

Recto Verso

Impact of Child Subsidies on Child Health, Well-being and Investment in Child Human Capital: Evidence from Russian Longitudinal Monitoring Survey 2011-2017

Alex Proshin

Faced with an aging population and the global trend of decreasing fertility, many governments increasingly regard pro-natalist policies and their impact on households as an issue of primary concern. At the beginning of 2007, the Russian government announced a reform whereby the second and subsequent childbirth(s)/child adoption(s) would be incentivized by a government-sponsored subsidy of around \$10,000 US. This program, called Maternity Capital (MC), allowed eligible Russian families to benefit from the fund on the condition that it be spent on three eligible purposes (namely, improving housing conditions, providing education to household children or investing in the mother's state pension fund account). This Recto Verso describes how and if this pro-natalist measure affected multiple measures of child health and well-being, parents' willingness to invest in child human capital, as well as major household consumption patterns.

Introduction

Despite their likely good intent and purpose, reforms such as the MC oftentimes have unexpected consequences. For instance, Gonzalez (2013)ⁱ investigated a largely similar smaller-scale reform in Spain and concluded that this subsidy led to a reduction in the number of abortions and a considerable jump in the number of conceptions around the cut-off date. It subsequently translated into a 6% increase in the observed number of births, although no changes were reported regarding total or child-related household expenditures.

As for child health indicators, earlier empirical research tends to support the idea that a family's financial wealth and material investments made in early childhood could generate benefits in terms of health outcomes (Baughman and Duchovnyⁱⁱ, 2016; Currieⁱⁱⁱ, 2009; Case, Lubotsky, and Paxson^{iv}, 2002). Similar effects are

observed with respect to child cognitive development and educational attainment, as evidenced, for example, by Dahl and Lochner^v (2012), who find that the introduction of tax benefits in USA between 1993 and 1997 helped raise scores in reading and math tests taken by children living in targeted households.

In our study, we looked into the effects of MC eligibility on several child health (subjective self-reported state, chronic conditions, etc.) and educational (reported GPA, extracurricular activities, etc.) outcomes, as well as consumption patterns by groups (such as spending on basic items, major food categories, discretionary and durable goods, etc.).

Data and methods

The main source of data for this study is the Russian Longitudinal Monitoring Survey (RLMS). It is a

panel survey conducted on a yearly basis since 1994 using a representative sample of Russian households. The dataset contains an extremely rich set of variables that covers virtually all areas of respondents' lives, including current and past information on their employment, income, health, education, attitudes towards social issues and family relationships.

The main analytical sample is restricted to the second and next children born between 2004 and 2010 (i.e. 3 years before and after the introduction of MC in 2007) and aged 6 to 8 years old, whose parents were surveyed in RLMS waves between 2011 and 2017 and living in households with 2 children. The year of birth of the second child determines whether the family is eligible (or not) to the MC subsidy (that is, if the second child is born on or after the 1st January of 2007).

Since MC claim eligibility depended on the cut-off date of the

1st January 2007, the empirical design relied on regression discontinuity models, which compared differences in outcomes between MC eligible and ineligible families.

Main results

For the majority of tested child health, development and well-being outcomes, the results do not support the hypothesis that the MC claim eligibility had a significant impact at the aggregate level. However, estimation results are suggestive of the fact that MC may have differentially impacted several demographic subgroups.

More precisely, our regression discontinuity design estimations provide tentative evidence that MC subsidy enhanced school metrics of socialization in girls, while the opposite pattern was observed for boys. The likely mechanism may stem from differences in psychological responses boys and girls use to cope with changes in environment, which are discussed for example, in Kling et al.^{vi} (2005, 2007). At the household level, wealthier households may have benefited more fully from the MC

subsidy insofar as they could more readily afford to accumulate savings/take out a loan to purchase new real estate.

The analyzed child and household outcomes were likely to be affected by the MC eligibility through several channels. First, in financial terms, the MC subsidy provides a sizable income supplement years after eligibility rights were acquired. As a result, targeted families can and, in theory, are expected to respond to MC incentives by re-optimizing household spending behavior. Second, as intended by the reform, the MC subsidy should result in improved housing conditions and, arguably to a lesser extent, a better access to child education and childcare. Lastly, the MC reform was accompanied by a broad public campaign raising public awareness of issues related to child well-being.

In addition, the fact that poorer families *de facto* have a more restricted set of options when deciding how to spend, the MC subsidy may result in a decreased subsidy efficiency in places where this intervention is arguably most

needed. In terms of policy implications, this consideration may require that MC policy design be revised such that families in straitened circumstances enjoy the same opportunity and MC spending flexibility as their more well-off peers. Plausibly in part to address this point, in 2018, the Russian government allowed the MC subsidy to be used as a monthly allowance provided the household was able to justify their acute need for financial support. This can be further implemented, for example, through adjusting the subsidy amount with respect to the household income

Conclusions

The conclusions presented in this Recto Verso provide an additional insight into the impact of pro-fertility reforms on an array of child outcomes and household consumption patterns. In particular, the fears that families may massively use MC subsidies to improve their financial standing with no regard to the future well-being of their children does not seem to be supported by data.

ⁱ González L. The Effect of a Universal Child Benefit on Conceptions, Abortions, and Early Maternal Labor Supply. *American Economic Journal: Economic Policy*, 2013, 5(3), pp. 160–188.

ⁱⁱ Baughman R. and Duchovny N. State Earned Income Tax Credits and the Production of Child Health: Insurance Coverage, Utilization, and Health Status. *National Tax Journal*, Vol. 69 (1), 2016, pp. 103–132.

ⁱⁱⁱ Currie J. Healthy, Wealthy, and Wise: Socioeconomic Status, Poor Health in Childhood, and Human Capital Development. *Journal of Economic Literature*, Vol. 47, No. 1, 2009, pp. 87-122.

^{iv} Case A., Lubotsky D., Paxson C. Economic Status and Health in Childhood: The Origins of the Gradient. *American Economic Review*, Vol. 92 (5), 2002, pp. 1308-1334.

^v Dahl G., Lochner L. The Impact of Family Income on Child Achievement: Evidence from the Earned Income Tax Credit. *The American Economic Review*, Vol. 102(5), 2012, pp. 1927-1956.

^{vi} Kling, J., Ludwig J., Katz L. Neighborhood Effects on Crime

for Female and Male Youth: Evidence from a Randomized Housing Voucher Experiment. *Quarterly Journal of Economics*. Vol.120(1), 2005, pp.87-130.