

Duration Dependence and the Role of Parental Social Assistance Receipt: Social Assistance Dynamics Among Young Adults in Finland

Introduction

Social assistance as a last-resort means tested benefit is used to provide an acceptable standard of living for households and families whose incomes would otherwise be insufficient (Immervoll, 2009). In general, the role of last-resort means tested benefits is debated. On the one hand, it is discussed whether targeted minimum income benefits decrease poverty more efficiently than universal benefits (Gornick and Smeeding, 2018). On the other hand, discussion is related to an idea that long-term reciprocity could be associated with benefit dependence, in other words so called ‘welfare trap’ (Contini and Negri, 2007). This study focuses on the latter by analyzing social assistance dynamics among young adults.

Many studies have illustrated signs of long-term reciprocity of social assistance (e.g. Andrén and Gustafsson, 2004; Gutjahr and Heeb, 2016), while social assistance is typically designed to be a short-term relief against economic hardship. Benefit dependence is, however, a contested issue. Many studies have found that the length of a spell reduces the likelihood of exiting from social assistance. In other words, the longer the spell lasts, less likely it is that a recipient exits from social assistance. This can be called as negative duration dependence (Contini and Negri, 2007). However, less is known about whether this association is related to individual characteristics – observed or unobserved – reducing the likelihood of an exit or whether social assistance reciprocity *causes* future reciprocity. In other words, the decreasing exit rate can be ‘*spurious*’ – i.e. explained by individual characteristics – or it can be ‘*genuine*’ (Contini and Negri, 2007; Immervoll, Jenkins and Königs, 2015).

This study analyzes duration dependence among young adults in Finland. The analyses are based on high-quality Finnish register data. This study utilizes full monthly history of social assistance reciprocity among young adults. Typically studies analyzing social assistance dynamics have used a binary variable measuring whether an individual received social assistance during a year (Cappellari and Jenkins, 2008; Immervoll, Jenkins and Königs, 2015). Furthermore, studies have not analyzed the duration dependence of social assistance receipt focusing particularly on young adults. Another contribution of this paper is that it is analyzed whether parental social assistance receipt is associated with duration dependence. The analyses are conducted using discrete-time event history analysis considering individual-level frailty and repeated spells.

Theoretical background

Young adults are particularly vulnerable to social assistance reciprocity. One of the reasons is that young adulthood is characterized by a high incidence of various life-course events. Important events include, for instance, transition into educational or work attainment, transition to independent living, partnership formation and entering parenthood (Settersten, 2007). Life-course events experienced during young adulthood are associated with the risk of social assistance receipt (Lorentzen, Dahl and Harsløf, 2012; Ilmakunnas, 2018). Additionally, due to a lack of work

experience and limited educational qualifications, young adults have high rates of unemployment and may experience other challenges and problems in school-to-work transition (Eurofound, 2012).

Previous research has typically analyzed state dependence instead of duration dependence (Cappellari & Jenkins, 2008). State dependence refers to the effect of past benefit receipt on present benefit receipt. Due to a lack of data on continuous benefit histories it has not been typically possible to utilize event history models (ibid.). Studies have found ‘genuine’ state dependence (Immervoll, Jenkins and Königs, 2015). However, the magnitude seems to vary between countries and population subgroups (ibid.). Previous research on state or duration dependence in social assistance has not particularly focused on young adults.

This study also contributes to the literature on the intergenerational transmission of social assistance. Despite earlier research has pointed out that state dependence in social assistance receipt seems to be stronger among disadvantaged groups (Immervoll, Jenkins and Königs, 2015), it has not been analyzed whether parental social assistance receipt is associated with state or duration dependence. In line with most research on the intergenerational transmission of social assistance, this study focuses on young adults. With regards to parental social assistance receipt, earlier research has shown that it is strongly related to disadvantages among young adults (e.g. Vauhkonen *et al.*, 2017) and studies have illustrated signs of intergenerational transmission of social assistance in the Nordic countries (Moisio *et al.*, 2015). Additionally, parental social assistance receipt is associated with trajectories of social assistance recipiency (Ilmakunnas and Moisio, 2019). Despite previous research, it is still unclear whether the effect of the time received social assistance is *per se* stronger among those whose parents received social assistance.

Research questions

The research questions of the study are following:

- 1) What are the relative roles of individual characteristics and ‘genuine’ duration dependence in explaining the long spells of social assistance among young adults?
- 2a) Are those whose parents received social assistance more likely to not experience an exit from social assistance?
- 2b) Is duration dependence stronger among those young adults whose parents had received social assistance?

Data and methods

In the analyses, individuals are followed from the age 19 to the age 29. The data for cohorts born between 1982 and 1987 is utilized. The data is based on a 25 percent random sample of individuals. The data also contains information on the biological parents of the sample persons, as well as biological siblings. In addition to basic demographic information, the data include variables measuring employment, main activity status, education, social assistance, and income. In this study, parental social assistance is measured from the year when the sample persons were 15 years old.

Most previous studies do not have had monthly information on social assistance reciprocity. Using a year as a time period does not allow considering transitions within a year nor spells that continue through the turn of the calendar year. The data used in this study has information for each month on whether a sample person had received social assistance. Additionally, studies have not used information on parental social assistance receipt. For these reasons, this study provides new insights on social assistance dynamics and, also, intergenerational transmission of social assistance.

For analyzing social assistance dynamics, this study utilizes discrete-time event history analysis (Andreß, Golsch and Schmidt, 2013). Unobserved heterogeneity is taken into account in the analyses. This enables to consider the relative roles of individual characteristics and ‘genuine’ duration dependence. Furthermore, the study models repeated spells of social assistance. In other words, this study takes into account that sample persons can return back to social assistance after exiting. These spells cannot be considered as being independent from each other. The analyses are started with descriptive analyses on social assistance dynamics. These are followed by logistic event history models. These models are compared to random-effect logistic event history models. Lastly, multilevel models (spells nested within individuals) are estimated with individual-level random intercepts. Additionally, complementary log-log models will be estimated as sensitivity analyses using annual data.

Preliminary findings

Preliminary findings illustrate that the longer the social assistance spell, the lower the likelihood that a young adult exits from social assistance. The exit rates decrease rapidly especially during the first months. The decrease slows down – in particular after an individual has received social assistance a bit over a year – and stabilizes to a low level when the length of spell has been around three years.

According to preliminary analyses, there are signs of ‘genuine’ duration dependence in social assistance receipt among young adults in Finland. As expected, the preliminary results illustrate that without taking into account unobserved heterogeneity, negative duration dependence is overestimated. Taking into account unobserved heterogeneity reduces the effect of the length of a social assistance spell but the effect does not disappear.

Parental social assistance receipt is associated with lower odds of experiencing an exit from social assistance. The logistic discrete-time event history models illustrate also that duration dependence would be stronger among those young adults whose parents had received social assistance. However, no difference is found between those whose parents received social assistance and those whose did not after taking into account considering unobserved heterogeneity.

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