

# Research Brief

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## The child bonus in the coronavirus pandemic: a case of redistribution rather than fiscal stimulus

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**As a response to the Covid-19 pandemic, parents in Germany received a series of transfer payments from the state in 2020 and 2021. This so-called child bonus (“Kinderbonus”) amounted to a total of €450 per child. A new study finds that the child bonus led to only a slight increase in household spending. Therefore, the child bonus should be seen less as a fiscal stimulus measure and more as an instrument of redistribution from the general population to families.**

In response to the Covid-19 pandemic, the German Federal Government adopted a number of fiscal policy measures in 2020, one of which being a transfer payment to households with children. The intention of this policy was to cushion the strains that the Covid-19 restrictions placed on families as well as to bolster macroeconomic demand. In a new study, we investigate whether the child bonus did indeed stimulate consumption to a measurable extent (Goldfayn-Frank et al., 2022).

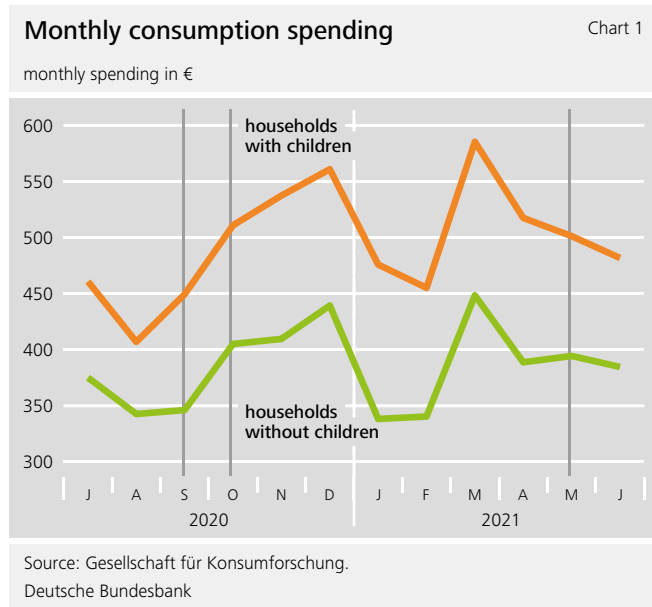
The already very low interest rates left monetary policy makers with only limited scope for providing additional expansionary stimuli to counteract an economic downturn caused by the Covid-19 pandemic. Thus, the role of fiscal policy becomes very important. Previous studies on fiscal transfers, for example during the Great Recession in 2008 or the recession in 2001, have observed rising consumer spending amounting to between 50% and 90% of the transfer payments (Johnson et al., 2006; Parker et al., 2013). However, it is possible that the efficacy of countercyclical fiscal

measures could be impaired by the pandemic itself either because of fear of contagion or the imposed Covid-19 restrictions (see also Deutsche Bundesbank, 2021).

Our study utilises scanner data from the market research institution “Gesellschaft für Konsumforschung” (GfK) which records the daily consumption expenditure of almost 10,000 households on non-durable goods such as, for example, food items, and semi-durable goods such as, for example clothing. We combine the daily data on household expenditure and the randomly distributed payment dates to identify the effect on spending produced by the child bonus. In this way, we compare the expenditures of two households that differ only in that one has already received the child bonus while the other has not. Our study – unlike others – thus observes actual spending behaviour by households and does not have to rely on surveys.

To give us a first broad sense of whether the child bonus increased consumption spending, we compare in Figure 1

the average monthly consumption expenditure of households with children against that of households without children between July 2020 and June 2021.

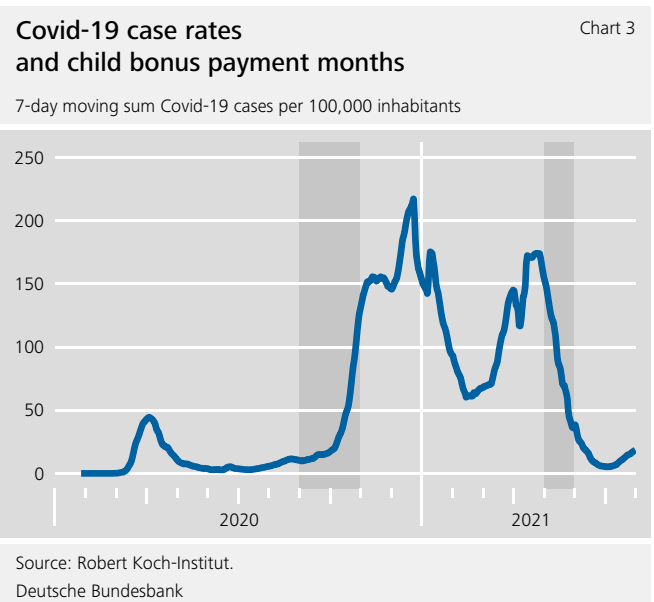
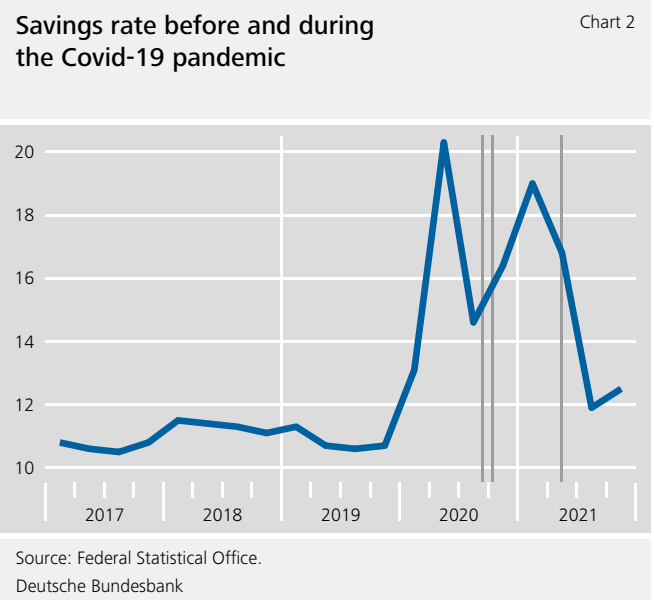


The bonus was paid out in three tranches: €200 per child in September 2020, €100 per child in October 2020 and €150 per child in May 2021. Looking at the chart, we can see a month-on-month increase in spending by households with children in September 2020. In the case of households without children, meanwhile, average expenditure stays constant across the two months in question. It is a different story when it comes to the second and third payment. In October 2020, spending by both groups of households runs along parallel trajectories. In May 2021, the households with children even spend a little less on consumption than they had done in April, while households without children spend around the same. These descriptive patterns suggest that only the first tranche of the child bonus led to increased spending.

To assess the impact of the child bonus on household expenditure more thoroughly, we perform a series of econometric estimations. We express our results as a marginal propensity to consume, that is to say the percentage of the transfer payment spent within the month.

Our calculations show that the child bonus had a relatively small effect on household spending. For the first payment, we estimate the marginal propensity to consume to be about 12%. In other words, out of €1 of child bonus, households spend 12 cent in the month in which the transfer was received.

The effect was concentrated in the non-durable goods category and is driven by households in districts with lower Covid-19 case rates. Households with a low income or liquidity constraints also exhibited a stronger response, though only a small number of households report such constraints. In contrast, households with higher saving rates responded only weakly to the child bonus. The spending effect is not systematically related to the local labour market situation or the local stringency of the Covid-19 restrictions. Furthermore, we do not find that there was any consumption effect caused by the announcement of the transfer. The number of contacts that households had, measured by the number of shops they visited rose due to the child bonus. Online shopping played a relatively minor role.



We do not identify any significant effect when it comes to the second and third payment of the child bonus. Taken together, this yields an aggregate marginal propensity to consume of just 5% for all three transfer tranches of the child bonus added together. The absence of a consumption response for the second and third transfer payments could have

to do with continued high saving rates among the population (see Figure 2 and also Deutsche Bundesbank, 2021) as well as rising infection rates (see Figure 3). Last, even if spending on durable consumer goods and services, which is not covered by our data, was to exhibit a similar increase, the marginal propensity to consume would still be only about 14%.

## Conclusion

Overall, the child bonus appears to have exerted only a very limited consumption stimulus. This is partly because of the specific nature of the pandemic context, which acts to inhibit the transfer payment's effectiveness. Our result is consistent with the findings of Parker et al. (2022), who find a marginal propensity to consume of around 10% for the Economic Impact Payments, which were also paid out as direct transfers to US citizens in 2020. By contrast, other research has shown that the temporary VAT cut in Germany provided an effective boost to consumption (Bachmann et al., 2021). The child bonus therefore served not so much as a stabiliser of economic activity but rather acted as a redistributive instrument.

## References

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## News from the Research Centre

### Publications

“Economic Theories and Macroeconomic Reality” by Francesca Loria (Federal Reserve Board), Christian Matthes (Indiana University) and Mu-Chun Wang (Deutsche Bundesbank) will be published in the *Journal of Monetary Economics*.

“Existence and uniqueness of solutions to dynamic models with occasionally binding constraints” by Tom D. Holden (Deutsche Bundesbank) will be published in the *Review of Economics and Statistics*.

### Events

20 – 21 June 2022

6th Annual Macprudential Conference  
(joint with De Nederlandsche Bank and Sveriges Riksbank)

23 – 24 June 2022

Joint Spring Conference on Monetary Policy and Expectations  
of Households and Firms (joint with Banque de France)

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