Berlin Applied Micro Seminar

Intergenerational Spillovers in Disability Insurance

Gordon Dahl (with Anne Gielen)

Abstract:

Abstract: How does participation in a social assistance program by parents affect their children's well-being and the government's long-term budget constraint? While intergenerational concerns have figured prominently in policy debates for decades, causal evidence is scarce due to nonrandom participation and data limitations. In this paper we exploit a 1993 policy reform in the Netherlands which tightened disability insurance (DI) criteria for existing claimants, and use rich panel data to link parents to children's long-run outcomes. The key to our regression discontinuity design is that the reform applied to younger cohorts, while older cohorts already on DI were exempted from the new rules. We find that children of parents who were pushed out of DI or had their benefits reduced are 11% less likely to participate in DI themselves, do not alter their use of other government safety net programs, and earn 2% more in the labor market as adults. The combination of reduced transfers and increased taxes results in a fiscal gain of 5,900 euros per treated parent due to child spillovers by 2014; ignoring these spillovers understates the long-run cost savings of the Dutch reform by between 21 and 40% in present discounted value terms. Moreover, children of treated parents complete an extra 0.12 years of schooling, have a 15% lower probability of being arrested for a serious crime, and take fewer prescription drugs for mental health conditions as adults. These positive child outcomes occur despite the fact that reform-exposed parents experience no change in total income in the short run and a decline in the long run. Taken together, our results highlight the strength and nature of parent-child interactions, and the importance of considering spillover effects in policy debates about social assistance programs.