



The economic consequences of mutual help in extended families

Jean-Marie Baland*, Isabelle Bonjean, Catherine Guirkinger, Roberta Ziparo

Centre for Research in Economic Development (CRED), University of Namur, Belgium



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ABSTRACT

In the absence of well-developed markets for credit and insurance, extended families play a major role as a traditional system of mutual help. However these arrangements have important consequences on economic choices. In this paper, we use first hand data from Western Cameroon to explore this question. We find that the large majority of transfers follow a given pattern whereby elder siblings support their younger siblings in the early stages of their lives who in turn reciprocate by supporting their elder siblings when they have children. We interpret this pattern as a generalised system of reciprocal credit within the extended family. We propose a simple overlapping generation model to investigate its welfare properties. We then explore the implications of this pattern on labour market outcomes and find evidence of large disincentive effects. This pattern of transfers also implies that younger siblings are more educated but have fewer and less educated children.

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1. Introduction

In the absence of well-developed markets for credit and insurance, interpersonal transfers for risk-sharing and redistributive purposes are of primary importance (Cox and Fafchamps, 2007; Barr et al., 2008). In sub-Saharan Africa traditional systems of mutual help operate mostly within the extended family network. The long-lasting and multiplex nature of family relationships provides a natural setting to enforce such informal agreements (Coate and Ravallion, 1993) or promote collective action (Carter and Castillo, 2002). In addition, these solidarity arrangements are reinforced by the presence of altruism within the family (Alesina and Giuliano, 2010).

These arrangements have important consequences on economic choices. As stressed by Kennedy (1988) and Platteau (1991), the taxation implicit in the redistributive system implies large disincentive effects, in particular on effort and investment (see also Lewis, 1955). More recently, Hadnes et al. (2013) run an interesting experiment among the tailors' community in Burkina Faso. By varying the channel through which these tailors are informed about a new work opportunity, they show that expected family obligations reduce entrepreneurial activity and productivity (see also Grimm et al., 2013). Family taxation may also affect

educational outcomes, expenditure patterns (Di Falco and Bulte, 2011, 2013) or the structure of family firms (Alby and Auriol, 2010).¹ These arrangements are also prone to moral hazard problems, as theoretically argued by Alger and Weibull (2010). Recent empirical studies show that individuals develop sophisticated and costly strategies in order to hide income and avoid their obligations (Baland et al., 2011; Dupas and Robinson, 2011; Jakiela and Ozier, 2012).²

In this paper we use first hand data from Western Cameroon to investigate the structure of family obligations and transfers. We collected systematic information on all transfers given and received by a respondent with respect to his extended family and find that the large majority of transfers are directed towards his direct siblings (and their children). Transfers are distributed asymmetrically across the extended family: elder siblings give help to their younger siblings who reciprocate at a later stage by supporting them when they have children. We interpret this pattern as a generalised system of reciprocal credit within extended families and develop a simple overlapping generation model to identify the conditions under which such arrangements

¹ A major challenge of these descriptive studies is to identify exogenous measures of taxation, since the use of realized transfers may lead to severe simultaneity biases.

² As reported by one of our respondents, "Here we hide money a lot. I hide money from my brothers and my husband. When they know I have money, they come with new demands".

* Corresponding author.

E-mail address: jean-marie.baland@fundp.ac.be (J.-M. Baland).

increase the welfare of all participants and affect labour choices.

We then explore empirically the implications of this pattern for employment choices as well as fertility and education outcomes. We argue that family obligations have strong and systematic effects on labour decisions as recipients of family support reduce their labour participation and their working time. Our estimates indicate that the presence of an older sibling reduces his younger siblings propensity to work by 13% and to engage in an independent occupation by 10%. The children of these older siblings partially outweigh these effects, which is consistent with the temporal structure of the transfers. Additionally, as this structure favours younger siblings and the children of elder siblings, we show that these individuals are systematically more educated. Since younger siblings have to reciprocate at the time they have children themselves, they also tend to have fewer children.

Taken together our analysis sheds a new light on the roles of intra-family transfers as the economic literature mainly focuses on their redistributive and risk sharing properties (e. g., Cox and Fafchamps, 2007, see however La Ferrara, 2003). We show that these transfers may also be part of an implicit credit contract, whereby richer and older members help their younger siblings in financial needs under the understanding that they will reciprocate later. These return transfers take place when older siblings face more charges, particularly with respect to the education of their children. In the specific context of our study, this system of reciprocal credit allows income smoothing over the life-cycle.

While new in the economic literature, our interpretation of intra-family transfers has been discussed in the anthropological and sociological literature as “the sibling chain of educational assistance” (Simon, 1994, p. 26). Several scholars highlight both the reciprocal nature of transfers across siblings and generations and the increased use of these transfers to finance education in modernising societies. Caldwell (1965), in his study of extended family obligations among university students in Ghana, finds that students who receive assistance from their extended family expect to support several of their younger siblings, nephews and nieces in the future. In his words, “perhaps the most interesting finding [...] was that 84% of these students [...] expected to make repayment in whole or part by financially assisting the education of relatives. [...] Perhaps a more striking responsibility is that towards siblings and nephews and nieces. Almost three-quarters of all students expect to spend money on at least one brother or sister and almost half on at least one nephew or niece. Much of this expenditure will be specifically allocated for the education of these relatives.” Similarly, in Kinshasa, Shapiro and Tamashe (2001) find clear evidence of reciprocal transfers among siblings and nephews for educational purposes: “educational investments in children constitute a major component of the activities of extended families since financial markets are especially limited in their ability to provide for human capital investments. [...] Through mutual understanding and obligation, when such children become adults with income, they often provide assistance to their parents directly, and they may also support the education of younger siblings.” (p. 197) “With respect to schooling, there is clear evidence of a substantial degree of transfers among siblings, with majorities of both those receiving and those providing such assistance indicating that it was received from, or given to siblings. [...] The other major destination for those who provided schooling assistance was nieces and nephews. This latter intergenerational transfer constitutes further evidence that siblings tend to provide assistance, not only to one another, but also to one another’s children.” (p. 203) The large prevalence of child fostering in Africa has also been related to this chain of educational assistance. According to Isiugo-Abanihe (1985), “children are often boarded out with relatives, who are expected to provide formal education to the younger ones as a compensation for their own education.” (p. 13).

In Section 2, we present the details of our survey and describe the pattern of transfers within the extended family in Section 3.

Section 4 presents a model of intra-family transfers. In Section 5 we carry out the empirical analysis of intrafamily transfers. We then investigate their implications for occupation and income in Section 6 and for education and fertility in Section 7.

2. Survey and data

We collected first hand data in the city of Bafoussam, the capital of the West region of Cameroon. The population is essentially from the Bamileke ethnic group. This group is well known for its economic dynamism and dominates the economic life of the country controlling more than half of the registered firms (while accounting for a third of the total population) (INS, 2008; Warnier, 1993; Yana, 1997). Bamileke distinguish themselves as entrepreneurs who encourage individual success and accumulation. They are also significantly more educated than the rest of the population. The nuclear family constitutes their basic social unit, although strong social and economic ties link members of the same extended family (Yana, 1997).

Even though Bamileke societies are essentially patrilinear, anthropologists report deviations from a strict patrilinear system, whereby a wife maintains strong relations with her lineage which go beyond the emotional domain: “women can return home during the postpartum period and children (especially first ones) can be born away from her husband’s compound. Child fostering to matrilin is another possibility. In fact, child-fostering is *inter alia* a device for circumventing a husband’s claim on the children in case of a divorce. [...] Women participate intensively in the market economy and have their own revenue [...]. Moreover female entrepreneurs control large segments of the market, including the black market, and wield political influence.” (Lesthaeghe, 1989, pp. 41–42).³ Moreover, the traditional system of inheritance based on male primogeniture recognises rights to women in a number of specific cases. In particular, “Bamileke women also choose an heir from among their daughters and bequeath to her their skull and personal belongings. The wife of a chief or king would include land in the inheritance. The daughter who is chosen to inherit buries the skull of her mother and grandmother besides her bed and regularly makes sacrifices to them to seek their intervention to ensure good health, fertility, a good harvest, and prosperity for the family” (Mbaku, 2005, p. 149, see also Ebi, 2009).⁴ From our own field observation, Bamileke women appeared to enjoy a large degree of economic and personal independence and the pattern of transfers we describe below does not differ substantially across gender.

The survey took place in the spring of 2010 under the field supervision of the authors and in collaboration with the National Institute of Statistics which has long experience in administering large scale household surveys. Using the Bafoussam census, we selected a random sample of 315 households and administered 548 individual questionnaires separately to each spouse (in the absence of the other spouse).⁵ Given the focus of our enquiry, we designed our survey to best capture transfers within the extended family. The questionnaire started with a complete description of the extended family of the respondent over three generations. Specifically we listed the parents of the respondent, the co-spouses of the father and the number of uncles and aunts. We then

³ Bamileke may also engage in the “nkap” marriage that does not involve a brideprice. In that case, the wife’s father retains the custody rights over her children and the husband “receives the rights to the woman only as a wife”. (Mbaku, 2005, p. 149).

⁴ Throughout sub-Saharan Africa, anthropologists stress the important role of maternal kin, in particular uncles, for financial support and children education (Goody, 1959).

⁵ In the analysis, we exclude 20 individuals who do not have direct siblings.

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