

## **Extended Abstract**

### **The Great Recession and Private Financial Transfers**

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#### **Background**

From December 2007 until June 2009, the United States experienced the Great Recession, its worst financial crisis since the Great Depression (National Bureau of Economic Research, 2010). The Great Recession has had a negative impact on American life in many ways, including an increase in unemployment and a reduction in median household wealth (Boushey, Davenport, Moses, & Boteach, 2010; Pew Research Center, 2010). One way that families may deal with economic hardships or unexpected expenses is to receive or provide financial transfers. Studies find that roughly 20 to 30 percent of parents provide financial transfers to their adult children averaging \$2,000 to \$3,000 per year, suggesting that this is a relatively common and potentially important source of income (McGarry & Schoeni, 1995; Altonji, Hayashi, & Kotlikoff, 1997). In this paper, we use data from the Fragile Families and Child Wellbeing Study (FF) to describe the nature of private financial transfer behavior in a sample of low income mothers and to assess the relationship between the unemployment rate and private financial transfers.

#### **Literature and Theory**

Two economic theories explain financial transfers within families (Haider & McGarry, 2006). One posits that family members act altruistically and provide financial transfers because they are concerned about the recipient's welfare (Barro, 1974; Becker, 1974), while the second posits that financial transfers function as an exchange motivated by self-interest (Bernheim, Schleifer, & Summers, 1985). Studies testing both theories find that the income of both donors and recipients influence financial transfer behavior (Cox, 1987; McGarry & Schoeni, 1995; Altonji et al., 1997). Family members are more likely to provide financial transfers to lower income recipients and provide them with larger amounts of money (Cox, 1987; McGarry & Schoeni, 1995; Altonji et al., 1997). This same research has also found that there is a positive association between the donor's income and the likelihood of providing a private financial transfer, as well as with the amount provided (Cox, 1987; McGarry & Schoeni, 1995; Altonji et al., 1997). These findings suggest that poor economic conditions would likely influence private transfer behavior, but do not provide clear evidence about the direction of the net effect. The net effect is determined by which influence is stronger: the reduced the ability of potential donors to provide financial transfers or the increased need for income among potential private transfer recipients.

##### *Macro-Level Factors*

The literature on private financial transfers and aggregate economic factors is extremely limited. Only one previous study has explored the relationship between the unemployment rate and private financial transfer receipt. Haider and McGarry (2006) find that a 1 percent increase in the unemployment rate increases the percent of household income made up by private cash transfers by a statistically significant 5.7 percent.

##### *Micro-Level Factors*

Research indicates that a number of micro-level factors influence private transfer behavior. Studies find that unmarried adults are more likely to receive financial support than married adults (Eggebeen & Hogan, 1990; Sarkisian & Gerstel, 2008; Mazelis & Mykyta, 2011),

while unmarried parents are less likely to give adult children financial support than married parents (Lee & Aytac, 1998). The education of parents is positively associated with provision of financial assistance to adult children (Berry, 2006; Ryan, Kalil, & Leininger, 2009), while educational attainment among adult children is also positively related to receiving financial support (Hofferth, 1984; Hogan, Eggebeen, & Clogg, 1993; Jayakody, 1998; Lee & Aytac, 1998). Whites are more likely to receive financial transfers than Blacks (Hofferth, 1984; Hogan, Hao, & Parish, 1990; Parish, Hao, & Hogan, 1991; Jayakody, 1998); Latinos have better odds of receiving financial transfers than Blacks, but have lower odds than Whites (Hogan, et al., 1993; Lee & Aytac, 1998). Other micro-level factors including being American born (Hogan et. al, 1993) and being in poor health (Eggebeen & Hogan, 1990) are also associated with an increased likelihood of private financial transfer receipt.

### *Contributions*

This paper contributes to the existing literature in two ways. Although a few studies have looked at private transfer behaviors using the Fragile Families study (Teitler, Reichman, & Nepomnyaschy, 2004; Radey & Padilla, 2009; Mazelis & Mykyta, 2011), this paper is the first to look at children during the Great Recession. We add to the descriptive literature by looking at: how private transfer behaviors change as a child ages from birth through age 9, percentages and dollar amounts for private transfer receipt and provision, differences in financial transfers by mother's relationship status, who gives mothers financial transfers, and the number of years that a mother participates in each transfer activity. We also identify whether respondents do not participate in any financial transfer activities, only receive, only give, or receive and give.

Second, we add to the literature by looking at the effect of the Great Recession on private transfer behaviors. Only one study has looked at the relationship between unemployment and private transfer receipt (Haider & McGarry, 2006) and our study extends the literature by looking at receipt and giving, as well as dollar amounts. Given the longitudinal nature of the FF data we can also apply more rigorous methodological approaches (individual fixed effects) to control for time invariant characteristics that may be associated both with living in an area with high aggregate unemployment and with private financial transfers. One last advantage of our study is that the FF data were collected during the Great Recession. This allows us to look at the effect of a recession on private transfer behavior, which has not been done in previous research.

### **Data and Methods**

The FF study is a survey consisting of 4,898 births between 1998 and 2000, with questions focusing on parental relationships, economic wellbeing, parenting and child wellbeing. The study is designed to be representative of large U.S. cities and includes an oversample of non-marital births. Mothers and fathers were interviewed in 20 large U.S. cities in the hospital when the child was born, and follow-up interviews were conducted after one, three, five, and nine years. Year nine interviews correspond with the Great Recession, beginning in May 2007 and continuing until February 2010. In this study we use mother-reported data since it is more complete than the father-reported data and because mothers are more likely to live with children, a population that may be especially impacted by changes in income due to private transfer behaviors. Using data from the Bureau of Labor Statistics' Local Area Unemployment Statistics (LAUS), we append the unemployment rate to the data set.

We examine the relationship between private transfer behavior (giving, amount given, receiving, amount received, and net dollar amounts) and the unemployment rate using logistic regression, Ordinary Least Squares (OLS) and person-specific fixed effects models. We utilize

logistic regression to look at the association between the unemployment rate and receiving or giving a private financial transfer. We look at the dollar amount of the transfers received, given, and net amount exchanged using an OLS model. We also use a person fixed effects model to examine dollar amounts so that we can take advantage of our longitudinal data set by controlling for individual characteristics that may be associated both with living in an area with high unemployment rates and with private transfer behavior.

### **Initial Results**

Families are more likely to give than to receive private transfers (36% vs. 33%). However, the average amount received, \$508, is substantially larger than the amount given, \$351. Although the dollar amount given does not vary much by child age, the average amount received and the net transfer amount are substantially higher at year 9 than at any other year (\$200 and \$120 higher, respectively). Mothers who were married at the time of their child's birth are much less likely to receive private transfers than unmarried mothers-- 22% compared to 37%--and are also less likely to give private transfers-- 34% compared to 37%. However, married mothers receive and give much larger transfer amounts than unmarried mothers (\$832 and \$644 as compared to \$298 and \$258, respectively). Fifty-five percent of our pooled sample participated in some sort of private transfer activity. For both receiving and giving, nearly 70% of the sample participated in the private financial transfer activity in at least one survey wave. Sixty-five percent of families receive a transfer from the mother's parents, more than three times the percentage of families who receive a transfer from the father's parents. Nearly 2/3 of the sample receive support from only one source, approximately half of whom receive support solely from the mother's parents.

We find that an increase from 5 to 10% unemployment makes a family 60% more likely to receive a private transfer, but that there is no statistically significant relationship with the likelihood of giving. The results in both our OLS and fixed effects models are similar for each of our dependent variables. For private transfers received, an increase from 5 to 10% unemployment is associated with a \$161 increase in the OLS model and a \$163 increase in the fixed effects model, both of which are not statistically significant. A doubling of the unemployment rate (from 5 to 10%) results in a \$500 decrease in private transfers given in the OLS model, a decrease that is statistically significant, and a \$485 decrease in the fixed effects model, a decrease that is also statistically significant. For net transfer amount, moving from 5 to 10% unemployment is associated with a \$696 increase in the OLS model and a \$713 increase in the fixed effects model, both of which are statistically significant. This suggests that the increase in net transfer is attributable primarily to reduced giving rather than increased receiving.

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