

## **Migration and the Relationship between Child-to-Parent and Formal Transfers: The Case of Mexico**

Estela Rivero-Fuentes

September, 2004

### **Abstract:**

In this paper I explore whether formal transfers such as pensions and cash transfer programs crowd-out child-to-parent monetary transfers children, and whether the relationship between formal transfers and child-to-parent transfers differs between migrant and non-migrant children. I use data from a recent panel survey in Mexico which allows to control for selectivity in the probability of receiving formal and child-to-parent transfers. The effect of formal transfers on child-to-parent transfers is estimated using household and child specific fixed effects. Preliminary results suggest that public transfers reduce but do not completely crowd out child-to-parent transfers, and that this effect is stronger for migrant than for non-migrant children.

### **Long Abstract:**

Many households in developing countries rely on the additional resources they obtain from monetary and in-kind transfers to cope with low income and to manage risks. These transfers can come from formal institutions including governmental programs and private pension programs, or from informal sources such as family members and friends.

Consequently, many recent policy programs focus on increasing households' access to formal transfers. However, there is growing evidence that an increase in transfers from formal sources may reduce (crowd-out) transfers from informal sources (McKernan, Pitt and Moskowitz 2004; Cox and Jimenez 1995; Jensen 2003).

The "crowding-out" hypothesis was first proposed by Becker (1974) and has dominated most of the research on the relationship between formal and informal transfers. This hypothesis argues that when informal transfers are motivated by altruism, transfers decrease as the income of the receiver increases. When transfers are not motivated by altruism but by exchange (e.g. in advance for future help), transfers are invariant to the income of the receiver.

Despite of the centrality of the motivation for transfers in the "crowding-out" hypothesis, almost no research has explored whether the response of informal transfers varies by the type of transfer or by the relationship between sender and receiver. This question is important in the case of child-to-parent transfers because the motivation for transferring money may differ between children who live in the same community than their parents and thus can be in a constant exchange of favors with their parents, and children who live in a different community or country. Recent research on the migrants' remittance motivation suggests that they are driven by altruism (Agarwal and Horowitz 2002).

In this paper I explore whether the effect of formal transfers on child-to-parent monetary transfers differs between children who live in the same community than their parents, children who live in another community in Mexico, and children who live in the United States. My hypothesis is that, because migrants' transfers are more likely to be motivated

by altruism than non-migrants' transfers, the effect of formal transfers on child-to-parent transfers will be larger for migrant (both internal and international) children than for non-migrant children.

To explore this hypothesis I use data from 2001 and 2003 rounds of the Mexican Health and Aging Study (MHAS), a nationally representative panel survey of population aged 50 and older in Mexico. The survey collected information, among other things, on the sources and amount of formal and informal transfers flowing into the household during the two years before each round.

An exploratory analysis of the survey suggests that the proportion of children that sent monetary transfers to their parents increased between 2001 and 2003 (see table 1). Migrant children, particularly international migrants, are more likely to send transfers than non-migrant children. The difference in transfer patterns between migrant and non-migrant children increased between 2001 and 2003.

**Table 1. Children sending monetary transfers to their parents (%), by year**

Residence status	Reference year	
	2001	2003
All children	16	21
Non-migrant	16	18
Internal migrant	15	22
International migrant	16	37

Source: MHAS 2001 and 2003

This analysis also suggests that, in the case of Mexico, formal transfers partially crowd-out child-to-parent transfers (see table 2). 80% of the children decreased their transfers between 2003 than in 2001. However, in those households that received more formal transfers in 2003 than in 2001, the percentage of children decreasing their transfers is 83%.

The effect of formal transfers on child-to-parent transfers differs between migrant and non-migrant children. There is no preliminary evidence that formal transfers crowd-out child-to-parent transfers among non-migrant children. The percentage of non-migrant children that decreased their transfers between 2001 and 2003 is the same independently of whether their parents received more or less formal transfers. However, among internal and international migrant children there is a negative relationship between formal transfers to their parents' household and their remitting behavior.

**Table 2. Children decreasing the monetary transfers to their parents between 2001 and 2003, by change in formal transfers between 2001 and 2003 (%)**

<b>Residence status</b>	<b>Formal transfers to the household:</b>	
	<b>Decreased or remained the same</b>	<b>Increased</b>
All children	80	83
Non-migrant	83	84
Internal migrant	78	83
International migrant	65	72

Source: MHAS 2001 and 2003

**References:**

Agarwal, Reena, and Andrew W. Horowitz. 2002. "Are International Remittances Altruism or Insurance? Evidence from Guyana Using Multiple-Migrant Households" *World Development*, 30(11) pp. 2033-2044.

Becker, Gary S. 1974. "A Theory of Social Interactions." *Journal of Political Economy*. 82, no. pp. 1063-93.

Cox, Donald and Emmanuel Jimenez. 1995. "Private Transfers and the Effectiveness of Public Income Redistribution in the Philippines". In *Public Spending and the Poor: Theory and Evidence*, edited by Dominique Van De Walle and Kimberly Nead, 321-46. Baltimore: Johns Hopkins University Press.

Jensen, Robert T. 2003. "Do Private Transfers 'displace' the Benefits of Public Transfers? Evidence from South Africa." *Journal of Public Economics*, 88: 89-112.

McKernan, Signe-Mary, Mark Pitt, and David Moskowitz. 2004. "Use of Formal and Informal Financial Sectors in Bangladesh: Does Gender Matter?" *Paper submitted for Publication to the World Bank Working Paper Series*.