Full length article

The division of inter-vivos parental transfers in Europe

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Article info

Article history:
Available online xxxx

JEL classification:
D64
D91
H31

Keywords:
Inter-vivos transfers
Altruism
Equal division
Europe
Income inequality
Pensions

Abstract

This paper explores the patterns of the division of inter-vivos financial transfers from old parents to adult children in a sample of 14 European countries drawn from two waves of the Survey of Health, Ageing, and Retirement in Europe. Contrary to previous research, mostly focused on the US, this study finds a higher number of parents who divide their financial transfers among their adult children equally. On average, 36% of European parents divide equally. These results contrast sharply with the approximately 6.4–9.2% of American parents giving equal transfers. It is possible that altruistic parents are also concerned with a norm of equal division, and therefore they do not fully offset the differences of income among their children as predicted by the standard model of altruism. The econometric results show that parents are more likely to give equal transfers if, in their view, income inequality among their children is not too high. Furthermore, the analysis is extended by adding variables at the country level. In this regard, income inequality, pension expenditures, the societal level of altruism and inheritance taxes are key to explaining country differences.

Introduction

The literature on family financial transfers has long established the key relationship between the motives of parents in providing financial transfers to adult children and the final effects of inter-generational redistributive policies. For example, a redistributive policy favouring the old over the young can be neutralized if the family is linked by altruism because altruistic parents will offset the reduction in child income by means of financial transfers (Becker 1974; Barro 1974; Tomes 1981). In contrast, the so-called exchange approach (Bernheim et al. 1985; Cox 1987) considers that strategic motives can explain transfer behaviour as parents seek to obtain various child services in return (e.g., help, visits, companionship). In this case, the reduction in child income is only partly compensated by the parent, and therefore the redistributive policy is not fully neutralized.

Family financial transfers are given in the form of inter-vivos transfers and bequests. In the empirical literature, mostly based on US data, it is generally accepted that inter-vivos transfers are given unequally to children while bequests are mostly equally divided. Studies by McGarry (1999), Light and McGarry (2004) and Norton and Van Houtven (2006) have found that 83%, 92% and 95% of parents in US intend to give equal bequests, respectively. In contrast, equal inter-vivos transfers occur only in 6.4–9.2% households (McGarry 1999; Hochguertel and Ohlsson 2009). The equal division of estates among children is also prevalent in Europe (see Table 1), but what is sharply different between the US and Europe is the high frequency of equal division in inter-vivos transfers. Indeed, data from the Survey of Health, Ageing, and Retirement in Europe (SHARE) reveals that approximately one third of parents in 14 European countries make equal transfers to their children, though there is substantial regional variation. For example, countries such as Sweden and Denmark show more than 45% of parents giving equal transfers, while Greece shows a figure of 16%. Equal division of inter-vivos transfers has not been extensively studied nor observed in previous studies. The study by Halvorsen and Thoresen (2011) is perhaps the only one focussed on studying the determinants of equal transfers in a European country (in Norway). A high prevalence of equal division cannot be solely explained by the standard approaches of altruism and exchange, and thus poses an interesting challenge to the empirical literature on family transfers. That is why the aim of the present

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http://dx.doi.org/10.1016/j.jeoa.2016.05.005
2212-828X/© 2016 Published by Elsevier B.V.

Please cite this article in press as: Olivera, J.. The Journal of the Economics of Ageing (2016), http://dx.doi.org/10.1016/j.jeoa.2016.05.005
paper is to study the patterns of the division of parental inter-vivos transfers in Europe.

This paper differs from the existing empirical literature in several respects. It exploits a dataset with rich and harmonized information on parental transfers for a sample of 14 European countries, which complements previous studies focused on only one country. It is argued that parents are altruistic and also equality-minded, meaning that they want to give equal transfers to all their children. The generation and strength of the social norm of equal division is not studied; instead, a stylized theoretical model considers altruistic parents who are concerned with this norm to different degrees. This setting highlights the tension between being altruistic towards children (i.e., favouring the poorer child with larger transfers) and following the norm of equal division. The model shows that compliance with the norm of equal division weakens with an increase in income differences between children, and hence parents may prefer to give unequal transfers to their children. The econometric results are based on the estimation of the likelihood of equal division and support this relationship under different robustness checks. In addition, the reasons for giving transfers directly as mentioned by parents in SHARE provide further support for the idea that altruism conflicts with the norm of equal division. In particular, only a reduced fraction of parents who mention altruistic or insurance reasons give equal transfers, while a large share of parents who do not provide specific reasons give equal transfers. Therefore, this paper contributes with the development of the literature focused on studying the incidence of motives to give financial transfers in the family. It is important to know the distribution of motives because the responses to state and transfer taxation depends on those motives (Cremer and Pestieau 2011; Cigno et al. 2011). Another contribution of this paper is the assessment of the role of country-level variables on the patterns of transfer division. It is found that income inequality, redistribution, pension expenditures and average social preferences are useful in explaining country differences with respect to the division of transfers.

The paper is organized as follows. The next section presents the theoretical framework. Section “Data” presents the data and some descriptive statistics. Section “Econometric results” presents and discusses the empirical strategy and the results. Section “The role of country-level variables” analyses the potential role of contextual variables. Finally, Section “Conclusion” provides a conclusion.

Table 1
Percentage of parents giving equal transfers or bequests to children.

<table>
<thead>
<tr>
<th>Country</th>
<th>Inter-vivos transfers</th>
<th>Bequests</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>N</td>
</tr>
<tr>
<td>Sweden</td>
<td>49.3</td>
<td>676</td>
</tr>
<tr>
<td>Denmark</td>
<td>45.0</td>
<td>402</td>
</tr>
<tr>
<td>Belgium</td>
<td>43.7</td>
<td>263</td>
</tr>
<tr>
<td>France</td>
<td>38.5</td>
<td>330</td>
</tr>
<tr>
<td>Italy</td>
<td>36.7</td>
<td>256</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>35.9</td>
<td>167</td>
</tr>
<tr>
<td>Switzerland</td>
<td>35.5</td>
<td>197</td>
</tr>
<tr>
<td>Netherlands</td>
<td>35.3</td>
<td>363</td>
</tr>
<tr>
<td>Austria</td>
<td>32.1</td>
<td>224</td>
</tr>
<tr>
<td>Germany</td>
<td>27.3</td>
<td>462</td>
</tr>
<tr>
<td>Poland</td>
<td>22.1</td>
<td>113</td>
</tr>
<tr>
<td>Spain</td>
<td>20.0</td>
<td>40</td>
</tr>
<tr>
<td>Ireland</td>
<td>18.4</td>
<td>38</td>
</tr>
<tr>
<td>Greece</td>
<td>16.0</td>
<td>344</td>
</tr>
<tr>
<td>EU total</td>
<td>36.2</td>
<td>362</td>
</tr>
<tr>
<td>US</td>
<td>6.4–9.2</td>
<td>83.0–95.0</td>
</tr>
</tbody>
</table>

Note: For inter-vivos transfers, figures in Europe are computed with SHARE waves 1 and 2 for parents with two or three children (>18 and not living in the same household) and conditional on the existence of at least one transfer; and for the US, figures are estimated in McGarry (1999) and Hochguertel and Ohlsson (2009). For bequests, figures in Europe are computed with SHARE-End of Life waves 2, 3, 4 and 5; and for the US, figures are estimated in McGarry (1999) and Norton and Van Houtven (2006).

Theoretical framework

The equal division norm

The literature about the motives of parents to make transfers to adult children is large, but few studies focus on the division of inter-vivos transfers. Empirical studies have regularly found that the division of bequests among children is mostly equal and bequests are in general much larger than inter-vivos transfers. These facts have perhaps contributed to the fact that less attention has been paid to the division of inter-vivos transfers. An exception is the study by Bernheim and Severinov (2003), which offers a unitary framework for understanding different patterns of division of bequests and inter-vivos transfers. This approach considers a setting of altruistic parents in which inter-vivos transfers are treated as private information while bequests are public and signal parental affection. It found that the norm of equal division would prevail even in the presence of child income inequality, provided that this inequality is not too large. Halvorsen and Thoresen (2011) found econometric evidence in Norway suggesting that parents want to divide their inter-vivos transfers equally because they are averse to inequality of transfers, which is in conflict with their altruism. The study by McGarry (1999) contains a brief section that empirically assesses the determinants of equal division of inter-vivos transfers in the US and found that child income differences negatively affect the probability of making equal transfers. These studies offer arguments for hypothesizing a negative relationship between the degree of child income inequality and the strength of the norm of equal division. In addition, it also allows for the highlighting of the tension between altruism and the norm of equal division.

A variety of reasons can be found for this norm of equal division. For example, Lundholm and Ohlsson (2000) consider that parents care about a post mortem reputation. This reputation is damaged if parents depart from the social norm that stipulates equal sharing among children. In Laitner (1997), the social norm of equal sharing of transfers may enhance efficiency by reducing rent-seeking behaviour in siblings who compete for larger parental resources and help to preserve peace in the family. In Wilhelm (1996) parents equally distribute their estates because they would suffer psychological costs (jealousy and family conflict) if they were to deviate from equal division. Similarly, Cremer and Pestieau (1996) cite sociological theory to argue that the unrealised equal division of estates may lead to disputes among children, which is what parents fear the most. Equal division is a norm that commonly emerges in behavioural economic experiments (Camerer and Fehr, 2004; Fehr and Schmidt, 2002). In a model of social image, Andreoni and Bernheim (2009) argue in favour of a 50–50 norm for a variety of environments (including dictator games that are comparable with parental decisions concerning the division of transfers) when individuals are fair-minded, and people like to be perceived as fair.

On the basis of these ideas, the next section presents a model that highlights the tensions between altruism, child income inequality and the norm of equal division.

A model of equal division of transfers

Consider an altruistic parent who derives utility from her own consumption and the consumption of her two children. Budget

Please cite this article in press as: Olivera, J. The Journal of the Economics of Ageing (2016), http://dx.doi.org/10.1016/j.jeoa.2016.05.005.
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