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Private monetary transfers and altruism: An empirical investigation on Italian families

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ABSTRACT

The aim of this paper is to explore the motivation of monetary transfers received by Italian household heads. The financial transfers may be motivated by altruism or by the expectation of future services. For this reason, we select a sample of Italian families from the 2006 European Union Statistics on Income and Living Conditions (EU-SILC) dataset. First, we consider the transfer decision and try to account for the factors that affect the probability that the household head will receive a transfer. Next, we restrict our analysis to those families who did receive a positive transfer and examine the factors that affect the size of the transfer. The positive relationship between recipient's income and transfer amount received is consistent with exchange theory: recipients with higher income ask for higher payments in exchange for services provided. We also explore the relationship between private and public financial transfers. In particular, we choose Italy for its peculiar institutional features. The results imply that the hypothesis about a crowding-out process cannot be rejected. The main contribution of the paper to the existing literature is to investigate the social motivation of private transfers and their implications in terms of policy in a unified framework.

1. Introduction

The debate about private transfers is very rich in the literature. Generally, economists identify altruism and exchange as the two main reasons of transfers. Altruism is based on norms of family care and it is strongly linked with the crowding out hypothesis (Reil-Held, 2006). In contrast to this model, Cox (1987) argues that if private transfers are not motivated by altruism, crowding out may not occur. The distinction between the motivations for private transfers has relevant implications in terms of policy, because of its repercussions on public redistribution programs.

However, there is no clear empirical evidence about private transfers, because the results are quite heterogeneous. In this paper, we enrich the empirical literature focusing our attention on Italian institutional setting, which is particular for political and social habits.

We select a sample of Italian families from the 2006 European Union Statistics on Income and Living Conditions (EU-SILC) dataset and we employ a two-stage Heckman selection model, to deal with the selectivity problem of individuals receiving a private transfer. First, we consider the transfer decision and try to account for the factors that affect the probability that the household head will receive a transfer. Next, we restrict our analysis to those families who did receive a positive transfer

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and examine the factors that affect the size of the transfer. Finally, we explore the relationship between private and public financial transfers. The main contribution of the paper to the existing literature is to investigate the social motivation of private transfers and their implications in terms of policy in a unified framework.

The outline of the paper is as follows: Section 2 presents a survey of the literature; Section 3 presents the dataset while Section 4 illustrates models implemented in the analysis. Section 5 shows and discusses the empirical results; in Section 6 we carry out an analysis on the relationship between public and private transfers. Section 7 presents robustness analysis while Section 8 concludes and points out suggestions for further research.

2. Review of the literature

According to the literature, transfers between two people inside a family, which are private transfers, are considerable both in developing countries and in highly developed economies (Danziger et al., 1981; Lampman and Smeeding, 1983; Kotlikoff, 1988; Guiso and Jappelli, 1991). Moreover, private transfers are important for their persistence also across generations (Deb et al., 2010). An interesting element of private transfers to be analysed is the motivation. Indeed, as explained in Hochguertel and Ohlsson (2009), parents' transfers motives are important for income redistribution, savings and public finance. The motivation underlying a transfer decision may involve altruism or an exchange motive. According to Becker (1974), an individual cares about the well-being of other individuals in the altruistic framework, while according to Bernheim et al. (1985), parents make transfers to their children in order to obtain services from them. It is also possible to identify different behaviour among family members. Indeed, Berry (2008) investigates to what extent young adult children can rely on their parents for financial support and he finds that parents give more *inter vivos* financial assistance to their disadvantaged children rather than focusing on children most able to give financial help in return. As explained in Barro (1974), the motives for private transfers are relevant to public policies that redistribute income. There are different ways to analyse the altruistic hypothesis in the literature. First, there are models, which consider the bequest data (Ishikawa, 1975; Becker and Tomes, 1979; Adams, 1980; Menchik and David, 1983). The result, that the bequest received is negatively associated to the recipient's income, reveals that the altruistic hypothesis may be supported. Second, there are models which consider the way bequest behaviour affects wealth mobility (Blinder, 1973; Menchik, 1979, 1980). In this context, the bequest rules assume a major role and not the characteristics of potential recipients. Third, there is empirical research, which considers transfers as payments made in exchange for services provided by family heads (Kotlikoff and Spivak, 1981; Kotlikoff et al., 1986). However, there are also papers where parental transfers are not significant for children (Wolff, 2006).

The simplest approach to model monetary transfers is to consider the utility of the recipient within the donor utility's function. In particular, Altonji et al. (1997) find that an increase in the parent's income leads to an increase in the transfer and that an increase in the child's income leads to a decrease in the transfer, but the estimates of these effects are much smaller in absolute value than what would be expected. For this reason, they reject the hypothesis of pure altruism.

We may distinguish two approaches to explaining the monetary transfers in the empirical literature. First is the approach introduced by Cox (1987): altruistic parents make economic transfers to their children in exchange for services. In this case, if income increases, the threat from of the child also increases and the parent may have to increase his/her transfer to obtain the desired services. If we find a positive correlation between the recipient's income and transfer amount in the data, then the exchange regime hypothesis is verified. In particular, this hypothesis has been tested in many papers and for different countries (Cox, 1987; Cox and Rank, 1992; Cox et al., 1998; Secondi, 1997). A second approach is that of Cigno et al. (1998). They assume that individuals live for three periods and derive utility from their own consumption. The family network system allows the reallocation of consumption over the life cycle: each middle-aged individual must transfer a specified amount of income to each of his/her children and a specified amount of income to each of the parents. In this context, credit rationing has a positive effect on the probability of intrafamily transfers, while in the pure altruism model and in the exchange model an increase in rationing produces a decrease in the donor's income and hence a decrease in the transfer. In particular, Cigno et al. (1998) test their hypothesis by using Italian data.

Furthermore, family intergenerational transfers have received increasing interest in the economic literature because of their interaction with government policies. Indeed, if private and public transfers are 'substitutes', an increase in public transfers might lead to a decrease in private transfers, the so-called 'crowding-out' effect of policy instruments. This effect may work in two ways: first, children may reduce private transfers to their retired parents because of the increase in public funds; secondly, parents could use the public transfers they receive to increase their private transfers to children. This topic is particularly interesting in European developed countries with a growing population of older people and a very low fertility rate (Disney and Johnson, 2001), such as Italy.

3. Data

In this paper we select a sample of Italian families from the 2006 European Union Statistics on Income and Living Conditions (EU-SILC) dataset. The EU-SILC database provides comparable, cross-sectional and longitudinal multidimensional data on income, social exclusion and living conditions performed in Member States (MS) of the European Community. The reference population of EU-SILC is all private households and their current heads residing in the territory of the MS at the time of data collection. The EU-SILC data is thus a national representative sample of all persons aged 16 and over residing in