

End of Award Report

Project Title: Welfare Provisioning Under the English Poor Law: Lessons for Pro-Poor Growth in Today's Industrialising Countries (India and South Africa)

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Welfare Provisioning: Historical and Contemporary Perspectives

Background and Objectives

A majority of individuals in poor countries have volatile incomes and are often unable to maintain adequate levels of consumption. There has nevertheless been limited interest in academic and government circles in state-guided provision of insurance in these countries. This is, likely, because it is thought unaffordable at prevailing levels of income per capita. In addition, the administration of welfare is thought to be outside the scope of governments in poor countries, where the presence of a large informal sector in the economy poses severe information problems. Yet, from as early as the seventeenth century and well before the sharp rise in incomes associated with the industrial revolution, the state in England operated a fairly sophisticated system of welfare provisioning that was responsive to economic and demographic shocks such as harvest failure, unemployment, illness, widowhood, orphanhood, and old age. This fact inspires a multi-faceted look at the nature of and scope for welfare provisioning in today's developing countries, where a variety of policies, including event-related insurance and blanket subsidies are being experimented with.

The research aims to improve policy design and practice in improving the lives of the poor and vulnerable sections of society in a sustainable manner. This involves identifying important overarching questions as well as looking at the actual micro-level (i.e. household or individual level) evidence on the conduct of policy and the nature of outcomes it has achieved, with appropriate analysis of how policy effectiveness may be improved.

One leg of the research studies the Old Poor Laws in England, the success of which has been measured in terms of favourable demographic outcomes such as relatively low levels of childhood mortality- and links this in with recent theoretical research in development economics on the micro-foundations of pro-poor growth. We also review the historical and economics literature on the relation of social expenditure and inequality. A theoretical paper on parent altruism is motivated to look at the effects of cash transfer programs on child welfare in the context of societies in which, given limited state participation, human capital investment relies largely upon the family. Research on welfare in India includes analysis of a food subsidy program and childhood malnutrition in the context of policy reform, and analysis of inequalities in childhood mortality both across and between families and also across the Indian states. In South Africa the dimensions of human welfare analysed are the living arrangements of the elderly and the impact of the joint family on the likelihood that young mothers take work outside the home; and the impact of education on earnings for black and coloured women (whose education was completed before the fall of apartheid).

We proposed to analyse individual level data for a number of counties in pre-industrial England. Some resources were spent at the Cambridge Group for the Study of Population and Social Structure on the productive activity of combining demographic data from parish records with data from the Poor Law account books kept by overseers. The data

we have assembled are available to the postgraduate students at the Group. However, as this was far more time consuming than first envisaged and the number of records that actually got matched was relatively small, we decided not to analyse these data. Following feedback we had from DFID in reaction to our initial proposal, we decided to focus the empirical research on developing countries. The research on South Africa has advanced to the point where draft papers communicate the main ideas but it is still being revised and extended. While the research on India is largely complete, some papers are still being written up or revised for publication. The research has stimulated further ideas for research which, subject to success in obtaining funding, will be pursued as separate projects. This said, a fair volume of completed research has emerged from this project.

Methods

Overall, three different approaches to analysis are reflected in the output of the project. First, inter-disciplinary surveys of research on welfare provisioning that bring together theory and evidence from economic history, historical demography and economics. Second, empirical research using large-scale household survey data from developing countries to investigate specific questions relating to public provision and human development. This used micro-econometric methods, different methods being used in different strands of the empirical work, and described in the resulting papers. Third, theoretical or methodological work relating to the design of welfare intervention.

Findings

1. Can developing countries afford to provide forms of social security?

Both recent theoretical research in development economics and preliminary analyses of parish records and poor law account books by historians support the case for state-contingent benefits from governments of developing countries. Pro-poor policies at both the macro-level (e.g. policies that encourage savings amongst the poor) and the micro-level (e.g. public support for the elderly or for investments in child human capital) can be shown to be growth-producing. This fact encourages broad political support for what were earlier seen as equity-producing interventions that had a potential tension with efficiency. The financing of state or, indeed, community investment in reduction of risk and poverty is also made easier by virtue of it generating a payoff- though the time horizon of the payoff may extend beyond the term of government.

2. The bi-causal relations of social expenditure, inequality and growth

Social expenditure that reduces inequality is not necessarily inimical to growth and, in the early stages of development, it may provide an important stimulus to growth. For example, pensions for the elderly have been shown – in pre-industrial England and also in contemporary South Africa- to allow families to make greater investments in children, thereby building the human capital needed to drive growth.

3. The effectiveness of cash transfers relative to other welfare interventions

Welfare programs in developing countries are often faced with a choice between cash transfers (i.e. gifts of income to targeted households, possibly conditional upon a behavioural change such as that they enrol their children in school) and input subsidies (e.g. lowering of school fees or user charges for health facilities). Cash transfers motivated to improve child health or education typically give the money to parents, and their effectiveness can be shown to depend upon parent altruism. Since evidence from anthropological and historical studies of child labour challenges parent altruism, it is useful to have a test of it. A test is proposed that can be carried out using commonly available micro-data (such as the LSMS surveys). The essence of it is that, under altruism, there is a positive covariance of expenditures on adult and child goods. If the reference adult good is “normal” (i.e. more of it is bought as income increases) then the degree of altruism can be measured as the size of the effect of parent-controlled income on child outcomes. The test is conducted on data for rural Pakistan and parent selfishness is decisively rejected using data on child clothing, schooling and child labour. However, there is a systematic tendency for households that buy tobacco to spend less on children, other things being equal. To the extent that tobacco is disproportionately consumed by men, this lends some support to employment-generation for women and to the increasing tendency to make transfers, loans and subsidies to women rather than to men. It is consistent with the finding in some previous research that mothers are more altruistic towards children than fathers.

4. Food subsidies: universal entitlement vs targeting

Food subsidies are offered by several developing country governments. Often they are offered to all citizens on account of prohibitive administrative costs of effective targeting, especially in regions where the political and legal infrastructure are incipient. In such cases, a concern for policy is that the subsidy on food encourages better-off recipients to claim it but to spend the incremental income on non-food items. Analysis of data for India show that, on average, the incremental income is spent on food. This may be because the relatively rich self-select out of the scheme on account of the poor quality of government provisions, or it may simply reflect that the majority of households are potentially food deprived. The analysis offers methods that can be transferred to other contexts to analyse, case-by-case, the destination of the government subsidy. The paper also offers a critical assessment of the debate over universal entitlement vs targeting for the case of India.

5. Effects of the Indian food subsidy on child malnutrition

India has offered its people a food subsidy with universal entitlement since Independence through a huge network of shops under what is known as the public distribution system (PDS). Since the mid-1990s this is in the process of being cut-back in a reform process led by the World Bank. An important criterion in the resulting debate is the extent to which the PDS reaches the poor. It is argued that the desired evidence is unavailable. Childhood malnutrition is used as an indicator of human poverty instead of household

income. The results indicate that the food subsidy encourages an increase in food expenditure and this, in turn, has a significantly positive though small impact on child height.

6. Does public spending crowd out private spending? The case of child health in India

Childhood malnutrition is influenced by both the extent of public spending and the extent of parental spending on health, nutrition and disease-control. Analysis of data for rural India suggest that these are complementary rather than competing inputs. Indeed, increased family income may, up to some level, have little effect on child health unless there exist public investments (e.g. primary health care facilities) that offer the family effective ways of spending their additional income on the child.

7. Spatial variation in childhood mortality: the role of state-level institutions in India

Comparison of differences in childhood mortality across three contrasting Indian states- Uttar Pradesh, West Bengal and Kerala- reveals the extent to which both political and social institutions contribute to child death rates, an important indicator of human development. It is estimated that, the world over, about two-thirds of under-5 deaths are preventable. The remarkable variation in childhood mortality rates across the Indian states corroborates this. Comparison of the determinants of mortality across the states offers invaluable insight into the factors that policy should focus on to lower mortality incidence in the regions where it is “unnecessarily” high.

8. Excess mortality amongst girls in India : the role of policy

A girl in India is more than 40% more likely to die between her first and fifth birthdays than is a boy. Analysis of the determinants of under-5 mortality by gender indicate that the effects of common covariates such as mother’s education, age or religion are not dissimilar between boys and girls. Conditional upon a range of covariates, there is a significant fixed effect associated with gender which is consistent with cultural reasons for discrimination. Since girls face higher post-neonatal mortality than boys even after controlling for a range of family characteristics, it appears that girls suffer relative deprivation *within* families. The implication of this is that policy should target girls directly rather than target families as a unit.

9. Inter-family inequality in mortality risk: sibling death clustering in India

Although there is a vast literature on determinants of the level of infant mortality, research on its distribution is relatively limited. Analyses of inter-family differences in infant death probabilities reveal a remarkable degree of clustering of deaths amongst siblings. This is disentangled into two components- a correlation of risks amongst siblings arising by virtue of shared genetic traits or maternal ability, for example, and a causal effect of the death of one sibling on the survival chances of the next. Previous

research in demography has focused on correlated risks, to the complete neglect of causal effects. It is argued that establishing causal effects is important for effective design of policy. Also, to the extent that there are causal effects, the payoff to any intervention that reduces child deaths is higher because preventing the death of one child in the family immediately implies reducing the risk of death of his or her siblings (at no extra resource cost).

10. Correlates of clustering effects: social vs economic development

The size of the causal effect over and above the correlated risks is estimated for the 15 major Indian states. It is significant in all but Punjab, the wealthiest state. Inter-state comparisons suggest that, while the extent of raw-data death clustering is more closely associated with socio-demographic development, the size of the causal process driving it is more closely associated with economic development.

11. The payoff to educating girls: evidence for non-white women in South Africa

Analysis of schooling and earnings choices amongst Black and Coloured women aged 20-59 in 1991 in South Africa shows remarkably high returns to education. This suggests that investment in the education of girls in these poor communities will have a high payoff. As the estimated returns are private returns, the implication is that wage and income inequality (and ethnic inequalities) can be permanently reduced in the long run by investing in girls' education. There is evidence from many other sources that the social returns to girls' schooling are even greater than the private returns.

Dissemination

Workshop Organisation:

We organised a workshop on Welfare, Demography and Development at Downing College in Cambridge on 11-12 September 2001. We had 21 invited papers involving a mix of economists, economic historians and demographers from the UK, Continental Europe, South Africa, India and the USA. This was funded by project resources. Several members of DFID were invited to attend but, unfortunately, nobody could make it on the day. The workshop program is in the *Annex*.

Sonia was Organiser and Chair of a session on Lessons from History for Pro-Poor Growth in Developing Countries at the *Development Studies Association* Annual Conference, Nov 2000. At this session I presented a summary of this project.

Sonia organised a Special Session on Child Health at this year's Royal Economic Society Meetings in Warwick. Program in *Annex*.

Invited Lectures and Conference Papers:

- Department of Economics, McMaster University (Canada), April 2003
- University of Tilburg, The Netherlands, June 2003.
- CSAE, University of Oxford, February 2003
- American Economic Association Meetings, Washington DC, January 2003
- Institute of Development Studies & Economics, University of Sussex, October 2002.
- European Economic Association Meetings, Venice, August 2002
- Workshop on Economics and Biology in Tübingen, July 2002
- Department of Economics, University of Munich, July 2002
- Department of Statistics, University of Munich, July 2002
- STICERD, LSE, May 2002
- World Bank Research Seminar, March 2002
- Human Development Department, The World Bank, March 2002
- Department of Economics, George Washington University, Washington DC, March 2002
- Queen Elizabeth House, University of Oxford, February 2002
- American Economic Association & Econometric Society Joint Meetings, Atlanta, January 2002
- Poverty Roundtable, National Council of Applied Economic Research, Delhi, December 2001
- Institute of Economic Growth, Delhi, December 2001
- North-Eastern Universities Development Economics Conference, Boston, Sept 2001.
- American Econometric Society, Summer Meetings, Maryland, June 2001.
- Queen Elizabeth House, University of Oxford, May 2001
- Invited participant, First WIDER Conference, Growth and Poverty, Helsinki, May 2001.
- Poverty & Development Workshop, Von Hugel Poverty Institute, St Edmund's, Cambridge, May 2001.
- Fiscal Policy and Poverty Reduction workshop, World Institute of Development Economics Research (WIDER), Helsinki, Nov 2000.
- Invited speaker, Meeting of the *Network on Poverty & Inequality* jointly organised by the Inter-American Development Bank and the World Bank in Brazil, Oct 2000.
- University of Tor Vergata, Rome, November 2000
- Various seminars presented at home departments in Cambridge and Bristol.

Press and Users:

The Royal Economic Society Press Officer asked us to write a press release based on the paper on sibling death clustering in India in March 2003. The BBC World Service picked this up.

We have sent copies of my papers and information about my research to the World Bank Delhi office (Human Development Economist, Anil Deolalikar), Save the Children Fund,

UK, the Human Development Department at the World Bank in DC, the WHO in Geneva.

List of Publications /Papers

Bhalotra, Sonia. Growth and welfare provisioning: Lessons from the English Poor Law?, *Journal of International Development*, Volume 13 Issue 7, August 2001, pp. 1083-1096.

Bhalotra, Sonia, R.M. Smith and A. Shipman. *Social expenditure and inequality: historical and economic perspectives*.

Bhalotra, Sonia. *Welfare Implications of Fiscal Reform*, Discussion Paper No. 2002/32, UNU/WIDER Series, Helsinki, February 2002. Forthcoming in a book to be published in the OUP/WIDER series, edited by A. Addison and J. Roe.

Bhalotra, Sonia. *Public vs Parental Spending on Child Health*, Mimeograph, University of Bristol.

Bhalotra, Sonia. *Parent Altruism*, Mimeograph, University of Bristol.

Arulampalam, Wiji and Sonia Bhalotra. *Sibling death clustering in India: genuine scarring vs unobserved heterogeneity*, Working Paper No. 03/552, University of Bristol, July 2003.

Bhalotra, Sonia. *Spatial variation in child mortality in India*, Paper presented at DFID-funded workshop on Welfare, Demography and Development, Downing College, University of Cambridge, 10-11 September 2001.

Bhalotra, Sonia and Steve Brooks. *Gender differentials in child mortality: a Bayesian analysis*. Mimeograph, University of Cambridge.

Bhalotra, Sonia and Claudia Sanhueza. *Returns to education in South Africa: Semi-parametric estimates*. Mimeograph, University of Cambridge.

Bhalotra, Sonia and Jean Boissinot. *The old-age pension and the labour supply of young mothers in South Africa*. Mimeograph, University of Cambridge, 2001.