

# NATIONAL TRANSFER ACCOUNTS: CONCEPTS AND SOME EXAMPLES FROM LATIN AMERICA AND ASIA<sup>9</sup>

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*Familial transfers*, which are of primary interest of this Seminar, are an important type of reallocation of economic resources, which usually constitute the bulk of *private transfers*. Nonetheless, it is useful to consider them in the broader context of *all* inter-age reallocations, as summarized in the following table.

| Table 1.1. A Classification of National Transfer Account Age Reallocations |  |  |  |
|--|--|--|--|
|  | Asset-based reallocations  |  | Transfers  |
|  | Capital  | Property   |  |
| Public   | Negligible   | Public debt<br>Student loan programs<br>Sovereign wealth funds<br>Currency stabilization funds | Public education<br>Public health care<br>Unfunded pension plans                 |
| Private  | Housing<br>Consumer durables<br>Corporate profits<br>Partnerships and sole proprietorships | Consumer debt<br>Land<br>Sub-soil minerals   | Familial support of children and parents<br>Bequests<br>Charitable contributions |

Source: Adapted from Lee 1994.

Mason, A. R. Lee, A. Tung, M. Lai, and T. Miller (2009). "Population Aging and Intergenerational Transfers: Introducing Age into National Accounts." Pp. 89-122 in *Developments in the economics of Aging*, edited by D. Wise. Chicago: NBER and University of Chicago Press.

We begin by defining some concepts. *National Transfer Accounts* (NTAs) measure, at the aggregate level, reallocations of economic resources across persons of different ages, including those undertaken by private individuals or households and through the public sector (Mason et al., 2005; NTA project website, <http://ntaccounts.org>).

Adopting this wider perspective of the various forms and mechanisms of economic support is useful for a number of reasons. First, *transfers*, which are reallocations of resources between individuals that do not involve a formal, explicit *qui pro quo*, can be made within the family but also through the public sector, via the collection of taxes and the allocation of government spending.<sup>12</sup> Both private and public transfers are important in most societies, and can complement or substitute each other. For example, the extension of public education expands a public in-kind transfer system that benefits all covered school-age children. Depending on country-specific conditions,

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<sup>12</sup> Transfers can be given or received in cash, or in kind (goods and services)

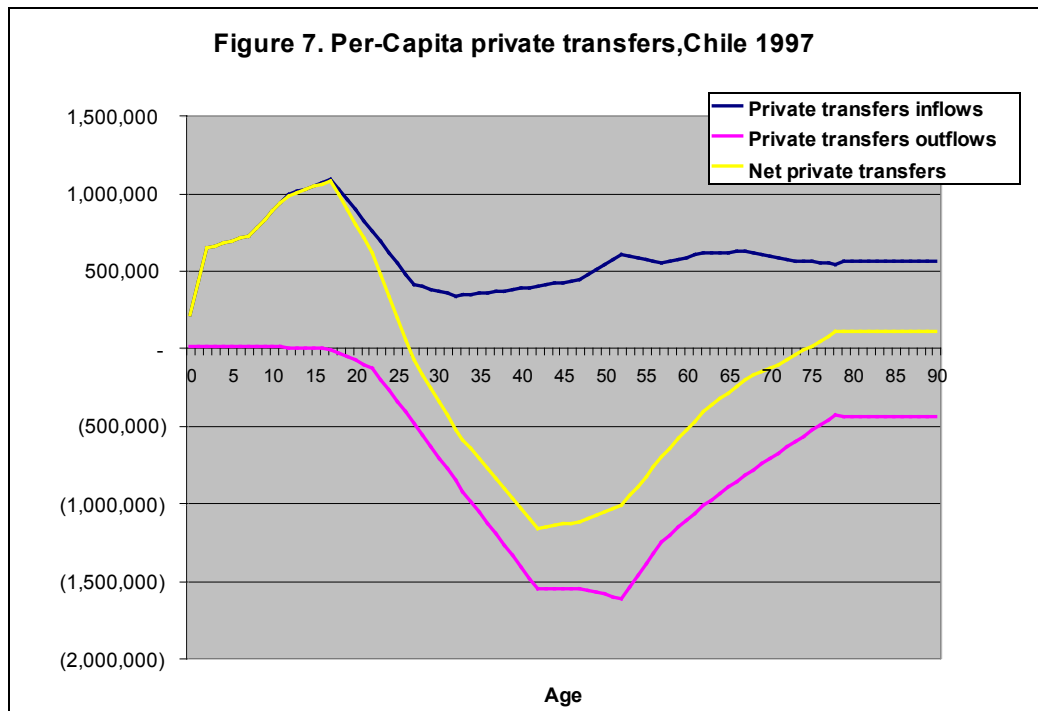
this expansion may boost overall expenditures in education, or might just substitute for the pre-existing familial support: in this latter case, taxpayers now would collectively finance the education of the covered children in the same per capita amounts that they were paying before in the form of a private, out-of-pocket expense for their own children. The privatization of social security produces a contraction of a public cash transfer (the public pension system), and expands private retirement savings. This reform may or may not have an effect on the traditional familial support of adult children to their elderly parents, depending on whether the introduction of retirement savings leads to an increase in overall savings or not.

Another very important class of reallocations is *asset-based reallocations*, which refers to the accumulation and reduction of financial and physical assets over the life-cycle. So, for example, in many developing countries where real estate and financial markets have become more widespread, the current younger generations of adults are accumulating more assets than their parents' generation, and they can use these assets to support themselves in old-age. As this happens, the reliance of the elderly on familial support or on public pensions will probably be reduced over time. However, while this may hold true over the medium to long-term, in times of economic crisis as in the present, the persistence of public pensions serves as an essential cushion and social protection against financial market fluctuations. In this context, family networks can also provide compensatory support, for example through temporary family re-grouping and cohabitation, and in-kind and cash help for relatives in need.

The previous examples illustrate the point that the significance and ultimate effect of various types of family support depends on the ensemble of intergenerational reallocations, which can only be studied if we measure all of the components in a systematic fashion and we observe their evolution and interplay in specific country settings. We examine next to selected empirical examples for Latin America and Asia, beginning with the case of Chile.

#### Family and public transfers in Chile

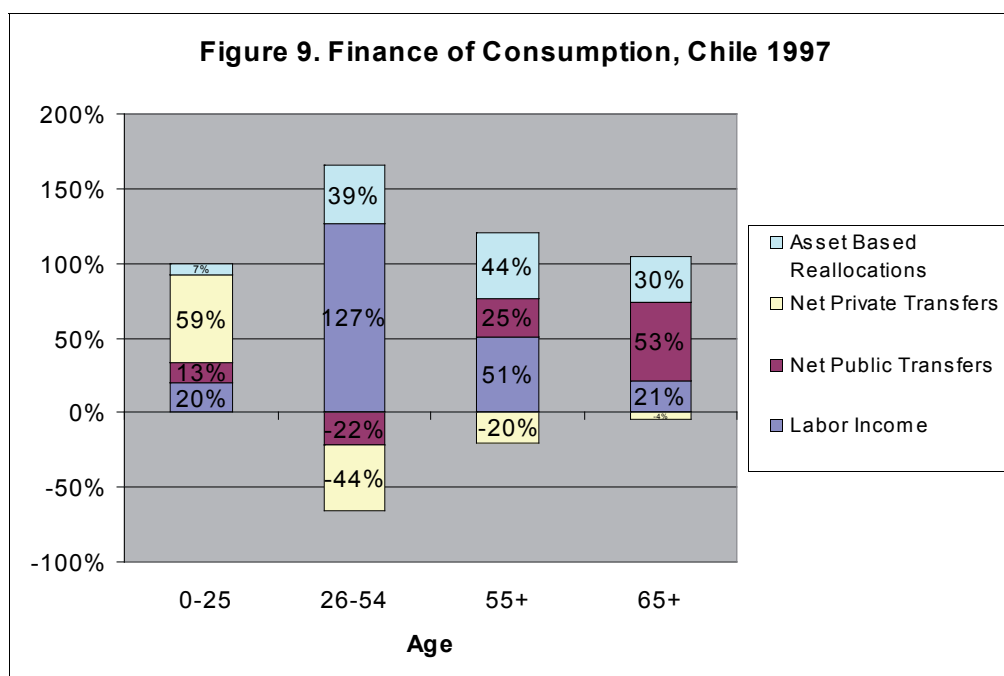
*Private transfers* in Chile are quite substantial. They represent more than 60% of all transfers (private and public combined), and as in many other societies, are mostly familial transfers that support children, teenagers and young adults. As figure 7 shows, the generations under the age of 27 in 1997 are net transfer receivers. All adults, younger and older, give and receive transfers, but only those under the age of 70 are *net* transfer givers. Adults older than 70 years do not provide net private transfers, but neither rely on them as a significant source of economic support. While this general pattern (of self-sufficiency in old age) tends to hold in many contemporary Latin American countries, it is by no means universal or valid for other historical times, as we will see below.



One of the reasons that may explain the level and age distribution of familial transfers in Chile is that, although the country has a fairly extensive coverage of public education and the government transfers to children are quite significant, they cover only a part of their total consumption, thus the need for substantial familial support. On the other hand, public health and social security programs together transfer very substantial resources to the elderly, thus the lesser need for family support for them. In particular, public *cash* transfers --one-third of all public transfers, are mostly pensions that benefit older persons, and represent by far the largest *per-capita* government transfer program. □ When all programs are considered, children and youth, because of their large proportional weight in the population, receive a group as much aggregate public transfers as the elderly.

The next graph (figure 9) provides a summary of the relative importance of *private transfers* for the finance of consumption of different age groups, in comparison with other sources of income, including all intergenerational reallocations.

In-kind public transfers represent two-thirds of all government transfers and are mostly composed of public education, health and other services directed to children and to adults of all ages.



In 1997, only children and young adults were private transfer net receivers, while middle-aged adults were the primary net givers. Adults over the age of 55 and even the group of 65 or older are still net providers of transfers. The data suggests that by 1997, public transfers and asset reallocations have come to substitute the familial support that was the basis for the sustenance of the previous generations of elderly of the first half of the XXth century, when capital markets and pension systems were very incipient. In countries that have even more generous and extensive coverage of social security, such as Uruguay, the elderly rely even less on familial transfers for their support; they are rather net *givers* of private transfers well into their old age (Bucheli and González, 2009).

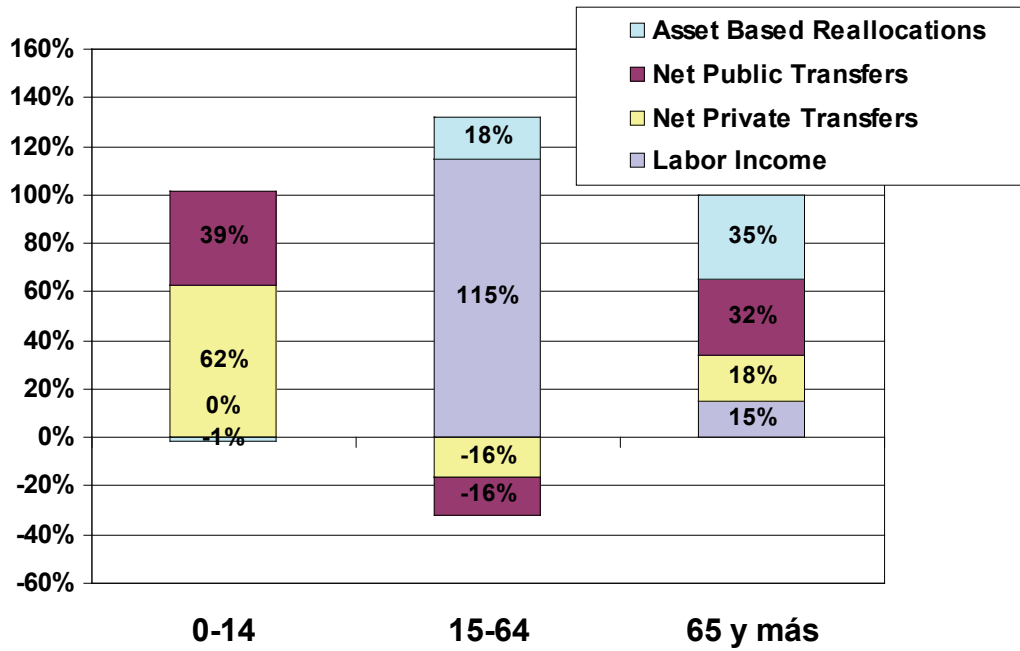
#### Asia-Latin America: Finance of Consumption

The next two figures provide a glimpse into the sources of support for broad age groups in Latin America and Asia, on the basis of preliminary data similar to that just presented for Chile, with available information in the respective regions as of May 2009.

Comparing the two figures, we observe commonalities and important differences:

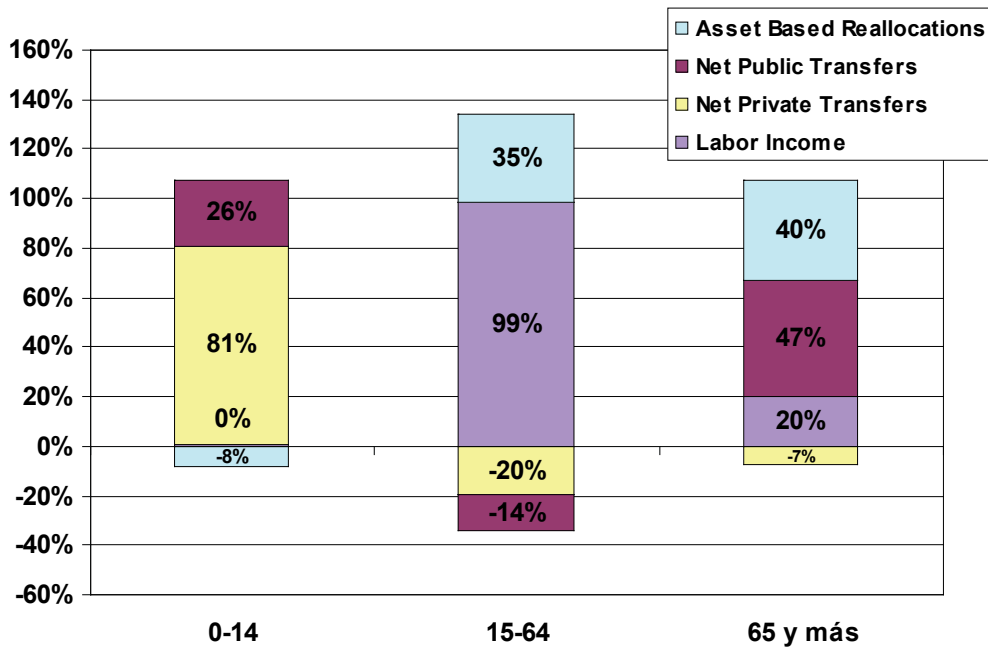
- Although in both regions private transfers finance more than 3/5 of the consumption of *young people*, children depend relatively more on public transfers in Latin America to finance their consumption. This is especially true in some countries, such as Brazil, that have extensive public primary education programs (Turra and Queiroz, 2009).
- *Older people* in Asian societies rely on the four identified sources to finance their consumption, with asset-based reallocations representing a surprisingly large (main) share. As expected, in Asia the elderly rely much more on familial transfers than in Latin America, where the main source of financing of old age consumption is net public transfers. Still, the role of other sources of income, including the substantial proportion of public transfers in Asia, is larger than what we had expected.

### Finance of Consumption, Asian countries



Source: NTA project, [www.ntaccounts.org](http://www.ntaccounts.org). Average of countries with available data, as of May 2009.

### Finance of Consumption, Latin American Countries



Source: NTA project, [www.ntaccounts.org](http://www.ntaccounts.org). Average of countries with available data, as of May 2009.