The economic effects of public and private transfers on elderly households in India: Implications for social welfare policies

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Background

Despite the fact that India has achieved significant economic growth in the past three decades, the country’s social security system has remained weak. There are a handful of schemes sponsored by central and some state governments that offer a very limited financial assistance to the elderly, particularly those from ‘below poverty line (BPL)’ category. Majority of them including the poor continue to rely on income transfers from their children, relatives, charitable organisations and their own savings. The family support system is increasingly coming under strain with increases in income and life expectancy. This is a serious issue and is likely to aggravate in future as there will be substantial increase in the elderly population in India due to the shift in age-structure. Going by the press reports, the Government seems to have taken note of this situation and is likely to consider the proposal of a tax-funded universal social pension scheme for the elderly (The Hindu 2012).

While the reforms in the social security system are positive developments, analyzing the economic effects of transfers—both public and private—is of considerable significance as it has important consequences for the design of public redistribution policies. Economic theories suggest that public transfer tends to crowd out private inter-family transfer substantially if not completely (Barrow, 1974; Becker, 1974) implying that any expansion of public transfer would see a reduction in private transfers. Although the ‘altruistic model’ has found some support in the empirical work (Cox and Jimenez 1990; Kühemund and Rein 1999), theoretical proposition that ‘public transfer’ and ‘private transfer’ are close substitutes has been challenged in the recent literature (Cox and Jakubson, 1995; Altonji et al., 1997; Attias-Donfut and Wolff, 2000; Daatland 2004). More recent works (Juarez 2008; Maitra and Ray, 2003) have even cast doubts on the robustness of the results obtained in earlier studies as they did not take endogeneity of

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transfers into account. To my knowledge, there has not been any study in India to understand the relationship between public and private inter-household transfers and the impact of such transfers on the living standards of the older households. Part of the problem is the lack of adequate data; data sets containing both private transfer and public transfer are scarce.

**Objectives**

In this backdrop, the proposed study aims to address the following specific objectives:

1. To assess the magnitude of public and private transfer contributions to the total income of households.
2. To examine the relationship between public and private transfer.
3. To study the determinants of private transfers including community transfers in households.
4. To analyze the impact of transfers on the household consumption expenditure patterns and poverty.
5. To examine the social differences with respect to household consumption expenditure patterns and private transfers.

The following research questions will be examined in this study:

**Research questions:**

1. What is the socio economic background of the recipients of ‘transfers’?
2. What is the impact of ‘public transfer’ and ‘private transfer’ on the incidence of poverty amongst the households? Do the transfers reduce the incidence of poverty amongst the households?
3. Is there any difference in impact of ‘public’ and ‘private’ transfers on household consumption expenditure patterns?
4. Does the public transfer crowd out private transfer from family and friends? Does it have the same effect for both poor and non-poor households?

5. Are there significant social differences with respect to elderly household consumption expenditure patterns and private transfers?

**Data:** The study uses data from the survey titled ‘Study on Global Ageing and Adult Health (SAGE)’ carried out by WHO and International Institute for Population Sciences (IIPS) in 2007 in six states of India namely Assam, West Bengal, Uttar Pradesh, Rajasthan, Maharashtra and Karnataka. The sample consists of 12,198 households with at least one person aged 50 years and above. The survey is unique because for the first time, it has collected information from the households about the amount of transfers in cash and kind on a list of items that flows from government, family (children, siblings or parents), relatives (other kin) and community and from the household to others. This gives a complete picture of transfer flows and allows to calculate a net amount of transfer received in a year. By collecting detailed information on transfers and total household consumption expenditure, the survey offers robust estimates of the magnitude of transfers to household budget. All the variables related to expenditure will be converted to a monthly figure.

**Methods:** The key contributions of this paper would be to take into account endogeneity of income and resource flows into the household; investigate the relationship between public and private transfers and assess the economic effects of transfers on the households. An appropriate econometric technique would be adopted to address the endogeneity of public transfer and income when estimating the determinants of private transfer. For the estimation of the incidence of poverty, household equivalent income that reflects total income and the number of children and adults in the household would be calculated by using OECD equivalence scale. Planning Commission of India defined poverty line separately for states and regions (rural and urban areas) for the year 2004-05 and 2010-11. I will calculate the growth rate of the price changes during the period 2004-05 and 2010-11 and use this to project the poverty line for the year 2007 based on the official poverty line for the year 2004-05.

*The work is still in progress.*