

Do you care? Altruism and inter-generational exchanges in Mexico

Duncan Thomas, UCLA

dthomas@ucla.edu

September, 2005

Research has demonstrated the importance of inter-generational exchanges between family members in a wide array of socio-economic contexts across the globe. While the theoretical literature in the social sciences is replete with hypotheses that seek to explain these exchanges, providing convincing empirical tests of these hypotheses has proved to be extremely difficult. This paper uses new data that are specially designed to provide tests of one set of hypotheses relating to the extent to which inter-generational transfers can be explained by altruism.

Drawing on longitudinal survey data from Mexico, in combination with experimental measures of attitudes and preferences, we estimate models of transfers between non-co-resident family members. Three dimensions of transfers are examined: financial resources, time resources and levels of human capital. Specifically, we examine models of transfers of income and assets between adult children and their parents, transfers of time from children to parents and also transfers of income and time from parents to their children. In addition, we explore the inter-generational transmission of human capital, as indicated by education, of parents to their adult children.

The empirical specification is developed in the context of a conceptual framework in which family members make decisions about the allocation of time and money across goods, services and time in order to maximize their own sense of well-being now and in the future. Own well-being depends not only on the individual's material and psychological well-being but also that person's perceptions of the well-being of other household and family members. This is a more general framework than studies of household behavior which assume that decisions about inter-generational transfers are made at the household level. Specifically, it provides a richer specification for modeling decisions about transfers that highlight the role of the resources and preferences of each individual within the family which is critically important for this study.

The first innovation in this paper is the measurement of individual-specific levels of resources that can arguably be treated as exogenous. Few socio-economic surveys collect measures of resources under the control of individuals. The Mexican Family Life Survey (MxFLS) is an on-going longitudinal survey which pays particular attention to the measurement of assets and income at the individual level within each household. We exploit that information to assess whether, for example, women who have relatively more resources under their control are more likely to transfer resources to their parents relative to the parents of their husbands.

The second important innovation is the inclusion in the empirical models of direct measures of altruism. Very few socio-economic surveys have attempted to measure altruism and a standard critique of interview-based questions regarding altruism is that reports are likely to be biased as respondents tend to overstate their level of altruism. To address this legitimate concern, a sub-sample of the MxFLS respondents participated in the Preferences Pilot Study (MxFLS-PP) which sought to bring the methods of psychology and economics experimental literatures to social science surveys. Specifically, we adapted

methods that have been extensively used in the experimental laboratory literature which purport to measure constructs such as altruism, reciprocity, trust and patience. In these experiments, a subject is given real resources and asked to make decisions about how to allocate those resources. Those decisions are then implemented and the respondent is paid according to their revealed preferences. For example, a measure of altruism is provided by giving a subject \$100 and showing him or her a picture of someone the subject has never seen before. The subject is then asked whether he or she would like to transfer some of the \$100 to that person and, if so, how much. The subject writes down the answer which is not seen by the person conducting the experiment. This experiment is then repeated with someone who lives in the same community as the subject and then with two family members. Similar experiments were conducted to measure reciprocity, trust and patience. After the tasks are completed, one of the decisions is chosen at random and the subject is paid according to his or her decision. Clearly, it is costly for the respondent to not reveal his or her true feelings.

In conjunction with these experiments, the Preferences Pilot conducted an interview after the experiments which sought to capture similar constructs using items that have been adopted in prior studies and new items that were carefully designed and extensively tested for this study. For example, several studies have claimed that questions about trustworthiness perform well in empirical research. The same items were included in the Preferences Pilot in order to evaluate that claim. New items were added which asked respondents to allocate resources between family members and also what each respondent expected those family members would choose to do if confronted with similar decisions.

The first part of this paper carefully describes the data collected in the experiments and the follow-up interview. We relate the measures of preferences collected in the experiments to comparable constructs measured in the interviews and we also relate each indicator to a set of socio-demographic and economic characteristics. These descriptions provide an informal assessment of the nature of the information collected in each of the measured constructs. For example, preliminary results indicate that, according to the experimental indicators, males are more altruistic than females and older adults are less altruistic than prime age adults. The interview-based measures indicate that there is no difference in the level of altruism among males and females and that older adults are more altruistic than younger adults.

It is difficult to evaluate this evidence outside the context of a model of behavior. The second part of the paper integrates these measures into the models of transfers of resources, time and human capital described above. These models will provide empirical evidence on the extent to which these new measures of attitudes and preferences shed light on the role of tastes in decision-making within families.

In order to focus attention on the differences in behaviors of people within families, one set of these models will include family fixed-effects which will sweep out all unobserved characteristics at the family level which have a linear and additive impact on decisions to transfer resources across generations. These models highlight the central role of differences in resources of husbands and wives as well as differences in their attitudes as they affect decisions to allocate resources to the mother and father of each member of the couple.