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Who supports whom? Do adult children living at home share their incomes with their parents?

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ABSTRACT

Across the developed world, young adults are now more likely to live with their parents than they were two or three decades ago. This is typically viewed, both in the media and in scholarly research, as an economic burden on parents. This article investigates, for the first time, the extent to which financial support is also given in the opposite direction, with young people contributing to their households' living costs. We use data on 19 European countries from the 2010 European Union Statistics on Income and Living Conditions ($N = 553$ in Austria to $N = 2777$ in Italy). Many young adults do share their incomes with their families, with the degree of sharing being the highest among the poorest households. In a substantial minority of households, particularly in lower-income countries, the contributions of young adult household members keep households out of poverty.

1. Introduction

This paper investigates income-sharing in households where young adults live with their parents. We describe, for the first time, the extent to which these young adults share their incomes with the rest of their households; we analyze the factors which determine the level of sharing; and we assess the importance of young adults' contributions to overall household budgets.

The volume and importance of intergenerational transfers of money and time has been documented in an expanding literature. Transfers down the generations (from parents to their offspring) play a crucial role in helping young people establish their own households, families and careers, particularly through periods of difficulty or uncertainty (Da Vanzo & Goldscheider, 1990; Swartz, Kim, Uno, Mortimer, & O'Brien, 2011). Transfers up the generations (from adult children to elderly parents) may be profoundly important for the well-being of the older generation (Mutran & Reitzes, 1984; Silverstein, Cong, & Li, 2006). Many studies note that transfers in the two directions may be linked by mechanisms of reciprocity (Albertini, Kohli, & Vogel, 2007; Silverstein, Conroy, Wang, Giarrusso, & Bengtson, 2002).

Despite the growing interest in this area of research, and its demonstrable importance, there is an almost total absence of research on the contributions made to their families by young adult children who still live in the parental home: all the existing research on upward financial transfers deals with transfers from middle-aged adults to their elderly parents, and/or transfers between, rather than within, households. We may point to several reasons for this gap in the research. The first is that for the majority of the second half of the 20th century, it was relatively rare in the United States and Western Europe for young adults to remain living with their parents for extended periods. This is now changing, with an increasing tendency across most of the developed world towards later home-leaving (Bell, Burtless, Gornick, & Smeeding, 2007; Eurofound, 2014; Goldscheider, 1997; ONS, 2012; Settersten & Ray, 2010; and many others).

A second reason for the lack of research into income-sharing by young adults is the assumption that individuals at this stage of the life-course are recipients, rather than donors, of intra-family transfers. There is ample evidence that in aggregate terms this is entirely true (Mudrazija, 2014 finds that the younger generation remain net recipients of assistance until their parents are aged between 65 and 80). However, the fact that on average young adults are net recipients of transfers should not be allowed obscure the fact that some young adults, even at a relatively early age, may make significant contributions to their families' finances.

A final reason for the dearth of research in this area is a historic lack of suitable micro-level data. Most population-based household surveys collect data on private financial transfers into and out of the household, since this is necessary for the purpose of computing total household income; however, they do not ask about transfers between family members living in the same household (the conventional assumption

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being that income is fully pooled between household members).

We use data on 19 countries from the European Union Statistics on Income and Living Conditions (EU-SILC), a large-scale household survey covering all countries of the EU. In common with other household surveys, the EU-SILC collects data on transfers between, but not within, households. In 2010, however, it carried a module on income-sharing within households; this represents the first opportunity of which we are aware to address the question at hand using large-scale microdata. We show that substantial numbers of young people do share a significant proportion of their incomes with their households; that the degree of sharing is largest in the most impoverished households; and that in many of these households, the income shared by young adults is of a magnitude likely to make a considerable difference to the household's standard of living.

2. Intergenerational sharing

Despite the shortage of research on intra-household sharing by young adults, a large literature does exist on intergenerational sharing, which is relevant in the current context. We begin this section by discussing the theory and empirical evidence relating to the determinants of sharing at the individual level, and follow with a discussion of the factors which may lead to cross-national differences in observed levels of income-sharing.

2.1. Individual-level factors

Silverstein et al. (2002) note an important asymmetry between transfers of money and time up and down the generations. Transfers down the generations may be conceptualized as arising from bioevolutionary processes which optimize the survival of the family's offspring, but this is not true in the case of transfers up the generations, for which we must look to social mechanisms of equity and reciprocity for an explanation.

Two broad classes of motive for intergenerational transfers have been proposed in the literature (Eggebeen & Davey, 1998; Mudrazija, 2013). The first is altruism: people care about their close family members, and because of this, reap benefits themselves from the time or money that they give to other family members. In its purest form, the altruism hypothesis (Becker, 1974) assumes that individuals value the utility of other members of their families as much as they value their own, and will pool resources within their households so as to optimize the joint utility of all household members. This assumption of full intra-household income pooling (which underpins the majority of contemporary research on income and poverty) is consistently rejected by empirical analysis (Jenkins, 1991; Lundberg, Pollak, & Wales, 1997); it is also rejected in studies which deal specifically with households where young adults live with their parents (Breunig & McKibbin, 2012; Pezzin & Schone, 1997).

Although full income pooling within households does not occur in actuality, there is ample evidence in support of "contingency" theory (Fingerman, Miller, Birditt, & Zarit, 2009; Mudrazija, 2013), which proposes that transfers between family members (both within and between households) will be made on the basis of the recipient's need. Many studies (Bonsang, 2007; Ikkink, Van Tilburg, & Knipscheer, 1999; Lowenstein & Daatland, 2006; Mutran & Reitzes, 1984; Silverstein, Gans, & Yang, 2006) find that adult children give more financial assistance to elderly parents whose needs are higher, either because they are in a worse economic situation, or are older, or in poorer health. These effects are common across cultures: in China (Logan & Bian, 2003) and Taiwan (Lee, Parish, & Willis, 1994) the degree of support for ageing parents is far higher than in the United States and Europe, but the determinants of the level of support are similar.

A third class of motives for intergenerational transfers is reciprocity: people make transfers to other family members in the expectation that they will receive something in return. Reciprocity may be contemporaneous (for example, a parent may give money to an adult child in exchange for companionship or help around the house). However, it is more commonly conceptualized as a sequential process, with parents providing transfers of cash or in-kind assistance to young adult children, in the expectation that the adult children will support them in their old age – either as an "investment", in which the return is unconditional, or as "insurance", in which the return is contingent upon later need (Silverstein et al., 2002).

The challenge in these models is to explain why members of the younger generation honour their part in the exchange, rather than defaulting on the agreement, as they could and would do if they were purely self-interested. Andreoni (1990) suggests that even when there is no prospect of future reward, the "warm glow" arising from helping family members may encourage the giving of assistance. Becker (1991) proposes that in the absence of formal sanctions for members of the younger generation who default, the existence of norm-driven "social sanctions" may be enough to ensure that defaulting is rare. Cox and Stark (2005) suggest that the younger generation may provide support to elderly parents in order to demonstrate to their own children the importance of this type of family care, while Silverstein, Conroy, and Gans (2012) invoke a notion of "moral capital" which is passed down the generations, and which may serve to ensure that children look after their elderly parents, even when relations between the generations have been strained. Other authors point out that intergenerational transfers of money, time or other forms of assistance may take place for according to personal preferences (Wall, Aboim, Cunha, & Vasconcelos, 2001), or for emotional reasons (Daatland & Herlofson, 2003), because family members feel attached to one another, invested in one another, or feel love or affection for one another (Katz, Lowenstein, Prilutzky, & Mehlhausen-Hassoen, 2003). A Swedish study (Björnberg & Ekbrand, 2008) found that an overwhelming majority of exchanges were motivated by such emotional motives, and a tiny minority by reciprocity.

The different motivations described above are not necessarily mutually exclusive. More than one motivation may be in play at the same time, for example affection and altruism. The "insurance" motive may be thought of as a hybrid between altruism (in the event that the giver does not later need to call in the debt) and reciprocity (in the event that she does). Cox, Hansen, and Jimenez (2004) point out that motivations may differ according to the income of the recipient: a transfer made to a recipient in a precarious economic situation, motivated by altruism, might still be made if the recipient were not in such a difficult situation, but might in this case be differently motivated, for example by exchange.

The literature discussed above focuses almost exclusively on young adults as recipients of transfers from the parental generation, or on middle-aged adults as donors of assistance to very elderly parents. The current paper charts new territory, in that we consider, as *donors* of transfers towards the parental generation, young adults still living with their parents. These young adults are not yet at the stage of life where they would be conceptualized by models of reciprocity as starting to pay back transfers received in their youth. In fact there is likely to be an element of contemporaneous reciprocity at play in families where young people share income with their parents, because all the young people in our sample are receiving in-kind support from their families in the form of accommodation, and many will be benefiting from parental services such as meals, laundry and the use of a car. This type of reciprocity may operate as a (semi)-formal agreement imposed by parents, or it may arise out of feelings of what is "fair" or "right". However, the notion of a fair financial contribution is likely to be made on the basis of the family's need and the young person's ability to pay; thus, the theory of altruism/contingent assistance may also capture arrangements with an element of reciprocity.

2.2. Cross-national variation

Several studies have considered intergenerational transfers in a