

# Family Transfers in Response to Unemployment

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## **Abstract**

Economic analyses that account for both public and family transfers typically assume that public transfers, such as government-provided unemployment insurance, are a perfect substitute for family transfers. This assumption fails to capture the unique elements of the family that drive inter vivos transfers (between living persons). I present a model with asymmetric information, exchange, and altruistic preferences that offers unique predictions regarding the role of family transfers in response to unemployment. Using the Panel Study of Income Dynamics, the empirical analysis includes family fixed effects and measures of local labor market conditions as instruments for unemployment and for family transfers. The results show that respondents receive more family transfers when unemployed but less family transfers when a sibling experiences unemployment. As the model predicts, the results provide evidence that family transfers disproportionately increase human capital investment relative to unemployment insurance. In contrast to research on unemployment insurance, I find that family transfers do not increase the duration of unemployment, but family transfers do have a small, positive increase on average future wages. Lastly, the family's ability to monitor job search effort reduces unemployment duration and increases post-unemployment wages.