estimate an ordered probit model and a Heckman selection model (see Greene (2003) for details on both models). With respect to the former, we estimate an ordered probit model to learn more about the incidence of transfers, encompassing not only net-receivers but also net-givers

[1] To preserve on space, we refer to Hassan and Peters (1995) for an extensive discussion of social safety nets in Bulgaria.

and households who do not engage in private transfers. More formally:

$$\begin{aligned} o_h &= \alpha_0 + \alpha_1 I_h + \alpha_2 I_h^2 + \alpha X_{1h} + \tau_h \\ o_h &= 0\ (net-giver),\ if\ o_h \leq cut_1, \\ o_h &= 1\ (non-participant),\ if\ cut_1 < o_h \leq cut_2, \text{ and} \\ o_h &= 2\ (net-receiver),\ if\ o_h > cut_1, \end{aligned} \tag{9}$$

where τ_h is a normally distributed disturbance, cut_1 and cut_2 are ancillary parameters estimated by MLE, and X_{1h} is a vector containing the covariates whose effect on predicted probabilities we are interested in. Table 1 summarizes the main results from the ordered probit model, which we comment in the next section.

We also estimate a regression model of the amount of transfers received. As usual, and since there is scope for a potential selection problem, we estimate a Heckman selection model. The selection equation reads:

$$\begin{aligned} t_h &= a_0 + a_1 I_h + a_2 I_h^2 + a X_{2h} + e_h \\ T_h &> 0 \text{ iff } t_h > 0, \\ T_h &= 0 \text{ otherwise} \end{aligned} \tag{10}$$

where h indexes households, t_h is the latent variable, T_h is the actual amount of transfers received, I_h is pre-transfer income and X_{2h} is a collection of socioeconomic variables, including age, education and other demographic variables and e_h is an error term. The estimating equation for transfer amounts received reads:

$$T_h = b_0 + b_1 I_h + b_2 I_h^2 + b X_{3h} + E(\eta_h | T_h > 0) \tag{11}$$

and η_h and is a random error component. Table 2 summarizes the main results from the Heckman selection model.

The exchange model predicts an inverted U-shaped relationship between recipient's income and transfer amounts received that can be tested by a quadratic form in income. The altruism model, in turn, predicts a monotonically decreasing relationship between those variables. Pre-transfer income also enters in quadratic form in the selection equation because, although neither model predicts a definite sign for a_2, they do not imply a linear relationship between pre-transfer income and the incidence of transfers. This way, hence, less structure is imposed. The model is estimated by MLE, with STATA, using as starting values the values obtained from Heckman's 2-step procedure. Identification of the model is guaranteed by the fact that the relevant X_{2h} is a subset of X_{3h} (see Cox, Eser and Jimmenez (1998) for more on the identification strategy).

4.2 Results

Since both altruism and exchange models are derived under the assumption of capital market imperfections, before proceeding one must investigate if capital market imperfections are likely at place. One way to analyze this issue is to

consider the case of perfect capital markets. If capital market imperfections do not matter, the position of the household over her life-cycle should not matter for the probability of receiving a transfer. Only the present value of lifetime wealth would matter. This contradicts the results illustrated in Figure 2, constructed from the ordered probit analysis presented on Table 1. The probability of being a net-receiver for a household with average characteristics in all aspects other than age first declines and then increases with household age (proxied by the head's age). Middle aged households (with higher earning power) are the less likely to receive a transfer, where the youngest are the most likely. Capital market imperfections are, hence, very likely to bind.

Table 2 summarizes the results from joint estimation of (10) and (11). The reason for joint estimation as an MLE problem is to correct the amounts equation coefficients for a possible selection problem. However, as Table 2 documents, there is no significant selection problem. The point estimate for ρ (the coefficient associated with the Inverse Mill's Ratio) is only 0.08, which is statistically equal to zero, at conventional confidence levels (asymptotic t stat. is 0.638).

For the structural amounts equation, pre-transfer income has a positive sign and pre-transfer income squared has a negative sign, as predicted by the exchange or bargaining model. However, these coefficients are both statistically insignificant, at conventional confidence levels. For the selection (feeder probit) equation, the signs of these variables are reversed, which is consistent with both models. The relationship between pre-transfer income and transfers is not clear from these statistics. Both models are not rejected and a plausible explanation is that both motives matter to a fairly equally important matter. More light can be shed into this issue when we combine information from both the structural and the selection equations to obtain Figure 3. In Figure 3 the value of expected receipts for a household with average education and demographic characteristics, monotonically decreases with pre-transfer income (which is allowed to change in percentiles, in 60 equal steps, from the 1st to the 99th percentile). This result should be interpreted with caution since the pattern may be influenced by a declining probability rather than an overall negative relationship between recipient's pre-transfer income and transfers. Nevertheless, it is contradictory with the exchange model and consistent with the altruism model.

An interesting result in its own right concerns the empirical relation between public transfers and inter-household private transfers. There is no evidence of crowding out between private transfers and public transfers, in the form of social security benefits. Both the probit equation of the Heckman selection model (Table 2) and the ordered probit (Table 1) indicate that the likelihood of receiving a transfer increases if the household receives social benefits. Using the ordered probit analysis, the probability of being a net receiver increases by 4.4 percentage points, when evaluated at sample means, if the household receives social benefits.[2]

[2] See Cox (1995) for a discussion on the connection between public transfers and private interfamily transfers.

Female headed households are also more likely to be net recipients. Using the ordered probit analysis once more, one can quantify this gender effect at 3.8 percentage points (at sample means). Marital status also increases the probability of being a net-receiver by 5.3 percentage points, while having no working people in the household also increases the probability of being a net receiver by 4.1 percentage points (both evaluated at sample means). Households where there are sick or injured people are more likely to be net-receivers. However, this effect is merely 1.7 percentage points (at sample means). Finally, households who live in urban areas are also more likely to be net receivers, by 5.9 percentage points than their rural counterparts (at sample means).

5 Conclusions

The motives underlying inter-household private transfers are important for a number of important phenomena, including the effects of income redistribution, tax and debt policies, allocation of resources, safety nets and structural models of the households. We provide empirical microeconometric evidence on inter-household private transfers for Bulgaria and use our results to evaluate the empirical relevance of the altruism model and of the exchange model of inter-household private transfer behavior. We find that neither model is strongly rejected by the data and that both motives are likely to be at work to the same extent. Hence, it is not likely that households may neutralize the effects of income redistribution policies. We find that inter-household private transfers may play an important role as a safety net, given their incidence and volume. Our results suggest that capital market imperfections bind for consumption smoothing. Household demographic characteristics matter to predict the incidence and volume of inter-household private transfers, and, hence, income redistribution policies should take into account such household demographic characteristics. Finally, and quite interestingly, we find that public transfers crowd-in inter-household private transfers, even after controlling for a plethora of household characteristics.

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Figure 1--Simulation Results.

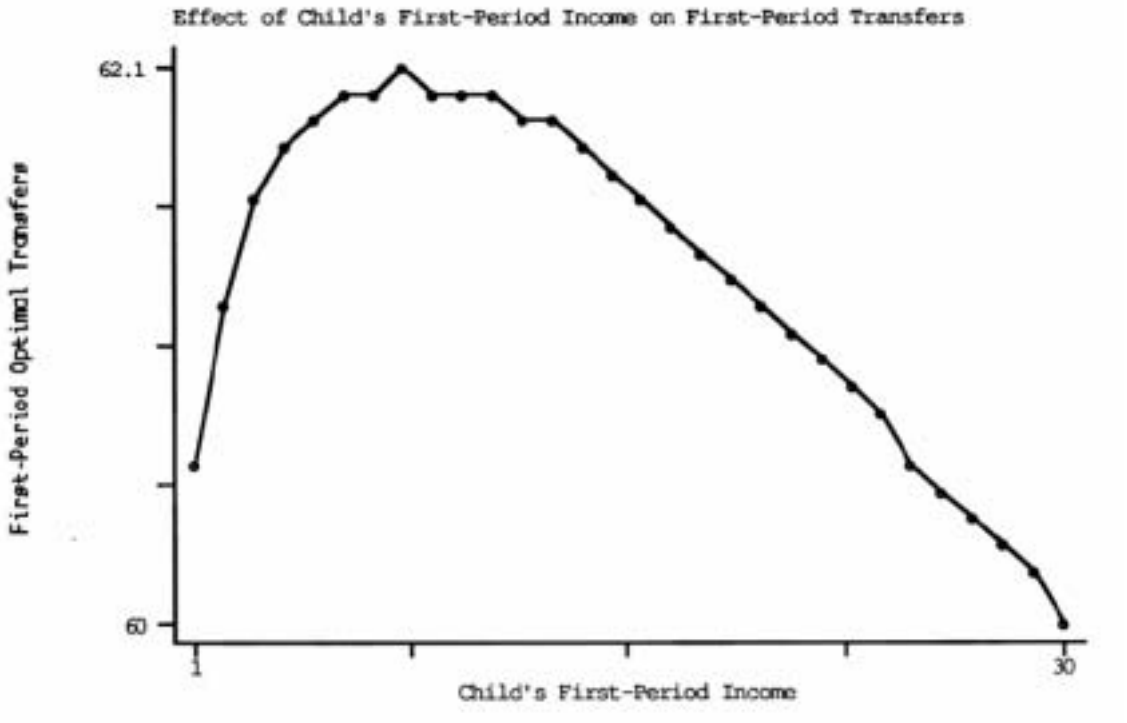

Figure 2 -- Tranfers' Incidence and the Life Cycle

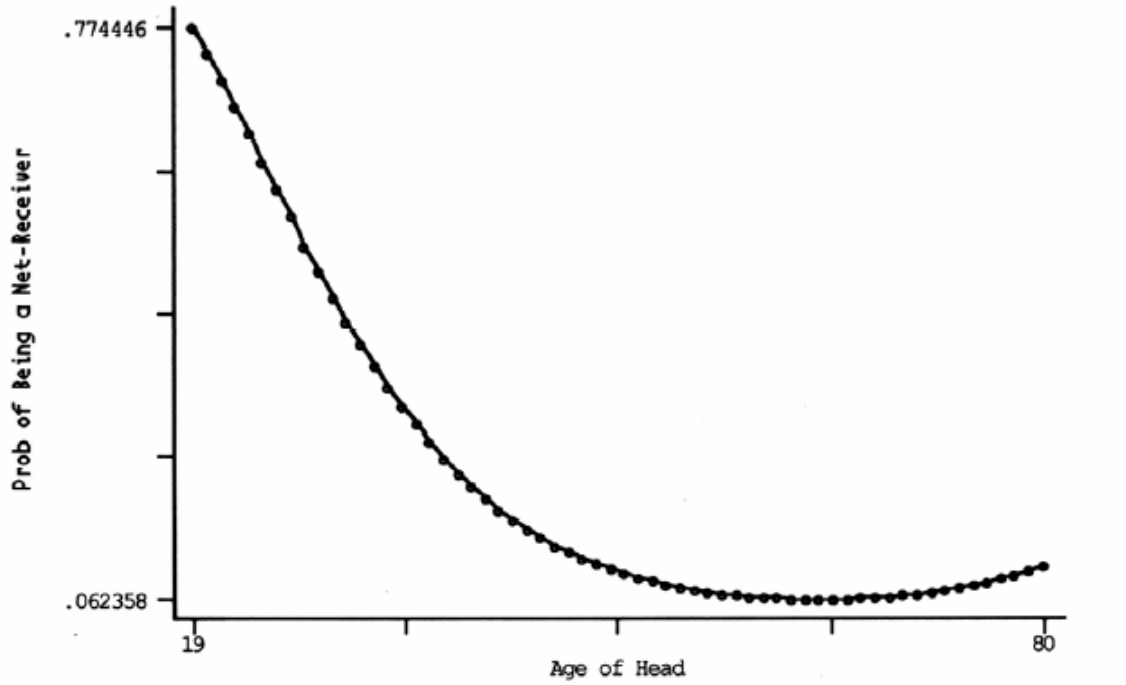

Figure 3 -- Predicted Receipts and Pre-Transfer Income

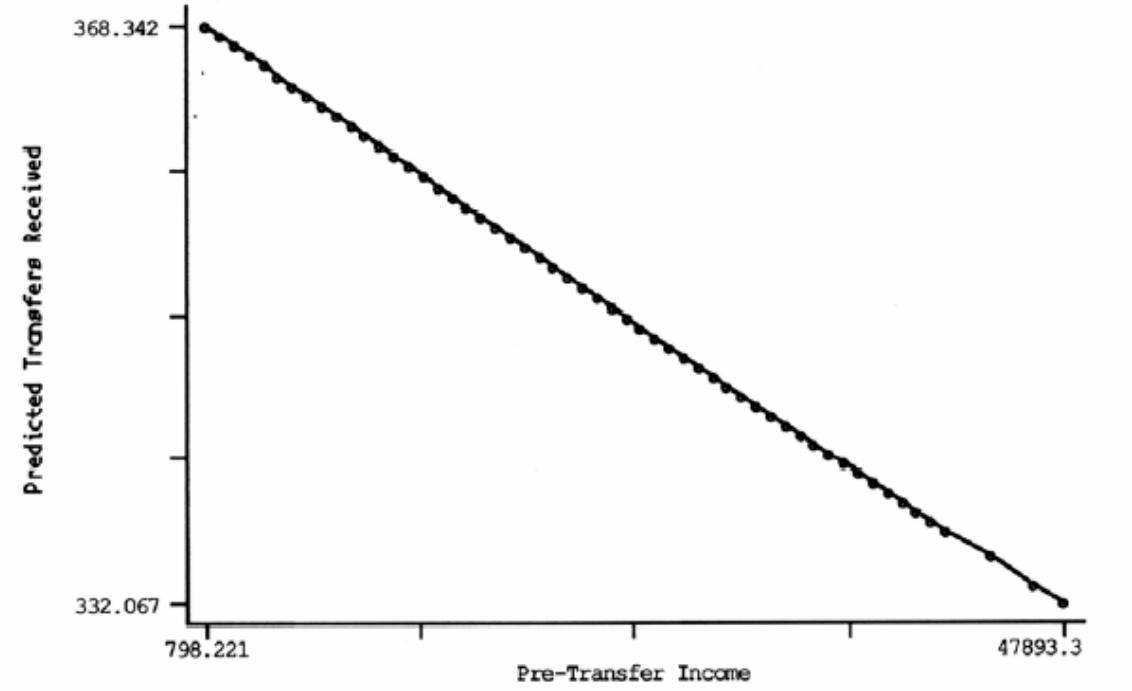

Table 1 - Ordered Probit Analysis

Variable	Coefficient	t-value
Income		
Income	-1,38E-04	-5,044
Income^2	1,40E-11	3,471
Soc. Sec. Beneficiary	0,241	3,321
Education		
Primary	-0,352	-1,822
Midschool	-0,381	-2,015
Secondary	-0,417	-2,150
University	-0,278	-1,394
Household (HH) Demographics		
Age	-0,144	-11,883
Age^2	0,001	10,276
Non-married Head	0,250	2,831
Female Head	0,178	1,968
Ill last 4 weeks	0,082	0,674
No Workers in HH	0,202	2,039
Total Workers in HH	0,142	2,913
Kids in HH	0,130	3,455
Dependent Adults in HH	0,050	1,524
HH lives in Urban Area	0,445	7,196
cut1	-5,058	
cut2	-2,619	
Dependent variable:		
HH is net-givers (oprob = 0)	331	
HH has no transfers (oprob = 1)	1.727	
HH is net-receiver (oprob = 2)	369	
Observations	2.427	
Log-likelihood	-1.704,18	

Table 2 - Heckman Selection Model - Transfers Received

	Selection Equation (a)		Structural Equation (b)		
Variable	**Coefficient**	**t-value**	**Coefficient**	**t-value**	**Variable Mean**
Income					
Income	-3,70E-06	-0,930	0,103	0,616	10.202,470
Income^2	8,88E-12	6,89E-12	-1,53E-08	-0,770	5,12E+08
Soc. Sec. Beneficiary	0,329	3,452	-1.463,733	-3,357	0,801
Education					
Primary	0,660	0,247	-.-	-.-	0,132
Midschool	-0,462	-0,176	-.-	-.-	0,299
Secondary	0,132	0,496	-.-	-.-	0,370
University	0,316	1,166	-.-	-.-	0,178
Household (HH) Demographics					
Age	-0,010	-0,171	-16,001	-1,131	55,060
Age^2	-0,001	-1,295	-.-	-.-	32.67150E+02
Age^3	0,159E-04	2,274	-.-	-.-	20.55759E+04
Non-married Head	0,052	0,443	-774,648	-1,441	0,300
Female Head	0,332	2,878	382,210	0,774	0,220
Ill last 4 weeks	0,358	2,462	-.-	-.-	0,591
No Workers in HH	0,181	1,294	-326,698	-0,551	0,410
Total Workers in HH	0,014	0,207	-158,719	-0,525	1,040
Kids in HH	-0,065	-1,279	573,010	2,577	0,506
Dependent Adults in HH	-0,088	-1,882	271,340	1,118	1,280
HH lives in Urban Area	0,318	3,611	-.-	-.-	0,666
Inverse Mill's Ration			0,137	0,638	
Constant	0,508	0,490	4.583,580	5,991	1,000
Recipients:	369				
Observations	2.427				
Log-likelihood	-4.613,70				

(a) In selection equation dependent variable is transfer receipt as binary variable (1 if receives transfers; 0 otherwise).
(b) In structural or regression equation dependent variable is net transfer amount received.
-.- means that the variable was not used as a regressor