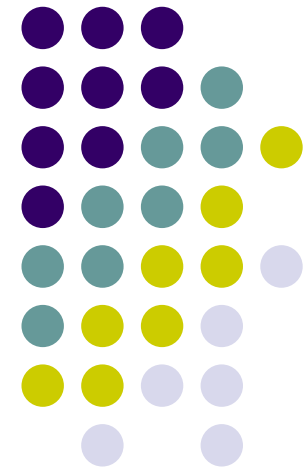


Investments, Bequests, and Public Policy: Intergenerational Transfers and the Escape from Poverty

Agnes R. Quisumbing
International Food Policy
Research Institute





Introduction

- According to CPRC, the most enduring form of poverty is intergenerationally transmitted poverty (IGT poverty) (Hulme, Moore, Shepherd 2001)
- Economic analysis of intergenerational transfers has typically been focused on the transfer of *wealth*, not its mirror image
- What are the factors that prevent the accumulation and intergenerational transfer of wealth?



Organization of the presentation

- Conceptual framework that examines how families transfer wealth to children—and its mirror image: building blocks vs. stumbling blocks
- Empirical evidence from developing countries, organized around life-cycle stages:
 1. the role of **credit constraints** in preventing optimal investments in human capital (usually in childhood) and asset transfers (in adulthood);
 2. the role of **gender differences in schooling and assets** in perpetuating unequal lifetime incomes of men and women (in adulthood); and
 3. the role of the **marriage market** and **assortative matching** (also in adulthood) in perpetuating asset inequality across families and intergenerationally.
- What is the scope for public policy to relieve constraints to the accumulation and transfer of wealth to the next generation?

Conceptual framework: Building blocks for understanding intergenerational transfers



The conceptual framework for understanding parental decision-making has the following components:

- i) **Preferences:** Parents, as decision makers, care about the well-being of their children, though this may vary across children.
- ii) **Returns:** Parents take into account the extent to which these investments will make both their children and themselves better-off in the future when choosing to invest in their children.



Building blocks, cont'd

- iii) **Constraints:** Parents' ability to undertake investments in their children are constrained by the resources – money and time - available to them, the prices they face and the relationship between factors that affect child development and outcomes such as good health, schooling, self-esteem, etc.
- iv) **Bargaining:** Parents may disagree about these decisions; hence the ability of an individual parent to determine household decisions will also affect these investments.



Building blocks, cont'd

- Collectively, these components point to a multitude of factors that affect the intergenerational transfer of wealth:
 - Parental preferences regarding equality of outcomes across offspring;
 - Expected returns in labor markets, in marriage and in terms of support to parents in their old age;
 - Knowledge and skill regarding appropriate child rearing practices;
 - Household resources;
 - Relative bargaining power of individual household members;
 - Wages and prices; and
 - Community characteristics and resources.



Building blocks, cont'd

- While concepts are described here in terms of parental decisions, they also apply to cases where children live with other relatives or foster carers.

Conceptual framework: Stumbling blocks that prevent the poor from transferring wealth across generations



- i) **Preferences:** Parents may care about the welfare of their children, but unequal preferences may lead to their favoring some children over others—for example, sons vs. daughters, older vs. younger children, or biological vs. foster children

- ii) **Returns:** Parents may perceive that “returns” to investing in children are low, owing to high child mortality, few opportunities in the labor market, or that returns to investing in some children may be lower than in others (for example, if daughters leave the household upon marriage);



Building blocks, cont'd

- iii) **Constraints:** Parents may have limited resources, may find the costs of investing in children too high, and may be constrained by their ability to trade off present for future resources, which may be critical when they face adverse shocks; and
- iv) **Bargaining:** Parents may exercise their bargaining power in ways that may not be conducive to the transfer of wealth to their children, or to some of their children.

Empirical evidence on intergenerational transfers, lifetime incomes, and inequality



- Credit constraints and investments in children
- Gender differences in transfers and implications for lifetime incomes
- Assortative matching in the marriage market

Credit constraints and investments in children: overview



- If parents did not face credit constraints, they could borrow money, and could invest in children's human capital to equate marginal rate of return to human capital investment to the interest rate. Differences in investments across children would be due to differences in innate ability, or differences in returns that children faced (Becker and Tomes 1986; Behrman, Pollack, Taubman 1982)
- Without credit constraints, parent resources (income) would not affect investments in children
- If parents are credit constrained, parental resources determine investments in children
- If parents are unconstrained (credit markets are perfect), families could smooth consumption in the face of income shocks (Hall and Mishkin 1982, Altonji and Siow 1987, Zeldes 1989, Townsend 1994)
- Most evidence shows that village insurance mechanisms can insure against idiosyncratic shocks, but not aggregate shocks

Credit constraints and investments in children: Short-term impact



- Overwhelming empirical evidence from all over the world showing that: children of parents with less schooling/assets/income have lower enrollment rates, completed schooling—these should not matter if parents were unconstrained
- Even if local institutions can help with smoothing consumption after an idiosyncratic shock, the poor have less access to consumption-smoothing mechanisms that the rich can avail of, e.g. remittances, borrowing from the credit market (Skoufias and Quisumbing 2005, evidence from 6 developing countries)
- Children in rural India stop schooling when faced by an adverse income shock (Jacoby and Skoufias); in poorest households of urban Brazil, loss of earnings by hh head leads to children leaving school and working (Neri et al. 2000)

Credit constraints and investments in children: Long-term impact



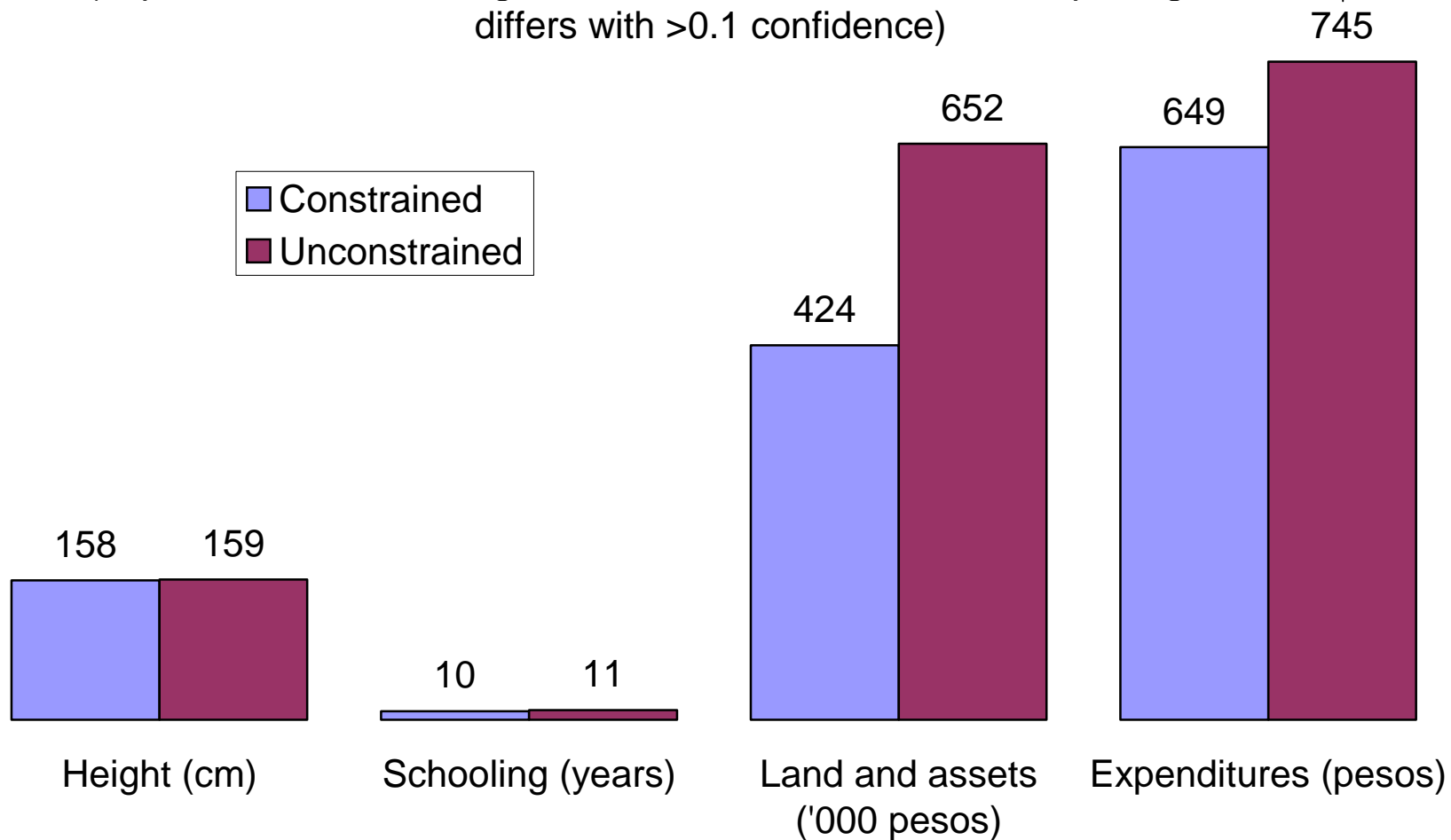
- Evidence from a longitudinal study in Bukidnon, Philippines (follow-up after 20 years) shows that parents who were credit constrained were unable to accumulate assets, to make asset transfers to their children (Quisumbing 2006), and to invest optimally in their children's human capital (nutritional status and schooling) (Gilligan 2006)





Differences between Credit-constrained and Unconstrained Households: Children

(Impacts differ across regimes with >0.01 confidence, except height, which differs with >0.1 confidence)



Gender differences in transfers and impacts on lifetime incomes



- To examine the impact of gender differences in schooling and assets transferred to children, need to examine the impact of these differences on lifetime incomes
- Quisumbing, Estudillo, Otsuka (2004) examine the impact of gender differences in transfers on lifetime incomes of men and women in the Philippines, Sumatra, and Ghana, three countries with very different inheritance and kinship regimes
 - Philippines: bilateral, daughters get education, sons get land
 - Sumatra: matrilineal, daughters used to get more land, sons used to get more schooling, but becoming equalized
 - Ghana: uterine matrilineal, sons get more land and schooling

Philippines: Estimated income changes of daughters and sons under different scenarios of land and education, in '000 pesos, bootstrapped standard errors



	Daughter's income Yd	Son's income Ys	Yd-Ys	ΔYd	ΔYs
Baseline	78.3	86.1	-7.9		
Give sons and daughters same education	67.6	90.6	-23.0	-10.7	4.5
Give sons and daughters same land	81.6	85.4	-3.8	3.3	-0.8
Give sons and daughters same land and education	68.9	89.4	-20.6	-9.5	3.3



Estimates of changes in log per capita expenditure, Sumatra

	Middle Region	Low Region	Diff from baseline, MR	Diff from baseline, LR
Baseline	13.7	13.44		
Give sons and daughters same education	13.7	13.44	0.004	0.003
Increase paddy by one ha	13.76	13.54	0.06	0.10
Increase cinnamon land by one ha	13.73	13.48	0.03	0.04
Increase rubber land by one ha	na	13.48	na	0.04

Effects of changing distribution of land and education between men and women, Western Ghana



	Men	Women	Ym-Yw	Δ ym (from baseline)	Δ yw (from baseline)
Baseline					
Cocoa/food	506.8	260.8	245.9		
Mature cocoa	1678.9	604.2	1074.7		
Total hh expenditures	4095.16				
Same education					
Cocoa/food	510.3	235.9	247.4	3.5	-24.9
Mature cocoa	1678.1	534.41	1143.7	-0.8	-69.8
Total hh expenditures	3871.0			-224.2	
Same land					
Cocoa/food	386.5	419.8	-33.4	-120.3	159.0
Mature cocoa	852.1	608.8	243.3	-826.8	4.6

Summary of results from 3-country study



- In the Philippines and Sumatra, existing distribution of land and schooling between sons and daughters is egalitarian; changing the distribution would even worsen outcomes for daughters in the Philippines
- In Ghana, however, increasing land would increase women's income; increasing education would not, possibly because of low returns to women's education in rural labor markets
- While it is difficult to generalize beyond our study sample, we must recognize that transfers are probably biased against women in patrilineal inheritance systems, which tend to be more prevalent
- Nevertheless, attempts to change the distribution of transfers should tread carefully—examine impacts on lifetime incomes, because we may not know labor market implications; families may also act to counter possible attempts at redistribution

Assortative matching and the marriage market



- In many societies, marriage marks the beginning of a new family and economic unit. Future success may depend on “marriage market” outcomes—arrangement reached by bride and groom regarding devolution of assets to the new household
- If asset accumulation takes time and is difficult for the poor, assets at marriage determine lifetime prosperity
- Assortative matching increases inequality and reduces social mobility due to intergenerational transfers of assets at marriage
- Examine evidence from rural Ethiopia (Fafchamps and Quisumbing 2005)



Gini ratios of parental land, assets at marriage, and current assets, Ethiopia (ERHS 1997 round)

	Groom	Bride	Both
Parents' land	0.910	0.867	0.870
Assets at marriage			
Land	0.785	0.982	0.781
Livestock	0.764	0.913	0.753
Other assets	0.644	0.967	0.634
Total	0.631	0.890	0.621
Current assets	n.a.	n.a.	0.419

Source: Fafchamps and Quisumbing 2005



Implications of assortative matching in rural Ethiopia

- With assortative matching, social stratification is passed on from one generation to the next
- The marriage market is a major conduit for household and gender inequality in Ethiopia
- A promising note: the lower Gini coefficient on current assets indicates other avenues for wealth accumulation during the couple's lifetime, as well as the effect of redistribution policies



Six-country study examining changes in the distribution of resources at marriage (Quisumbing and Hallman 2005)



- Examine changes in human capital and assets brought to marriage in Bangladesh, Philippines, Ethiopia, South Africa, Mexico, Guatemala
- Motivation: Resources at marriage affect distribution of power within marriage
- Changes in resources at marriage over time may reveal changes in the distribution of power within households



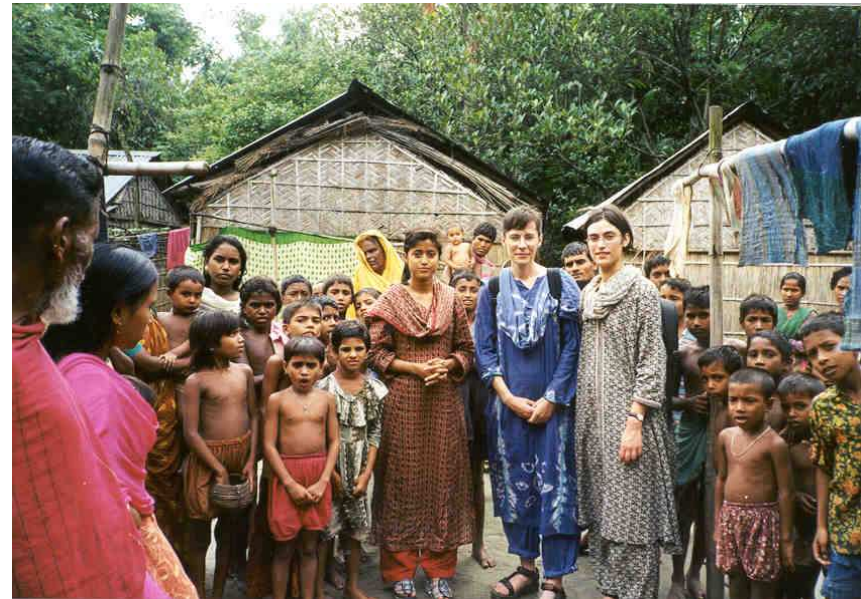
Findings

- Husband-wife **age differences decreasing** in 4 out of 6 countries. Exceptions are South Africa and Philippines, where women's age at marriage is already high.
- Husband-wife **schooling differences decreasing** in 3 out of 6 countries, with the exceptions of Guatemala, Philippines, and Ethiopia. Ethiopia result is probably due to leveling off of girls' enrolment rates.
- **Distribution of assets at marriage continues to favor husbands:** difference has remained constant in 3 out of 6 countries, and has even increased in Mexico and Latin America. Gap has decreased for Ethiopia, probably to decollectivization and land to the tiller laws.



Implications

- Reduction of husband-wife gaps in age and schooling may lead to an improvement in balance of power within family
- Asset ownership continues to favor husbands
- Need to ascertain whether closing of gender gap in age and schooling will offset differences in bargaining power due to asset gaps.





Implications for public policy--1

- Enable the poor to accumulate assets over time
 - Strengthen property rights
 - Reduce initial costs of acquiring capital (sweat equity? Collateral substitutes?)
 - Savings instruments for the poor
- Provide mechanisms to maintain the poor's asset base in case of negative shocks
 - Safety net mechanisms that enable the poor to smooth consumption and prevent asset depletion: publicly provided health insurance, credit-cum-insurance schemes, as well as food-for-work



Implications for public policy--2

- Enable the poor to invest in the next generation's human capital
 - Scholarship programs targeted to poor, CCTs
 - Reduce prices and increase physical access to services
 - Improving the design of service delivery
 - Invest in time-saving infrastructure (King and Alderman 2001; World Bank 2001)
- Provide mechanisms to enable the poor to continue investing in human capital even if credit constrained/if shocks occur
 - CCTs can act as a safety net for the poor when faced with shocks (de Janvry et al. 2006 for PROGRESA; Gitter 2006 for RPS)



Implications for public policy--3

- Enable the poor to transfer assets to the next generation through legally sanctioned, transparent, and equitable mechanisms
 - Property rights systems need to be transparent
 - Recognize and resolve possible conflicts in customary and statutory law
 - Eliminate gender discrimination in property rights/inheritance regimes
 - Empower the poor to assert their rights in courts of law (legal education)