Family Welfare Cultures

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What Is It All About?

- **definition of 'family welfare culture':**
  receipt of welfare benefits in one generation *causes* increased
  probability of welfare participation in next generation

- analyze whether family welfare culture exists for Disability
  Insurance (DI) in Norway

- use exogenous variation in probability of parental DI receipt
  from random assignment of judges to DI applications
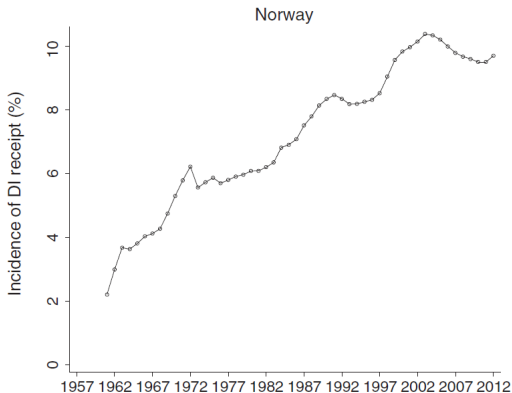
Outline

Introduction

Motivation

- DI is one of the largest transfer programs in most industrialized countries
- steady increase in share of recipients

Motivation

- evidence for intergenerational correlation in welfare participation (Black and Devereux, 2011; Bratberg, Nilsen and Vaage, 2015)
- two explanations:
  1. intergenerational correlation of determinants for DI (Lee and Solon, 2009; Oreopoulos, Page and Stevens, 2006)
     - health status due to shared genes
     - income potential (education, occupation)
  2. family welfare culture

Main Goal

- **answer two research questions:**
  1. Does family welfare culture exist?
  2. How important is family welfare culture?

What is DI?

- welfare benefits for workers
    1. below retirement age
    2. who are unable to earn a living on their own
    3. because of a lasting medical condition
    4. after prior employment
- provides partial earnings replacement based on recipient's earnings history
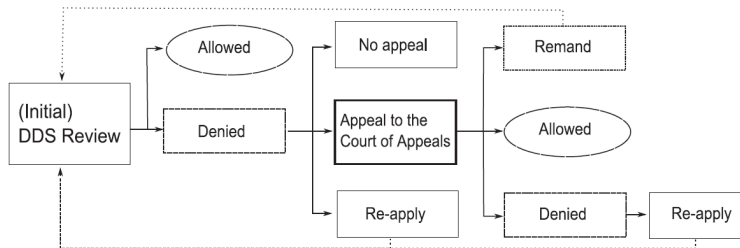
Application Process

Figure I

DI Application and Appeals Process

Empirical Strategy

First Thoughts

- individual i has a latent demand/qualification Q_i for DI:

$$Q_i = \alpha + \beta A_i + \delta x_i + \epsilon_i$$

- i gets DI if $Q_i > 0$
- A_i determined by same equation for parent:

$$A_i = \mathbb{1}_{\{Q_{i,parent} > 0\}}$$

- work capacity and health status of i are in parts private information of i
- econometric challenges:
    - evaluation problem
    - selection problem if unobservables are correlated across generations

Baseline Sample

- social security registers: data on adult children of parents who appeal an initially denied DI claim between 1989 and 2005
- administrative data: 79 DI appeal judges with an average of 380 cases
- final sample has 14722 parent-child observations

Identification Strategy

- appeal cases are assigned to judges at random
- judges differ systematically in share of cases they allow/reject
- for each observation i, contruct measure of judge leniency z_i: average allowance rate in all other cases the assigned judge has handled
- use z_i as an instrument for parental DI receipt

Identification Strategy

- empirical model (2SLS):

$$A_i = \alpha + \gamma z_i + \theta x_i + v_i$$
$$P_i = \mu + \beta A_i + \lambda x_i + u_i$$

- allow for heterogeneity in treatment effects
- necessary assumptions for identification:
  - first stage
  - exclusion
  - random assignment
  - monotonicity

Results and Interpretation

Results

ESTIMATES OF INTERGENERATIONAL WELFARE TRANSMISSION

	First stage	Child on DI 5 years after parent's appeal decision		Child ever on DI after parent's appeal decision	
		Reduced form	IV	Reduced form	IV
Panel A: No additional controls					
Parent's judge leniency	0.909***	0.055***		0.107***	
	(0.112)	(0.020)		(0.030)	
Parent allowed DI			0.061***		0.118***
			(0.022)		(0.033)
Panel B: With additional controls					
Parent's judge leniency	0.869***	0.052**		0.101***	
	(0.108)	(0.020)		(0.027)	
Parent allowed DI			0.060***		0.116***
			(0.023)		(0.032)
Dependent mean	0.12	0.03		0.08	

Interpretation of Results

- granting a parent DI at appeal stage increases child's probability of DI receipt over next five years by 6 percentage points
- LATE: average effect for complier children
- no external validity for whole population because
    - applicants and appellants differ in observables
    - latent demand of children of appeal stage parents probably higher than that of inframarginal parents

Policy Relevance of Results

- results relevant for reforms which only affect the margin of program entry
- e.g., make judges less likely to allow an appeal (shifting judge leniency downward)
- likely true for policy reforms aimed at limiting increase in DI participation

Limitations

- 75% of denied appellants reapply eventually (and 65% of these ultimately get DI)
- long-run results are then LATE of parent being awarded DI *in first appeal*

Conclusion

- family welfare culture as causal effect of welfare receipt of one generation on welfare participation of next generation
- use judge leniency in parental appeal decision as IV to study this for DI in Norway
- find significant family welfare culture effect for children of marginal applicants

Policy Implications

- in general:
    - policy makers should be aware that welfare reforms don't only affect current generation
    - original effects can be reinforced by changing future generations' behavior as well
- for DI in Norway:
    - quantifies average effect for reforms that work on the margin of program entry

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Appendix

The Rest of the Paper

- effect on other child outcomes like education and employment
- look for similar spillover effects for siblings, spouses or neighbors being awarded DI
- analyze whether results depend on living arrangement and age of child
- explore underlying mechanisms:
  - change in child's belief about likelihood of success in marginal cases?
  - reduction of stigma?

Other Uses of the Instrument

- labor supply effects of welfare receipt:
  - Maestas, Mullen and Strand (2013)
  - French and Song (2014)
- effects of incarceration:
  - Kling (2006)
  - Bhuller et al. (2016)
- effects of foster care:
  - Doyle (2007, 2008)
- effects of consumer bankruptcy protection:
  - Dobbie and Song (2015)

Policy Simulation

Figure C.1: The Effect of Tightening the Screening Process on Parents and Their Children.