

Summary

ESSAY ON FAMILY TRANSFERS AND INCOME SHOCKS IN DEVELOPING COUNTRIES: IMPLICATION FOR PUBLIC POLICY DESIGN

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A large informal sector is a prevalence of developing countries. For example, in Indonesia, the share of the informal sector has been about 65 percent since 2000, while this sector accounts for 68.2 percent of the total non-agricultural employment in 2009 in Vietnam. The labor earning in the informal sector is often lower than in the formal sector, and informal workers have no access to the social security system. As a result of the large proportion of the informal sector, family financial support plays an essential role for the elderly to sustain during their old age. For example, statistics show that around 20 percent of the elderly in Vietnam received a public pension in 2011, while more than 70 percent receive positive net money transfers from their children.

Given those facts, the dissertation attempts to understand the features and sources of labor income and the nature of old-age financial support in developing economies in comparison with the situation in developed economies. We also aim to provide relevant implications of these phenomena for related public policy design, particularly pension and social security programs, which are generally under-developed in developing economies. For the aim of the study, we choose Indonesia and Vietnam as representative countries that are both populous and located in Southeast Asia, where a vast majority of employment is informal (68.2 percent in 2016, ILO) and there are significant intra-household transfers. Additionally, they also share similar features such as the same economic development level with a high economic growth rate that allows us to have a comparative analysis.

For this purpose, we start by studying the pattern of the income age profile in developing countries and compare the difference in the income profiles of people who work in formal and informal sectors. The result shows clear evidence of sector effects and cohort effects. Furthermore, we also

characterize a process for the idiosyncratic component of labor earnings risk. The process is calibrated to Indonesia and Vietnam individual data, accounting for fixed effects, persistent shocks, and transitory shocks of labors in both sectors. We find that the persistent is more moderate for the formal sector, and the shock towards the informal sector is greater.

Later, we analyze the income sources of older people in developing countries, focusing on informal family transfers among adult children and their elderly parents and ask whether the transfers are driven by altruism motive. In this regard, we notice that the existing literature on developed countries often focuses only on the down-flow transfers from parents to children, while observations in developing countries show both down-flow and up-flow transfers. Therefore, for better capturing this feature of developing countries, we construct a theoretical model between parent and child with two-way altruism that allows generating the two-sided transfers and derive the transfer-income derivative to test the hypothesis of altruism. For empirical analysis, we utilize data of the Indonesia Family Living Survey in 2007 and 2014 and apply a semi-parametric estimation method to correct the selection bias caused by the heterogeneity in altruism level. Our finding suggests rejecting the altruism hypothesis.