

Parents' reliance on welfare leads to more welfare use by their children, study finds

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If parents rely on welfare, do their children become more likely to follow suit?

Many past studies have shown that a child's welfare use is correlated with a parent's welfare receipt. However, researchers were not able to establish a causal relation due to many unobservable factors across generations, such as the recipients' adverse environments or inherited poor health. Besides, the lack of access to large datasets that link family members together across generations precluded researchers from more comprehensive analyses.

"These empirical challenges have meant that existing research has largely focused on documenting and observing the intergenerational correlations in various types of welfare use," said Magne Mogstad, assistant professor of economics. "A causal interpretation remains elusive."

In a new study published recently in the *Quarterly Journal of Economics*, Mogstad and his co-authors at University of California, San Diego, and the University of Bergen in Norway investigated family welfare cultures in the context of Norway's Disability Insurance System. From 14,722 parent-child observations, they have found strong empirical evidence that reliance on welfare in one generation is likely to cause greater welfare use in the next generation.

The findings also serve to highlight that reforming the welfare review process can have a long-lasting effect on both the current and future

generations.

The study specifically targeted children of applicants who had initially been denied disability benefits from 1967 to 2010. The data are derived from Norway's Social Security Registers that contain complete records for all individuals who entered the disability insurance program, as well as administrative data from the hearing office on all appeals from 1989 to 2011.

"Critical to the analysis—and being able to get at causation and not just correlation—is that these appeals claims are randomly assigned. One simply cannot shop around for a judge. It's luck of the draw," said Mogstad. "And some judges are systematically more lenient, allowing up to 25 percent of appeals, while others are systematically more strict, approving as few as 5 percent."

The results indicate that when parents were granted benefits during the appeal process because they drew a more lenient judge, the probability of one of their adult children applying for disability insurance rose by 6 percentage points over the next five years, and 12 percentage points over the next decade.

At the same time, researchers attempted to calculate the direct and indirect impact of a policy change on disability insurance participation rates through a computerized simulation. Since 60 percent of the disability insurance recipients in Norway suffer from difficult to verify disorders, such as mental illness or musculoskeletal problems, a judge would, on average, tighten the requirements in the simulation and reduce the number of his appeal approvals by approximately 10 percent. While the drop in the first year is directly caused by the stringent policy, more than half of the reductions 10 years later are accounted for by the reduced participation of the children of the original applicants.

Mogstad and his fellow researchers conclude that a more stringent screening policy for disability benefits would not only reduce payouts to current applicants, but also have a long-term impact on participation rates and program costs.

What drives the observed intergenerational patterns? It is unlikely to be information about how to apply for the program or appeal an unfavorable decision, since all parents in the sample have been through these processes, the researchers point out. What may change as a result of a parent being allowed disability insurance are their children's beliefs about the efficacy of trying to get onto the Disability Insurance program. Suggestive evidence for this comes from an analysis showing children whose parents got a lenient judge are not only more likely to apply for disability insurance but also are more inclined to report the same type of medical disorder.

Even though evidence from other settings or populations would be useful to assess the generalizability of this study, Mogstad said it is highly relevant to policymakers in Norway and the United States, because disability insurance is now one of the largest transfer programs in most industrialized countries.

In the United States, outlays for disability insurance exceed those for food stamps and traditional cash welfare, said the paper. For families without small children, disability insurance is often the only cash benefit available after unemployment benefits run out, and it has therefore become an increasingly important component of the social safety net.

Over the past 50 years, disability insurance rolls have steadily risen from less than 1 percent to more than 5 percent of the adult population in the United States, from 1 to 7 percent in the U.K., and from 2 to almost 10 percent in Norway.

Mogstad said these increases are fiscally unsustainable, especially as current disability recipients are younger and have longer life expectancies on average compared to previous cohorts of recipients. At the same time, in Norway and the United States, the rise in the number of disability insurance recipients in recent decades appears to be primarily driven by a more liberal screening of marginal applicants who are initially denied and subsequently appealed.

More information: "Family Welfare Cultures." *Quarterly Journal of Economics* (2014) 129 (4): 1711-1752 first published online August 21, 2014 [DOI: 10.1093/qje/qju019](https://doi.org/10.1093/qje/qju019)

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