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**UCD GEARY INSTITUTE
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**Individual, Household and
Gender Preferences for Social
Transfers***

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Abstract

This paper reports the results of a nationally representative survey that assessed individual and household willingness to pay extra taxes for increased levels of social transfers in Ireland. Different respondents interpret willingness-to-pay questions as referring to individual or household budgets. This paper demonstrates that the most important variable explaining this is financial integration within the household and we argue that this is a potentially crucial source of differential item functioning in willingness-to-pay studies. Furthermore, individuals take intra-household bargaining considerations into account when forming preferences for policies. Specifically, we find that gender differences emerge significantly for a specific fiscal policy when the policy alters the intra-household entitlement to income between the partners.

JEL classification: Z11; C42

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Keywords: Survey Methods; Household Economics

1. Introduction

Standard economic models of voter preferences assume that only those who gain monetarily either directly or indirectly (e.g. via children) from different welfare schemes will support re-distributive policies, although the literature across various disciplines has also incorporated more flexible functional forms on utility with respect to the consumption and/or utility of others (e.g. Fong 2001, Hochman and Rogers 1969). This paper analyses an issue that has not been assessed in the literature on public preferences for social welfare, and one that has wider relevance to the literature on willingness to pay (WTP) for non-marketed goods - the uncertainties associated with disentangling individual preferences from household preferences. This issue is very important as the vast majority of current papers on preferences for inequality have been conducted on large international data sets that analyse general attitudes to redistribution rather than WTP and preferences for specific policies of redistribution and social transfers (e.g. Scheve and Slaughter 2003). Once we consider WTP for specific proposals, we need to develop a more contextualised model of the manner in which individuals, as parts of households, make choices, particularly if the goal of the analysis is to construct aggregated measures of valuation to be used in cost-benefit analysis.

The first task of this paper is, in the context of the literature on contingent valuation methodology (CVM) and building on work in Delaney and O'Toole (2004), to explore the issue of eliciting preferences from individuals, bearing in mind that most individuals are only part of a household. In this context, the empirical modelling of household preferences is also analysed. The second task of this paper is to explore the

influence of gender, taking into account various possible household financial management systems. Tests of the pooled income hypothesis have consistently shown that differences in income between husbands and wives have significant effects on the allocation of income across different expenditure items and, in particular, on household-related outcomes such as child health. Following Lampietti (1999), this paper addresses whether or not husbands and wives' preferences are the same for general transfer policies and whether gender and intra-household financial allocation systems influence preferences over non-marketed government activity. Specifically, this paper tests whether or not wives from high income households are more opposed than husbands from high-income households to a set of policies that would make child benefit, a transfer generally made to the mother, more progressive in household income (e.g. taxable).

The rest of this paper is structured as follows. Section 2 reviews the existing literature. Section 3 describes the structure and administration of a nationwide survey designed by the authors to examine preferences for redistribution. Section 4 provides the results and Section 5 concludes.

2. Households and Individual Willingness to Pay for Social Transfers

2.1. Individual Willingness to Pay: Respondents' Self-Perceived Agency

There are several methods of eliciting household WTP, and a full taxonomy of different elicitation methods would involve interacting the traditional taxonomy with permutations of the different manners (e.g. order) in which the members of a household could conceivably be interviewed. Delaney and O'Toole (2004) analysed

the issue of eliciting household and personal willingness to pay from individual respondents in a standard contingent valuation setting. Following Quiggin (1998), Delaney and O'Toole argued that this issue had crucial significance for the contingent valuation literature and that many studies were rendered at least very imprecise by failing to adequately address the issue. The authors showed that respondents varied significantly in the way they modelled a standard WTP question with some respondents choosing to give personal WTP and some respondents choosing to give household WTP. Furthermore, the authors showed that this decision depended significantly on socio-demographic characteristics such as gender, age and the presence of children. Thus, the authors argued, that as well as making it difficult to meaningfully aggregate the results of many willingness to pay studies, the issue of how respondents modelled their own agency also has implications for determining how the benefits of different non-marketed activities are distributed.

In this paper, the concept of respondents' self-perceived agency in valuation studies is further developed and empirically tested. The key issue is the extent to which the respondent to a WTP question views the relevant budget constraint as being his/her own personal share of the household budget or the total household budget (or something in-between). In particular, there may be significant heterogeneity in perceived entitlement to "spend" from the household account. Two related questions are addressed in the context of the standard open-ended WTP question.

1. Do individual respondents process the standard open-ended question, "*What is your maximum WTP?*" as being his/her own personal WTP from his/her own budget

constraint (however constructed or visualised) or as being his/her household WTP from the household budget?

2. Do individual respondents process the open-ended question, “*What is your maximum household WTP?*” as being his/her own personal WTP or as being his/her household WTP?

In effect, Delaney and O’Toole (2004) analysed how respondents modelled the first question, in which the agency issue is left open to the respondent. The basic willingness to pay scenario, which centred on services provided by the Irish public service broadcaster (RTÉ) was presented as follows,

Q.13 “Thinking of a situation where there was no licence fee and you had a choice of either paying to receive RTÉ’s services or not paying and not receiving RTÉ’s services. Bearing in mind that any money that you spend is money that you could spend on other goods and services, what would be the maximum amount of money you would be prepared to pay each month in order to receive RTÉ’s services? (*Do not prompt*)”

If appropriate, the respondent was then asked the follow-up question(s).

Q.14 (Only ask this question if there is more than one person in the respondent’s household) “Which of the following best describes your answer to Q.13? (*Tick one*)

ف This is the most you personally would be willing to pay. (If yes, then ask Q.15)

ف This is the most your entire household would be willing to pay. (If yes, then skip Q.15, go to Q.16)

Q.15 In light of your answer to Q.14, what do you think is the maximum amount of money your household would be willing to pay each month to receive RTE's services?"

The aim of that analysis was to demonstrate the aggregation biases that result when respondents are left, to at least some extent, to model their own agency.¹ However, the aim of this paper is to demonstrate that even when the researcher explicitly frames the agency of the respondent, the respondent may not, for a variety of reasons, model the task set in the manner dictated by the question set-up. In particular, respondents might not be meaningfully able to distinguish between his/her own personal budget constraint and his/her household's budget constraint.²

The determinants of how individual respondents model the standard WTP questions can be usefully analyzed by estimating conditional distributions on demographic factors such as gender, age and occupation. In addition, the importance of financial integration within the household (e.g. Burgoyne 1995, Pahl 1995) is a measure that is explored in the empirical analysis. Respondents who are in a financially integrated relationship may be less likely to distinguish between his/her own "personal" WTP

¹ The nature of the ambiguity seems particularly pronounced in the English language where "you" can be understood as being singular (i.e. individual) or plural (i.e. collective, e.g. household).

² For example, it would seem possible that individuals as part of households may suppress (from consciousness) income-sharing rules within the household for psychological or cultural reasons.

and “household” WTP, whereas those in a relationship that is not financially integrated may be more likely to distinguish more between “personal” WTP and “household” WTP.

2.2. Intra-Household Factors and Preferences for Transfers

As well as examining how respondents model questions as regards their personal and household constraints, we also examine how intra-household factors determine preferences for general, and specific, transfers. Lampietti (1999) uses differences between husbands and wives in WTP for malarial prevention to test the “pooled income hypothesis”. Tests of the pooling hypothesis have consistently demonstrated a difference in the effect of income controlled by either husbands or wives on a number of different outcomes, such as child health and nutrition (Schultz 1990, Thomas 1990) and expenditure on alcohol and tobacco (Phipps and Burton, 1992, Hoddinott and Haddad 1995). Co-operative and non-cooperative bargaining models of household behaviour and preferences offer alternatives to the pooled income hypothesis, and can also be employed to explore preferences for wide-scale government activity.

At a general level, several authors have assessed the concept of a “gender gap” in fiscal preferences with the evidence pointing against a marked gender differences.³ We argue here that examining such general preferences, while interesting, fails to disentangle from an economic perspective the reasons why one would expect gender differences. To do this, we argue, one needs to examine specific schemes and their implication for the distribution of entitlements within the household.⁴ One particularly interesting test of the shared income hypothesis in the Irish context is preferences for

³ A number of recent papers have also examined gender differences in preferences for environmental goods (e.g. Dupont, 2004).

⁴ In this regard, see Alvarez and McCaffrey (2003).

conditionality of child-benefit payments. Child-benefit payments in Ireland are universal and are generally paid to the mother. One of the chief arguments against making child-benefit conditional on income is that given that it is a payment to the mother, reducing it to any segment in society would have negative consequences for the mother in the intra-household allocation process.⁵ The pooled income hypothesis, whereby households maximize a common-utility function, puts testable restrictions on parameters describing individual preference structures on our survey data. If preference structures are formed in this type of world, then there is no reason to believe that men and women, holding income constant, would have different preferences for this proposal. It may be, of course, the case that men and women have different preferences for other reasons, but if income is pooled then preferences should not be different at different levels of income. However, a model where degree of entitlement to income within a household determines intra-household allocations would predict an interaction between income and support for conditionality. Specifically, women from higher income households being the group that would lose effective entitlement to income should be more opposed to the proposal that child-benefit be made conditional on income than men from higher income households.

3. Survey Design and Scenario

3.1. Administration

The specific questions examined in this paper form part of a survey eliciting preferences for social welfare in Ireland. The nationally representative survey, of

⁵ Proposals to tax child benefit in Ireland are met with considerable opposition. For example, in response to a 2002 proposal, the National Women's Council of Ireland responded, "*The National Women's Council of Ireland (NWCI) is astonished and appalled that the Government is considering taxing Child Benefit ... We will not stand by and watch the Government scapegoat children and women*". (NWCI Press Release, Monday 16 September 2002)

those aged 15+, was based on 1,159 face-to-face individual respondent interviews (in the respondents' homes) carried out by Lansdowne Market Research in June 2004. There was quota controlling based on age, gender, place of residence and occupation; however, the characteristics of non-respondents are not available. The interviewer implemented (randomly) the split-sample procedure (see below). The questionnaire used in the nationwide survey consisted of 25 questions.⁶ The questions were ordered such that respondents were initially asked to consider general attitudes to government spending (on Social and Family Affairs, Health and Education) and taxation, and were then asked the WTP questions. More detailed questions on specific social welfare schemes and, in particular, child benefit, unemployment assistance and old age pensions, were then asked.

3.2. Willingness to Pay Scenarios

The WTP question has the disadvantage that it does not specify a precise vector of benefits deriving from the tax to be paid over. Pilot testing indicated that respondents interpreted the question as demanding a monetary amount to achieve necessary improvements to social welfare benefits. Importantly, informal pilot-tests demonstrated considerable lack of clarity among respondents as to whether the amount they pay would come from their own budget or their household budget and that differential phrasing of the initial question did not solve this problem. After several clarifications, pilot-test respondents settled on a valuation that was frequently far different from the initial amount. The practicalities of the interview process in the nationwide sample precluded the use of detailed interview protocols necessary to fully explore all the interesting issues raised.

⁶ The questionnaire is available from the authors upon request.

A 2x2 split-sampling procedure was employed. The scenario went as follows, with half of the respondents being asked Version A and half of the respondents being asked Version B:

Version A: Q5a Would you be willing to pay more money in taxes each week in order to support extra social welfare spending on children, the disabled, pensioners, carers, the unemployed and those on low incomes? In other words, imagine that the government proposed increasing spending on these schemes and paying for these increases by increasing taxes on products and services and this were to cost you money. How much extra money, at a maximum, would you be willing to pay per week?

Version B: Q5a Would your household be willing to pay more money in taxes each week in order to support extra social welfare spending on children, the disabled, pensioners, carers, the unemployed and those on low incomes? In other words, imagine that the government proposed increasing spending on these schemes and paying for these increases by increasing taxes on products and services and this were to cost your household money. How much extra money, at a maximum, would your household be willing to pay per week?

Both sets of respondents were then asked the follow-up question:

Q5b Which of the following best represents your response to the above question?

- (i) This is the total amount of extra money that my household would be willing to pay.
- (ii) This is the total amount of extra money that I would be willing to pay.

Respondents who answered (ii) to Q5b were asked the following question,

Q5c How much money at a maximum would your household be willing to pay?

Standard socio-demographic variables such as gender, age, income, and education were assessed. There was also included a question that asked respondents who were married or living as married to state the manner in which their household conducted their finances.⁷

Q17 Which of the following statement best describes how you and your partner conduct your financial affairs?

- (i) We have completely separate finances that we rarely discuss.
- (ii) We have separate accounts.
- (iii) We have joint accounts.
- (iv) We have joint accounts and conduct all our finances together.
- (v) We have joint accounts but what we do with the rest of our money, we decide as individuals.

⁷ Pahl (1995) identifies a number of different income allocation strategies among couples: *female whole wage* where the women controls the allocation of the total wage, *male whole wage* where the male “earns” the money and decides how it all should be allocated, *housekeeping allowance* where the husband gives the wife a fixed sum to manage housekeeping activities, *income pooling*, where there is complete or near-complete income sharing, and *independent management systems* where both partners have their own income and finances are conducted separately.

3.3. Preferences for Government Spending and Attitudes towards Conditionality

The questions analysed in this paper are general questions assessing the respondent's preferences for taxation and government spending, and questions eliciting preferences for specific welfare schemes. For example, respondents were asked (Q3) about their general level of preferences for government activity and asked to choose between *"More government spending and more taxes"*, *"Less Government Spending and Less Taxes"* and *"An unchanged amount of government spending and taxes"*. Respondents were also asked (Q2) their preferences, on a seven-point scale, for increased or decreased expenditure on each of Social Welfare, Education and Health. In addition, respondents were asked (Q7) to choose their top priority for social welfare spending among the categories of pensions, child benefit, benefits for unemployed people, benefits for disabled people, benefits for single parents or none of the above.

In order to explore the pooled income hypothesis, attitudes toward conditionality of child-benefit are explored in particular detail. Respondents were asked (Q10) to rate on a seven-point scale their level of agreement with a series of statements including:

"Child benefit should only be paid to those who need it";

"Child benefit should be paid to everyone with children regardless of household income";

"Child benefit should be part of taxable income"; and,

"People with high incomes should be given less child benefit than people with low incomes".

4. Results

4.1. Personal/Household Willingness to Pay

Of the 1,159 respondents who were asked the WTP question, 129 did not give an amount (11.1%). There was no significant difference between the two versions in this regard (12% versus 10.3%, $p > 0.36$). The majority of respondents to both versions of the question responded that they would not be willing to pay any amount of extra taxation to finance increases in social welfare expenditure. In Version 1, where respondents were first asked to give “your WTP”, 339 of 507 respondents (66.9%) responded that they would not be willing to pay extra taxation to fund increases in social welfare provision, while in Version 2, where respondents were asked to give “your household” WTP, 353 of 523 (67.5%) of respondents responded that they would not be willing to pay extra taxation to fund increases in social welfare provision. Again, there was no significant difference between the two versions in this regard.

The responses to the follow-up question, asking respondents whether their amount represented personal or household WTP, are displayed in Table 1. This question was restricted to the respondents (a total of 876) who had previously indicated that they were married or living as married. 70.3% of respondents who answered the question claimed that their bid represented household WTP. Rather surprisingly, the responses do not vary greatly between the two different versions of the survey. In Version 1, where respondents are asked to give “your WTP”, 68.4% of respondents respond that this represents household WTP, whereas in Version 2 where respondents are asked to give “your household WTP”, 70.3% of respondents respond that this represents

household WTP. This means that 27.8% of respondents who were asked to give “household WTP” instead give “personal WTP”. This is one of the key results of the paper. CVM studies that do not resolve this ambiguity will yield imprecise results.

Our next step is to examine the determinants of whether individuals respond as individuals or as households in CVM surveys, examining in particular the manner in which their household finances are structured. The respondents (876) who had previously stated that they were married or living as married were also asked about their income-pooling arrangements. In total 535 respondents answered the question. 8% of these respondents stated that they held completely separate finances from their partner, while 36.6% stated that they held completely integrated finances with their partner. Given rather small sub-samples sizes, a binary dummy variable was created that simply codes whether respondents held separate or joint accounts; 26.4% of the respondents were classified as holding separate accounts, while 73.6% of respondents were classified as holding joint accounts.

Table 2 displays the marginal effects from two binary probit models, designed to examine the determinants of whether an individual states that their bid is equal to "household" (=1) or individual (=0). As can be seen, the first model indicates that this is strongly affected by age and the presence of children, similar to the previous findings of Delaney and O'Toole (2004). Thus, there is some degree of differential item functioning that is important to be explained in this literature. The marginal effects from model give a strong indication of the source of this difference in interpretation. Including our binary measure of financial integration in to the model, we find that it is a substantial determinant of the decision to give a household bid and once this is included, the effects

of children and age are no longer significant. Interestingly, the negative effect of being male on responding with a household becomes more pronounced when one controls for household finances. This is similar to the findings of Delaney and O'Toole, where men were more likely to respond as individuals than women. The key result, however, from this model is that respondents interpretation of CVM questions depends very substantially on the manner in which they structure their household finances.⁸

4.3 Income Pooling and Preferences for Child Benefit

Models 1-2 displays the results of ordinary least squares regressions of the determinants of preferences for (i) social welfare expenditure and (ii) child benefit expenditure. Models 3-6 display the results of ordinary least squares regressions of the determinants of preferences for three different schemes for making child benefit more conditional on income. Most importantly, it can be seen that while males with higher incomes are less in favour of government expenditure than females on higher incomes, they are substantially more in favour making child benefit progressive in income than females. They are also substantially more in favour of making child benefit a means-test payment whereby only those on lower incomes would receive payment. This same effect does not apply to taxing child benefit. Again, this is consistent with the view that the child benefit is considered to be the wife's income. The tax itself would be a tax on household income rather than specifically deducted from the benefit payment. None of the above conclusions are conditional on the use of the Ordinary Least Squares model and emerge from several other types of model including ordered logit models.

⁸ For reasons of space and exposition, we do not discuss aggregation biases in this final version of the paper. See Delaney and O'Toole (2004) for an example of how this issue is crucial for aggregating the demand for a public good.

5. Conclusions

There has been renewed interest of late in the use of the open-ended willingness to pay question as a method of eliciting respondents' preferences for non-marketed goods (e.g. Ready, Navrud and Dubourg 2001). The use of the question implies a serious caveat in many applications, namely whether the respondent models the implied valuation as being a household or an individual valuation. In this paper, it is demonstrated that respondents, who are part of a couple, primarily but not exclusively model bids as being a household valuation. There was also a strong positive correlation between the level of household financial integration and the likelihood that a respondent models a WTP question as being a household decision. However, modelling respondents' WTP as being household valuations is problematic and may lead to an underestimate of WTP for multi-person households. In particular, even when respondents are asked the "household WTP", a substantial proportion interpret this as eliciting personal valuation. Explicitly asking respondents to spend from the household budget constraint is no guarantee that they will do so, particularly if the respondent is not in a financially integrated relationship. The implication for CVM practice is that studies that assess WTP should include extra probes to inquire whether or not the respondent is giving household WTP. The recent literature on anchoring vignettes has stressed the importance of differential item functioning, and the issue we raise here could potentially be resolved utilising similar methodologies as employed in this literature.

In addition, and similar to Lampietti (1999) we find that women and men have different preferences for household public goods, lending further evidence to the view

that the concept of “household” preferences is problematic. Although women did not demonstrate significantly different patterns of support for general government expenditures, we found significant evidence that income and gender has an effect on determining preferences for a proposal to make child benefit a conditional payment on income. It appears that introducing conditionality would weaken the bargaining position of women in the top income bracket relative to their partners and that for this reason, women are more likely to oppose this than men. This is further and novel empirical evidence for how the economics of intra-household bargaining determines the structure of preferences for public goods, and society-wide allocations. Particularly, it demonstrates that gender differences emerge significantly for a household public good when the provision of that good alters the intra-household entitlement to income between the partners.

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Table 1: Personal or Household Willingness to Pay by Version

	Version		
Response:	Personal First	Household First	Total
Household	296 (68.4%)	320 (72.2%)	616 (70.3%)
Personal	137 (31.6%)	123 (27.8%)	260 (29.7%)
	433	443	876
	Household Financing Structure		
	Frequency	Valid %	Cumulative %
Separate Finances/Rarely Discuss	43	8.0	8.0
Separate Accounts	98	18.3	26.4
Joint Accounts	154	28.8	55.1
Joint but other Money	44	8.2	63.3
Separate Joint Accounts and Conduct Together	196	36.6	100
Total	535	100.0	

Table 2: Determinants of Whether Respondents Answer as Households or Individuals

	dF/dx	dF/dx
Age	0.017***	0.001
	0.006	0.010
Age-Squared	0.000	0.000
	0.000	0.000
Dependent Children	0.156***	0.037
	0.036	0.046
Joint Finances	-	0.184***
	-	0.054
Middle Income	0.017	0.027
	0.039	0.043
High Income	-0.131**	-0.020
	0.065	0.068
Household Version	0.024	0.061
	0.035	0.041
Gender	-.130***	-0.04
	0.039	0.048
N	690	395
Pseudo-R	0.070	0.090

Notes: Standard errors are given in parenthesis * indicates significance at the 1% level, ** indicates significance at the 5% level, * indicates significance at the 10% level. The Base Category for Income is Low Income. The Base Category for Household Version is Individual Version.**

Table 3: Determinants of Preferences for Government

	Social Welfare	Child Benefit	CB Taxable	CB Progressive	CB Conditional	CB Universal
Age	0.011	0.022*	0.012	-0.013	-0.022	-0.035
	0.015	0.013	0.021	0.022	0.022	0.022
Age-Squared	0.000	0.000	0.000	0.000	0.000	0.000
	0.000	0.000	0.000	0.000	0.000	0.000
Dependent Children	0.235**	0.427***	-0.471***	-0.437***	-0.282**	0.513***
	0.107	0.091	0.145	0.154	0.157	0.158
Male	-0.035	-0.068	-0.087	-0.218**	0.143	-0.129
	0.103	0.087	0.140	0.148	0.151	0.152
Middle Income	-0.522***	-0.374***	-0.366**	-0.522***	-0.699***	0.523***
	0.109	0.092	0.148	0.158	0.161	0.162
High Income	-0.715***	-0.686***	-0.473	-1.439***	-1.451***	1.176***
	0.230	0.195	0.308	0.328	0.334	0.336
Full-Time Employed	-0.406***	-0.205***	0.284*	0.477	0.314	-0.016
	0.109	0.093	0.148	0.158	0.161	0.162
Male*High Income	-0.019	0.580**	0.486	1.472***	1.151***	-1.253***
	0.311	0.264	0.420	0.447	0.456	0.458
Constant	4.998***	4.759***	2.852***	5.164***	5.260***	4.554***
	0.302	0.255	0.410	0.433	0.441	0.444
N	827	827	827	827	827	827
R-Squared	0.090	0.070	0.040	0.060	0.070	0.050

Notes: Standard errors are given in parenthesis * indicates significance at the 1% level, ** indicates significance at the 5% level, * indicates significance at the 10% level. The Base Category for Income is Low Income. The Base Category for Household Version is Individual Version.**