



2010

Þjóðarspegillinn

Government transfers to families with children

Is it possible to increase the welfare of children by gaining more efficiency in government transfers?

Helga Kristjánsdóttir

Hagfræðideild
Ritstjóri: Daði Már Kristófersson

Rannsóknir í félagsvísindum XI. Erindi flutt á ráðstefnu í október 2010

Ritstýrð grein

Reykjavík: Félagsvísindastofnun Háskóla Íslands

ISBN 978-9935-424-04-4



HÁSKÓLI ÍSLANDS

Government transfers to families with children

Is it possible to increase the welfare of children by gaining more efficiency in government transfers?

Helga Kristjánsdóttir

The Icelandic economy was hit hard by the financial crisis, requiring the government to implement drastic cost saving measures on both local and state levels. The slowdown has of course effected spending within the social system. One would think that the saying “every crisis brings an opportunity” could apply here, and in the current situation the authorities might take the opportunity to cut cost by implementing efficiency measures. In order to do so, solid economic analysis needs to be available for sound economic policy making.

The objective of this research is to measure efficiency under the conditions of the current economic slowdown. This type of analysis is particularly important, since governments may have to implement drastic budget cuts during financial slowdown. In Iceland, the government has had to reconsider spending priorities on issues like for example maternity and paternity leave, child support and allowance. In the broad areas of cuts, it would be economically beneficial to see if these were implemented in the most efficient way. Would applying cuts in a different way create better savings and still retain the most valuable benefits of these payments?

Figure 1. Recipients of financial assistance and child support 1997-2009 (Statistics Iceland, 2010)

	Number of homes	New recipients	Expenditures in thousands of ISK	Average amount of financial assistance per month in ISK	Average number of months paid
1997	5.650	2.302	948.127	42.925	3,9
1998	4.797	2.300	825.445	38.300	4,5
1999	4.400	2.105	777.058	43.464	4,1
2000	4.653	1.747	845.211	44.796	4,1
2001	4.939	2.753	967.436	51.740	3,8
2002	5.971	3.321	1.353.718	57.071	4
2003	6.312	3.069	1.541.216	60.723	4
2004	5.613	2.586	1.535.462	64.654	4,2
2005	4.825	2.150	1.424.853	70.031	4,2
2006	4.579	2.139	1.348.550	70.135	4,2
2007	4.280	1.943	1.347.272	77.492	4,1
2008	5.029	2.677	1.685.399	86.490	3,9
2009	5.994	3.211	2.287.851	91.540	4,2

Footnote: New recipients did not get paid the previous year.

In order to contribute to governmental efforts in streamlining economic policy, the idea of this research is to provide some useful tools and find good measures for estimating the welfare of families with children, focusing primarily on the welfare of children. The main focus of this research is estimating Icelandic families in a manner comparable to what has been done in recent international family economics studies.

In order to find comparable societal and cultural situations, this research looks closely into what has been achieved in the other Nordic countries. Helpfully, Danish research in this field is some of the most comprehensive in the world.

Figure 2. Public spending on family benefits in cash, services and tax measures, in per cent of GDP, 2005 (OECD, 2010)

	Cash	Services	Tax breaks towards family	Total
France	1,39	1,62	0,77	3,79
Luxembourg	3,08	0,52	0,00	3,60
United Kingdom	2,21	0,99	0,35	3,55
Denmark	1,55	1,83	0,00	3,38
Sweden	1,52	1,69	0,00	3,21
Belgium	1,66	0,94	0,52	3,12
Hungary	1,89	1,22	-	3,11
Germany	1,43	0,74	0,87	3,04
Finland	1,60	1,37	0,00	2,97
Iceland	1,26	1,70	0,00	2,97
Norway	1,58	1,26	0,12	2,95
Austria	2,37	0,47	0,04	2,88
Australia	2,18	0,65	0,04	2,87
New Zealand	1,92	0,71	0,01	2,64
Ireland	2,21	0,27	0,10	2,58
Netherlands	0,64	1,01	0,61	2,26
Czech Republic	1,17	0,57	0,45	2,18
Slovak Republic	1,72	0,40	0,00	2,12
Cyprus 1,2	1,88	0,23	-	2,11
Slovenia	1,39	0,58	-	1,97
Portugal	0,68	0,80	0,18	1,67
Estonia	1,43	0,07	-	1,50
Romania	1,25	0,16	-	1,42
Switzerland	1,02	0,32	-	1,34
Italy	0,58	0,73	0,00	1,30
Latvia	1,08	0,22	-	1,30
Japan	0,35	0,46	0,48	1,29
United States	0,08	0,54	0,65	1,27
Spain	0,45	0,69	0,10	1,24
Lithuania	0,79	0,40	-	1,19
Poland	0,84	0,29	0,04	1,17
Canada	0,89	0,16	0,10	1,14
Greece	0,70	0,39	-	1,08
Bulgaria	0,96	0,09	-	1,05
Mexico	0,37	0,63	0,00	1,00
Malta	0,77	0,10	-	0,87
Korea	0,01	0,26	0,00	0,27
Turkey	0,02	0,01	-	0,02
OECD-26	1,30	0,82	0,21	2,33

Notes: Data on tax support for families is not available for Greece, Hungary, Luxembourg, Mexico, Switzerland, Turkey and the non-OECD countries. Data for Portugal concerns 2003.

1) Footnote by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognizes the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the "Cyprus issue".

2) Footnote by all the European Union Member States of the OECD and the European Commission: The Republic of Cyprus is recognized by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Lundberg, Pollak and Wales (1997) analyzed the extent to which husbands and wives pool their resources and found it to matter for income allocation to children. However, Browning, Chiappori and Lechene (2006) based their study on a non-cooperative model of public and private goods provision, and found the outcome to be independent of which parent received the child benefits. Another very interesting research project by Bonke (2008) focused on the distribution of well being and income within the household. In a later study, Bonke (2009) analyzed the well-being

of children during a period of welfare reforms to test how it affected poor families with children.

From an academic point of view, economic slowdown provides an opportunity to estimate changes in the economy of the family. One of the ways this can be observed is under the perspective of game theory. With a game theoretical family focus, it is possible to measure actions directed towards children and how it affects their welfare.

The research will be organized as the following: First I will take a look at a literature review. Then I observe the data selection and the methodology application, and finally end up with a summary of findings.

Literature

In their analysis Thomas (1990) and Schultz (1990) test for intra-household pooling empirically.

The literature in the field of family economics has been gradually increasing in recent decades. In the late 1970s Margaret Thatcher's government provided a natural experiment when it restructured the child benefit system in the U.K. by transferring resources from husbands to wives. This became the focus of Lundberg et al. (1997) who used U.K. data in their empirical work on resource pooling. They compared household expenditure patterns on clothes in the years after the change (1980-90) with the years before (1973-76), holding total family expenditures constant and found that the income received by each spouse has substantial and significant effects on family expenditure patterns and in particular the resources spent on children. The U.K. natural experiment therefore led to the rejection of the hypothesis of income pooling and common preferences guiding family behavior.

Also in interesting research by Browning et al. (2006) on collective and unitary models, and a research by Bonke and Uldall-Poulsen (2007) studying how and why families pool their income. Like Bonke and Uldall-Poulsen (2007), Bonke (2009) and Bonke and Fallesen (2010) this study seeks to measure the degree of income pooling within the household.

This current research seeks to analyze whether it is possible to improve efficiency in allocation of resources to families with children. Browning et al. (2006) analyzed provision of public and private goods under a non-cooperative model setting, and did not find it to matter for the outcome whether child benefits were directed towards the mother or the father. The results of this current research may prove to have useful policy implications concerning welfare program issues that are intended to improve the well-being of children. The research will also be based on a research by Bonke (2009) who analyzed the well-being of children during a period of welfare reforms period to test how poor families with children were affected.

Another important paper on this topic is by Browning and Crossley (2009) on consumption smoothing over temporary income losses. Browning and Crossley (2009) analyze expenditure cuts by households subject to temporarily straitened circumstances due to unemployment and their marginal dollar spending of unemployment insurance (UI) benefits. They find UI benefits cut to result in total expenditure reductions, with stronger impact on clothing than food expenditures.

Methodology and Data

The methodology applied in this research aims at presenting a project that is both academic and may have a practical value for policy making. The proposed study provides a valuable comparison of Icelandic household data to analogous Nordic data, concerning government transfers to children families. The research thus provides the opportunity to test similarities and differences between these countries, with the policy aim of designing optimal policies that improve the welfare of children families. Given recent economic developments that are unique to Iceland, the study also provides information about household resource distribution and redistribution in times of recession.

In his research Bonke (2009) obtained data from the Danish Household Expenditure Survey (DHES). And in order for the current investigation to be comparable to that of Bonke, data from the Icelandic Household Expenditure Survey 2006–2008 (Statistics Iceland, 2010) will be applied. Also the research design of the Danish Time Use and Consumption Survey DTUC-2008/9 by Bonke (2007) will potentially be used.

Like in the case of Bonke (2009) the intention is to restrict the sample as to exclude families with children about 17 years old. Also the plan is to follow the Bonke (2009) procedure in including only families headed with full-time employed spouses, thus implying excluding from the sample households where the family head is self-employed, attending some type of education full-time, or retired.

The analysis will be designed as to categorize goods and services in the Icelandic Household Expenditure Survey into three major groups, like done by Gregg, Waldfogel and Washbrook (2005), Waldfogel (2008) and Bonke (2009). More specifically the groups will be classified into three main areas:

- The first group consists of nine groups: Housing, fuel, heat and lighting; food; alcohol and tobacco; clothing and footwear; household goods and services; leisure goods, travels and services; motoring and communications; medicine, personal goods and services; miscellaneous.
- The second group consists of durables: car; mobile phone; washing machine, clothes dryer and dishwasher; fridge and freezer; oven and microwave; computer; TV and video; radio and CD player.
- Finally, the third group consists of goods that can be assigned to children as to improve their well being, these would be goods like children clothes and children shoes.

Like in the case of Bonke (2009) the intention is to consider differentials and to apply similar procedures.

Summary

A primary base for this research is several studies by the Danish researcher Bonke, both alone and in conjunction with other researchers.

This previous research mentioned is applied and then it is estimated to what degree the results from my analysis are consistent with earlier studies. The intent is to capture not only similarities to other societies, but also new potentials in efficiency gains in transfer cuts.

Hopefully the results obtained from this research and the conclusions drawn from it turn out to be economically meaningful for both the Icelandic society and other countries in need of saving money.

It should be of paramount importance for governments to increase efficiency in transfers to families with children, and this paper can potentially help in making useful policy suggestions for the governmental authorities.

References

- Bonke, J. (2007). *Danish Time Use and Consumption Survey DTUC-2008/9*. Research design. Rockwool Foundation Research Unit.
- Bonke, J. (2008). Income distribution and financial satisfaction between spouses in Europe. *Journal of Socio-Economics*, 37(6), 2291-2303.
- Bonke, J. (2009). Child well-being during a period with welfare reform - did children in poor families gain? *The Danish Journal of Economy*, 147(2), 195-215.
- Bonke, J., & Fallesen, P. (2010). The impact of incentives and interview methods on response quantity and quality in diary- and booklet-based surveys. *Survey Research Methods*, 4(2), 91-101. European survey research association.
- Bonke, J., & Uldall-Poulsen, H. (2007). Why do families actually pool their income. *Review of the Economics of the Household*, 5(2), 113-128.
- Browning, M., Chiappori, P., & Lechene, V. (2006). *Distributional effects in household models. Separate spheres and income pooling* (CAM Working Papers). Copenhagen: The University of Copenhagen.
- Browning, M., & Crossley, T.F. (2009). Shocks, stocks and socks: Smoothing Consumption Over a Temporary Income Loss. *Journal of the European Economic Association*, 7(6), 1169-1192.
- Gregg, P., Waldfogel, J., & Washbrook, E. (2005, September 23). *Family expenditures post-welfare reform in the UK: Are low-income families starting to catch up?* Retrieved June 26, 2010 from <http://wpeg.group.shef.ac.uk/documents/gregg.pdf>
- Lundberg, S., Pollak, R.A., & Wales, T. J. (1997). Do Husbands and Wives Pool Their Resources? Evidence from the U. K. Child Benefit. *Journal of Human Resources*, 32(3), 463-480.
- OECD. (2010, September 25). *Public spending on family benefits in cash, services and tax measures, in per cent of GDP, 2005*. Retrieved June 26, 2010 from www.oecd.org/dataoecd/55/58/38968865.xls
- Statistics Iceland. (2010, September 25). *Recipients of financial assistance and child support 1997-2009*. Retrieved June 26, 2010, from <http://hagstofa.is/Hagtolur/Heilbrigdis,-felags-og-domsmal/Almannatryggingar>
- Statistics Iceland. (2009, September 25). *Household expenditure survey 2006–2008. Prices and Consumption 2009:3*. Statistical Series. Retrieved June 26, 2010, from <http://www.statice.is/lisalib/getfile.aspx?ItemID=10487>
- Schultz, T. P. (1990). Testing the Neoclassical Model of Family Labour Supply and Fertility. *Journal of Human Resources*, 25(4), 599-634.
- Thomas, D. (1990). Intra-Household Resource Allocation: An Inferential Approach. *Journal of Human Resources*, 25(4), 635-664.
- Waldfogel, J. (2008). Welfare reforms and child well-being in the US and UK. *Swedish Economic Policy Review*, 14(2), 137-68.