

Family and Kinship Ties in Development: An Economist's Perspective

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Abstract

This paper examines the role of family and kinship ties in economic development. It analyzes the functions that families play in transmitting values to younger generations and in establishing social norms that have a profound impact on individual decisions involving fertility, labor force participation, investments in education and health. It also discusses the role of families as substitutes for markets, with particular reference to informal insurance and credit markets. A common theme in the paper is to highlight the “comparative advantage” that families or kin groups have in performing some of these roles, but also the potential inefficiencies that may result from their involvement.

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1. Introduction

The role of family and ethnic ties varies considerably across societies. Some countries have relatively small and cohesive nuclear families (e.g., Italy, Spain); others have a comparably small but more “independent” organization (e.g., Scandinavian countries), other still have very big extended families with a pervasive role (e.g., most of Africa, Asia and Latina America).

Why family structures have evolved in such a different way is a fascinating question which goes beyond the scope of the present paper. This paper will focus on the *economic effects* of different family structures, and in particular on the extent to which societies with more extended (or stronger) family ties benefit or lose from these ties in a strictly economic sense. I will adopt a microeconomic perspective, starting from the smallest unit of analysis –the nuclear family and the parent/child relationship-, and then move to the broader notions of kin and ethnic group.

Before proceeding, a terminological clarification is in order. The notions of “family”, “kin”, “clan” and “ethnic group” are quite complex and much debated upon in the anthropological literature. In this paper, I will use the word “family” to broadly refer to any form of blood relationship (hence encompassing very proximate and very distant ones), and use the terms “nuclear family”, “extended family”, “clan”, “kin group” and “ethnic group” when I need to employ narrower definitions. In that case, “nuclear family” will identify a group of two parents and their children; and “extended family” will include close relatives (such as grandparents, aunts/uncles and cousins) often living in close proximity. I will use the term “clan” to identify a unilineal group of relatives living in one locality, and the term “kin group” to denote a collection of various clans that comprises “socially recognized relationships based on supposed as well as actual genealogical ties” (Winick (1956), p. 302). To define “ethnic groups”, on the other hand, I will refer to Max Weber’s definition, i.e. “groups that entertain a subjective belief in their common descent because of similarities of physical type or of customs or both, or because of memories of colonization and migration. This belief must be important for group formation; furthermore it does not matter whether an objective blood relationship exists”.¹

The paper will start by analyzing families as the origin and vehicle for transmission of values and social norms. I will discuss the economic benefits as well as the potential distortions and inefficiencies generated by different types of family structures and norms. I will then move to

¹ Max Weber, *Economy and Society*, eds. Guenther Roth and Claus Wittich, Berkeley: University of California Press, 1978, p.389.

analyze families as substitutes for markets, in particular their role for information transmission and enforcement of informal agreements, and discuss again the pros and cons of their involvement from an economic point of view. The last section will briefly conclude with some open issues and policy implications.

2. Families, values and social norms

2.1 Cultural transmission

One of the fundamental roles played by parents is that of transmitting distinct cultural traits to their children. These traits include elements of preferences such as the degree of altruism, risk aversion, attitudes towards fertility and labor force participation religious traits, etc.

Bisin and Verdier (2001) model the transmission of cultural traits from parents to children and derive predictions on the equilibrium composition of the population. They assume that parents are altruistic and choose the cultural trait they transmit by anticipating the effects that different traits will have on their children's welfare. However, parents evaluate their children's welfare with their own preferences, i.e. they derive higher utility from the fact that their children share their own culture (imperfect empathy). In equilibrium, socialization choices differ depending on whether family and society are substitutes or complements. If they are substitutes, parents belonging to a minority group will socialize their children more intensely, leading to a preservation of heterogeneous cultural traits in the population. On the contrary, when they are complements, majority groups opt for more intense socialization, leading to homogeneity in the long run.

Several empirical papers have tried to assess the extent and the determinants of cultural transmission among generations. Bisin, Topa and Verdier (2004) analyze religious identification and intermarriage patterns in the US and find that Protestants, Catholics and Jews exhibit a strong preference for children who share their own religion. Fernandez, Fogli and Olivetti (2004) find that preferences on women labor force participation and educational investment are transmitted from mothers to sons. Giuliano (2007) finds that parents tend to reproduce the pattern of living arrangements common in their country of origin when they move to a different country. Looking at second generation immigrants in the US, she finds that children tend to live with their parents longer if their culture of origin in Europe exhibits that pattern.

The socialization choices that occur within the family are extremely important for economic development, insofar as crucial decisions such as fertility, investment in education and labor force participation depend on these choices. But they also dramatically affect the ability of a society to

solve collective action problems and sustain cooperative norms. Tabellini (2007) extends the model of Bisin and Verdier (2001) to study situations in which individuals are randomly matched with others to play a prisoners' dilemma game. The scope for cooperation, i.e. the set of matchers in which cooperation can be sustained, depends on economic incentives and on the values that individuals have been taught by their parents. Parents choose whether to socialize their children to cooperative behaviour based on environmental conditions (e.g. the quality of legal enforcement) and on the expected pattern of future transactions.

In a similar vein, Guiso, Sapienza and Zingales (2007) model the intergenerational transmission of beliefs regarding the trustworthiness of other individuals. They propose an overlapping generations model in which children receive from their parents a prior on trustworthiness of others, they participate in exchanges where they can be cheated or realize gains from trade, and then transmit an updated prior to their own children. The authors show that in equilibrium, parents transmit conservative priors in order to protect their children from future losses. However, this behavior is suboptimal from the social point of view, leading to the possibility that societies are trapped in a low trust equilibrium.

2.2 Families as constraints

While the transmission of cooperative norms may be univocally seen as a benefit deriving from stronger involvement of the family into an individual's life, a recent literature has identified a number of side effects, or constraints, generated in the same way. I will start by addressing constraints that affect both industrialized and developing countries, and then move to some issues that are specific of the latter group of countries.

In a recent paper, Alesina and Giuliano (2007) investigate the relationship between the strength of family ties and participation in market economic activities. They quantify differences across countries in the strength of family ties by using a set of questions contained in the World Value Survey. The first asks "how important the family is in one's life" on a scale of 1 to 4. The second question asks respondents if they agree with the following statements: (i) "Regardless of what the qualities and faults of one's parents are, one must always love and respect them", or (ii) "One does not have the duty to respect and love parents who have not earned it". The third question asks if the respondents agree with one of the following statements: (i) "It is the parents' duty to do their best for their children even at the expense of their own well-being"; or (ii) "Parents have a life of their own and should not be asked to sacrifice their own well being for the sake of their children".

The authors aggregate all these variables through principal component analysis into one measure of “weakness of family ties”, the values of which are displayed in Figure 1. As the index is decreasing in the strength (increasing in the weakness) of family ties, smaller values correspond to societies in which family links are perceived as more important. It can be seen from Figure 1 that most developing countries have relatively strong family ties (left panel), while OECD countries tend to have weaker ones (right panel), with weakest ties in Lithuania, Germany, the Netherlands and Scandinavia.

Alesina and Giuliano argue that maintaining strong family ties requires spending a lot of time at home (e.g. caring for children or elderly people, cooking meals at home, etc.) and this takes time away from market activities. Panel A of Figure 2 shows that women are more likely to participate in the labor force in countries with weaker family ties. Panel B shows that a similar pattern holds for youth, namely, young people are less likely to seek employment when they live in societies with stronger family ties.

The latter result is consistent with a literature finding that in Mediterranean countries (Italy, Greece, Spain and Portugal) more than half of the people aged 18-33 live with their parents, while this figure is less than 30% in France, Germany, UK, USA and Scandinavian countries (Giuliano, 2007). This has ambiguous effects on aggregate welfare. On the one hand, increased reliance on the family for support may allow a greater number of people to achieve higher education. Manacorda and Moretti (2006) argue that increased income allowed Italian parents to offer higher household consumption to their children in exchange for their living at home. On the other hand, residence with one’s parents is associated with delayed entry into “adult life”, including delayed entry in the labor force, delayed age at marriage and lower fertility patterns, with obvious implications for pay-as-you-go pension systems.

An issue that emerges in some of the above papers is that the strength of family ties may endogenously respond to different institutional settings or economic conditions. Alesina and Giuliano (2007) address this point in two ways. First, they look at second generation immigrants in the US and how they respond to the strength of family ties in their country of origin, similarly to what other studies on cultural transmission have done (see section 2.1). Second, they instrument family ties with a variable that captures whether the first-person singular pronoun can be dropped or not. The intuition is that societies in which this cannot be dropped are more individualistic. Their results on the negative relationship between family ties and market participation are robust to these strategies.

To the extent that the choice of living with one's parents or not entering the labor force is voluntary, one may invoke a revealed preference argument and claim that despite the social inefficiencies that these choices may induce, they are still "optimal" from the individual's point of view. When looking at some developing countries, however, one gets a sense that there are instances in which the effects of family ties go beyond voluntary compliance by individuals, and are closer to the notion of "coercion" than of "choice".

A well known example is the practice of **dowries** in South Asia. Dowry payments are transfers of wealth from the family of the bride to the groom and his family at the time of marriage. These transfers were a common feature of Medieval Europe but declined with modernization, while they are on the rise in contemporary India, leading to the well known phenomenon of "dowry inflation" (Anderson, 2003). There is widespread concern about this phenomenon among policymakers and society as a whole, as the extent of payments is often so large as to lead to impoverishment of families with one or more daughters to wed. An extreme consequence is that forward looking parents may resort to selective abortion or female infanticide in order to avoid dowry payments in the future. Other consequences that have been documented include bride burning or wife beating, in case payments from the bridal family are considered insufficient (Bloch and Rao, 2002).

Dowries –and more generally marriage payments- also have distortionary effects on household investment decisions. In fact, to the extent that resources are transferred not to the couple but to the parents of the bride or groom, if the older generation has a lower propensity to save or to invest in the education of the couple's children, these marriage practices may slow down the accumulation of physical and/or human capital. Edlund and Lagerlof (2004) suggest that indeed the switch from arranged to love marriage in Europe starting in the 8th century may have been one of the causes of Europe's economic success in the following centuries.

Despite the fact that policymakers have outlawed marriage payments in several countries (see for example the Dowry Prohibition Act passed in India in 1961), the reason these norms persist is that they are part of a "market equilibrium" in which families are the players and strategies of "conformity" dominate unilateral deviations towards no payments. How to induce an equilibrium switch from the "everyone pays" to the "nobody pays" equilibrium is a dramatically important, and still open, question.

Another important role played by families in marriage decisions is that of establishing at what age a girl should get married. Adolescent and child marriage is a common phenomenon in many developing countries, and there is widespread concern that women who marry too early tend to

attain lower education levels, have worse health outcomes (including higher maternal mortality and domestic violence), and have lower bargaining power within their household (Jensen and Thornton (2003)). In a very interesting paper on Bangladesh, Field and Ambrus (2005) estimate the loss of education caused by adolescent marriage in Bangladesh. Their identification strategy relies on the variation in the timing of menarche as an instrument for age at first marriage (given that girls are typically withheld from marriage until they reach puberty). Their estimate suggest that postponing marriage by one year in the age range 11-16 would increase girls' schooling by an average of 0.3 years, and increase adult literacy by 6.5%. At the aggregate level, they estimate that if the government could enforce a ban on marriages below age 17, female schooling would increase by 9%. These are sizeable improvements that call for policy action in this setting.

Marriage payments are not the only type of social norm "imposed" by family structure in some societies. Another important class of norms relates to **inheritance rules**. Broadly speaking, inheritance systems may be classified under two dimensions. The first is the blood line along which property is transmitted. Historically, most societies have featured *patrilineal* inheritance, where property passes from fathers to sons. Some cultures, however, maintain *matrilineal* inheritance systems, where property is transmitted along the female line.² Another distinction relates to the division of the property among heirs. At one extreme there is *primogeniture*, where the entire property goes to the eldest child (typically, son) of the deceased. At the other extreme, there is *equal division*, where each child inherits the same share. Intermediate forms of partible inheritance are also common.

The evolution of inheritance rules over time is a fascinating topic. Platteau and Baland (2001) review inheritance practices in Medieval Europe and in contemporary developing countries, contrasting primogeniture with partible inheritance. They argue that while some regions (typically, Asia) have resorted to primogeniture as a way of maintaining the integrity of the family real estate, in Sub-Saharan Africa there is a widespread attachment to the equal division norm. They anticipate that as land scarcity becomes more severe in the face of growing population pressure, traditional land tenure arrangements are likely to give way to market transactions. While it is not possible in the present context to analyze the evolution of inheritance rules as an endogenous response to economic conditions, it can be interesting to examine some of the implications of these norms for the allocation of resources within and between households. In particular, I will focus on a small number of studies that have analyzed the consequences of matrilineal inheritance rules in contemporary developing countries.

² This does not mean that only women inherit. As will be described below, property typically passes from a man to his sister's sons.

The matrilineal inheritance system can be illustrated with reference to Figure 3. In this kinship diagram, following the convention in social anthropology, triangles indicate males, circles females, vertical links indicate a descent bond, horizontal ones a codescent bond, and the sign “=” stands for a marriage relationship. The shaded triangle is the (male) household head. The numbers inside the circles or triangles indicate the order in which a given relative should inherit the head’s property. According to the matrilineal rule, the man’s heir will be his sister’s son. However, in most matrilineal society a seniority principle requires that property be passed first to any living male codescendant of the head (i.e., any living brother) and then to the younger generation. If no brother or nephew exists, the closest male relative to inherit the head’s property will be the maternal aunt’s son. This inheritance structure is bound to have profound effects on the investments that parents make in their natural offspring, but also on the children’s efforts in caring for their natural parents.

As far as the former effect is concerned, an optimizing parent who cannot bequeath land to his natural son will have an incentive to over-invest in his education (La Ferrara (2005)). A similar effect has been documented by Quisumbing and Otsuka (2001) for Western Sumatra. In that context, the customary rule requested that land be passed on from mothers to daughters. Quisumbing and Otsuka consider the allocation of land and schooling between sons and daughters and test whether the evolution of inheritance patterns from a strict matrilineal rule to a system where both sons and daughters inherit has an effect on the pattern of schooling investments between boys and girls. They find that indeed the traditional rule had generated a suboptimal allocation of land and schooling, with daughters receiving much less education than sons. In their data, the shift to a bilateral inheritance system is associated with a smaller gender gap in education.

But this system also distorts children’s choices of how much (and in what form) to take care of their parents. In a study on Ghana, La Ferrara (2007) formalizes the choice of a father who faces an inheritance rule like the one depicted in Figure 3. The father is not unconstrained in his choice about the allocation of inheritance, but rather must obey a customary norm that requires a strictly positive fraction of his land to remain with the matrikin. In particular, the default allocation is for the entire land endowment to be bequeathed to the nephew, unless the father makes a donation to his own children during lifetime (a common practice among the matrilineal Akans in Ghana). The model shows that in equilibrium children will send monetary transfers to their parents to induce the latter to donate the maximum socially acceptable amount of land to them. This prediction is confirmed in the data: *ceteris paribus*, Akan men are significantly more likely to receive transfers from their children compared to other ethnic groups, the more so the greater the strength of customary

matrilineal norms. This has important implications for the pattern of inter-vivos transfers, hence for saving decisions of young individuals who are “constrained” by customary norms.³

Finally, the **structure of the family** itself may generate inefficiencies. Given the widespread variation in the size and notion of families across countries, one could ask if children outcomes are better if they live in a nuclear family or in an extended family. Edlund and Rahman (2005) provide an answer to this question both from a theoretical and from an empirical point of view.

They start from the premise that, viewed from the point of view of a child, the household head is the father in a system based on the nuclear family, while it is the grandfather in one based on the extended family. Because the father has a greater likelihood to survive until his children reach adult age, he will have greater incentives to invest in the children’s human capital. The counterpart of this is that extended families can provide better insurance to their members and more public goods. Edlund and Rahman use data on Bangladesh –a country with a traditional family structure based on extended families- and exploit the transition from extended to nuclear family that occurs when the grandfather dies. They find that children in nuclear families receive more education, but they have no advantage in terms of height-for-age.

3. Families as substitutes for markets

The interaction between family values and markets brings us to a second set of considerations. A key role played by families, kin and ethnic groups in poor countries is that of facilitating exchange in the absence of markets. There is a wide variety of context in which markets are either non-existent, or poorly functioning. This is due largely to the imperfect information available to individuals or to the absence of legal enforcement means, or both.

As useful example on the role of information and enforcement is the well known work of Greif (1993). Greif documents the practices of a Medieval group of traders, the Maghribi traders, who operated in the Mediterranean through a large number of commercial agents. There was an obvious problem of asymmetric information between agents and their principals, as the latter could not observe the costs incurred by the agents. However, the Maghribi traders put in place a “monitoring” mechanism based on reputation, so that no merchant would employ an agent who had cheated on another merchant. The Maghribi traders were descendants of Jewish merchants who had

³ Although the above analysis treats customary norms as given, it is likely that they endogenously adapt to the economic environment. Using data from Western Ghana, Quisumbing, Panyongayong, Aidoo and Otsuka (2001) argue that traditional matrilineal institutions are evolving towards individualized rights in circumstances where it is important to provide incentives for cocoa tree planting.

emigrated to North Africa one century before and, although they were not all related by blood, their common ancestral links allowed them to easily spread information among members of the coalition and give incentives to merchants to carry out punishment even when this was individually costly, for fear of being ostracized.

Indeed, because a key component of enforcement strategies in games of repeated interaction is the ability to exclude deviators from future transactions, the costlier the exclusion the greater the set of profitable arrangements that can be sustained. Kinship embeds a variety of relationships – social, emotional, economic – and thus constitutes a very powerful venue to enforce informal transactions.

3.1 Insurance

An important role played by families and kin groups all over the world is that of providing insurance and credit to their members. This is particularly crucial in societies that are poor and prone to economic shocks (e.g. agricultural societies in developing countries), with severe credit market imperfections, and where the state provides few or no social safety nets.

For industrialized countries, Bentolila and Ichino (2006) study how families cope with unemployment shocks as a function of the generosity of unemployment benefits. They find that family networks tend to respond more (i.e., send more transfers) to those hit by a shock the smaller the welfare state in the country of residence. For developing countries, empirical studies have shown that there is a considerable degree of risk sharing between members of the same family (Fafchamps (1992), Murgai et al. (2002), Fafchamps and Gubert (2004)) or of the same ethnic group (Grimard (1997)).

The rationale for having extended families or kin groups act as risk pool, rather than a generic network of friends, comes from two factors. One is the degree of altruism, the other is that mutual insurance arrangements critically rely on repeated interaction, and the long term nature of kin relations makes them an ideal risk sharing group. In what follows we analyze these two motives in isolation.

As argued -among others- by Foster and Rosenzweig (2001), **altruism** can be instrumental to sustaining self-enforcing mutual insurance arrangements. In fact when households care about each other, they stand to gain more from insuring each other than they would otherwise, and this increases the scope for cooperation. The authors find evidence in support of their argument using data from rural South Asia.

When transfers do not take the form of monetary payments, but rather of in kind payments, there may be further reasons for relying on family networks rather than on networks of friends.

Consider for example the institution of child fostering widespread in Sub-Saharan Africa. This occurs when parents send a child to live with another family for a more or less extended period of time. In a recent study on Burkina Faso, Akresh (2007) shows that fostering serves a number of purposes, including that of adjusting to idiosyncratic income shocks (hence, risk sharing), that of balancing the demographic composition of a household's children (e.g., to care for a newborn), and that of helping a child get an education, in case the host family lives nearer to the school. Because of the higher familiarity and degree of altruism among members of the same family, child fostering most often occurs between close relatives.

A fundamental pre-requisite for risk sharing agreements to work is **reciprocity**. The reason why people share their crops or livestock is that they expect to become recipients in the future, although the exact time and extent of the reciprocation may not be known at the date of the transaction. Repeated interaction then becomes a key element of any informal enforcement strategy (see, among others, Kimball (1988), Coate and Ravallion (1993), Ligon, Thomas and Worrall (2001)). Effective implementation of insurance arrangements also requires information on the shocks received by different individuals or households, information which is not readily available. As I will argue below in the context of credit, family ties give a fundamental advantage both in terms of information transmission and of reciprocity.

3.2 Credit

The role of close-knit communities (though not kin groups) in enforcing repayments of informal loans has been first analyzed by Udry (1994) and Besley and Coate (1995). The latter refer to the sanctions imposed by community members as “social collateral”, and show that these sanctions can lead to higher repayment. These papers take social pressure as given modelling it as a direct utility loss, and do not model the way in which social sanctions are carried out, nor the role of families in this process.

La Ferrara (2003) studies informal credit transactions in Ghana and addresses precisely the question of what makes relatives (or kinsmen) different from a generic set of individuals who interact on a regular basis and possibly have low transaction costs. She identifies two key characteristics. The first is that kin membership is exogenous (one is born with a given set of blood relations) and cannot be freely changed. This makes it costlier for individuals to opt out of a kin group in case of defection than it would be for a generic social group. The second characteristic is that kinsmen are dynastically linked in such a way that the actions of parents can fall upon their children, for good or bad. The author proposes a model with overlapping generations in which

people are born rich or poor, an endogenous matching process between rich and poor determines who borrows from whom, and parents depend on their children for support in old age. She shows that the non-anonymity of the dynastic link discourages unilateral deviations even in short term interactions. Younger generations can in fact be punished for deviations by their parents, and to the extent that parents internalize this punishment, cooperation (repayment) is easier to enforce. This implies that even when “bilateral” reciprocity cannot be enforced because the two partners do not expect to interact in the future, “generalized” reciprocity can. In other words, within a family network players can expect reciprocation from someone who is not a direct beneficiary today. The model also shows that dynastic links encourage preferential dealings between some sets of partners (i.e. members of the same kin group) and change the terms of economic transactions (specifically, lower the interest rate on transactions between kinsmen). Evidence from rural Ghana is consistent with the model’s predictions.

3.3 Why should families enforce contracts?

The above discussion suggests that families (intended in a broad sense that includes kin groups) have a comparative advantage in the enforcement of informal agreements along several dimensions.

First, to the extent that family members display a greater degree of *altruism* towards each other compared to generic sets of players, the temptation to play non-cooperatively will be lower. In fact, the gains from cooperation that accrue to the other player(s) will be at least in part internalized by each individual. This means that, other things being equal, a greater set of cooperative arrangements can be sustained.

Second, even in the absence of altruism the *dynastic nature* of family ties increases the possibility of enforcing informal agreements by allowing for “generalized reciprocity” (La Ferrara (2003)). In fact, while in bilateral transactions reciprocation can only be carried out by the original beneficiary (“bilateral reciprocity”), among members of the same family or kin group it is possible for reciprocation to involve the offspring of the original benefactors (“generalized reciprocity”). In many developing countries, for example, it is common for young people who receive support from older relatives to finance their studies to reciprocate by helping their younger relatives once they start earning money.

The power of dynastic links helps not only to reciprocate favours but also to carry out punishments. Kinsmen often obey the principle of collective responsibility, whereby members of the same clan are held jointly responsible for each other’s actions (Posner (1980)). Following a

defection, retaliation can thus fall on the defectors as well as on other members of their clan, increasing the cost of breaching the contract.

Finally, family ties facilitate enforcement because they limit the possibility of opting out in case of defection. In a society when most economic transactions (e.g. insurance) occur within the boundaries of the extended family or clan, the ascriptive nature of these ties make it impossible for someone to enjoy those benefits if they unilaterally leave their original group. A similar argument is made by Caselli and Coleman (2006) in the context of the organization of political competition along ethnic lines. They argue that ethnic identity can be used as a “marker” to recognize members of the opposing coalition and prevent their infiltration.

3.4 When would it be better for families not to enforce contracts?

The fact that families enjoy a comparative advantage in enforcement does not mean that the outcomes of family enforced arrangements are always welfare improving.

First, they may not be welfare improving for society. As early as 1958, Banfield argued that the reason why the South of Italy was relatively less developed from an economic point of view was due to its “amoral familism”, i.e. the fact that its inhabitants were willing to cooperate with members of their own families but not with anyone else (Banfield (1958)). This idea was later incorporated in the distinction between “bonding social capital”, which involves links among members of a relatively homogeneous and closed group, and “bridging social capital”, where the links cut across diverse social groups (Putnam (2000)). The Sicilian “mafia” can be seen as an extreme form of social organization based on family ties, which enjoys considerable enforcement power but implements agreements that are detrimental to social welfare (Gambetta(1993)).

Second, they may impose welfare losses on family members themselves. Membership in family groups is sometimes cemented by rituals or practices that involve substantial costs for the participants. A useful example is provided by Berman (2000) in his analysis of Ultra-Orthodox Jews. Men in this group typically remain in religious seminaries (yeshiva) and do not work until the age of 40 despite the poverty of their families to “signal” their commitment to the community. A number of social practices and traditional rituals performed in developing countries nowadays may be interpreted along the same lines.

4. Concluding remarks

This paper has examined the role of family and kinship ties in economic development. It has started with an overview of the functions that families play in transmitting values to younger generations and establishing social norms. These values and norms have a profound impact on individual decisions involving fertility, labor force participation, investments in education and health. It has then proceeded to analyze families as substitutes for markets, with particular reference to informal insurance and credit markets. A common theme in the paper is to highlight the comparative advantage that families have in performing some of these roles, but also the potential inefficiencies that may result.

The paper neglects, for reasons of space, two important strands of literature. The first looks at families in their role as “employers”. This includes the literature on ethnic networks and their effects on job search, employment and wages (see among others, Granovetter (1995) and Munshi (2003)). The second is the recent literature on family firms, that looks at the economic performance of family controlled firms and at the potentially distortionary effects on the allocation of capital (Fisman (2001), Bertrand and Schoar (2006), Perez-Gonzalez (2006)).

The second is a recent literature on endogenous family structure. Many of the arguments above related to the economic effects of certain patterns of family links are subject to the criticism that such patterns are not set in stone, and may themselves evolve in response to changing economic conditions. This is true at the micro level, in the sense of endogenous household formation (see, among others, Pezzin and Schone (1999), Konrad et al. (2002) and Fafchamps and Quisumbing (2007)). But it also holds at a more macro level, in the sense of endogenous kinship groups. For example, Bates (1990) reports evidence that in many parts of East and Central Africa varying degrees of kinship ties reflect different needs to cope with risk.

Despite these limitations, some of the contributions examined in this paper offer helpful insights into the design of public policies that take into account the involvement of families in economic decisions.

Some of these policies should explicitly address inefficient social norms that are perpetuated by family decisions, such as the payment of dowries or the practice of early marriage. Action has been taken in this direction, for example by institutions like the Grameen Bank in India, which does not lend to parents who pay a dowry or marry their daughters before 17, or the program of national education vouchers in Bangladesh, for which married girls are not eligible.

Other policies may be targeted to other goals, but take into account the structure of family relations. For example, the design of public safety nets should be responsive to the existing informal insurance networks and be sensitive to the fact that certain groups (e.g. migrants or members of the minority local population) may not enjoy the same degree of social connectedness, hence rely more on the public system. Also, to the extent that learning and information transmission in certain areas occur within family boundaries, public policies and information campaigns may be targeted to parents as well as to children (e.g. for the preventions of HIV-AIDS).

To conclude, sociologists and anthropologists have always taken family structure as a starting point for understanding society. Not so development economists, at least until recently. It is time to use the tools of economics to enrich our understanding of how individuals, families and groups decide in developing countries, and improve our ability to fight poverty effectively.

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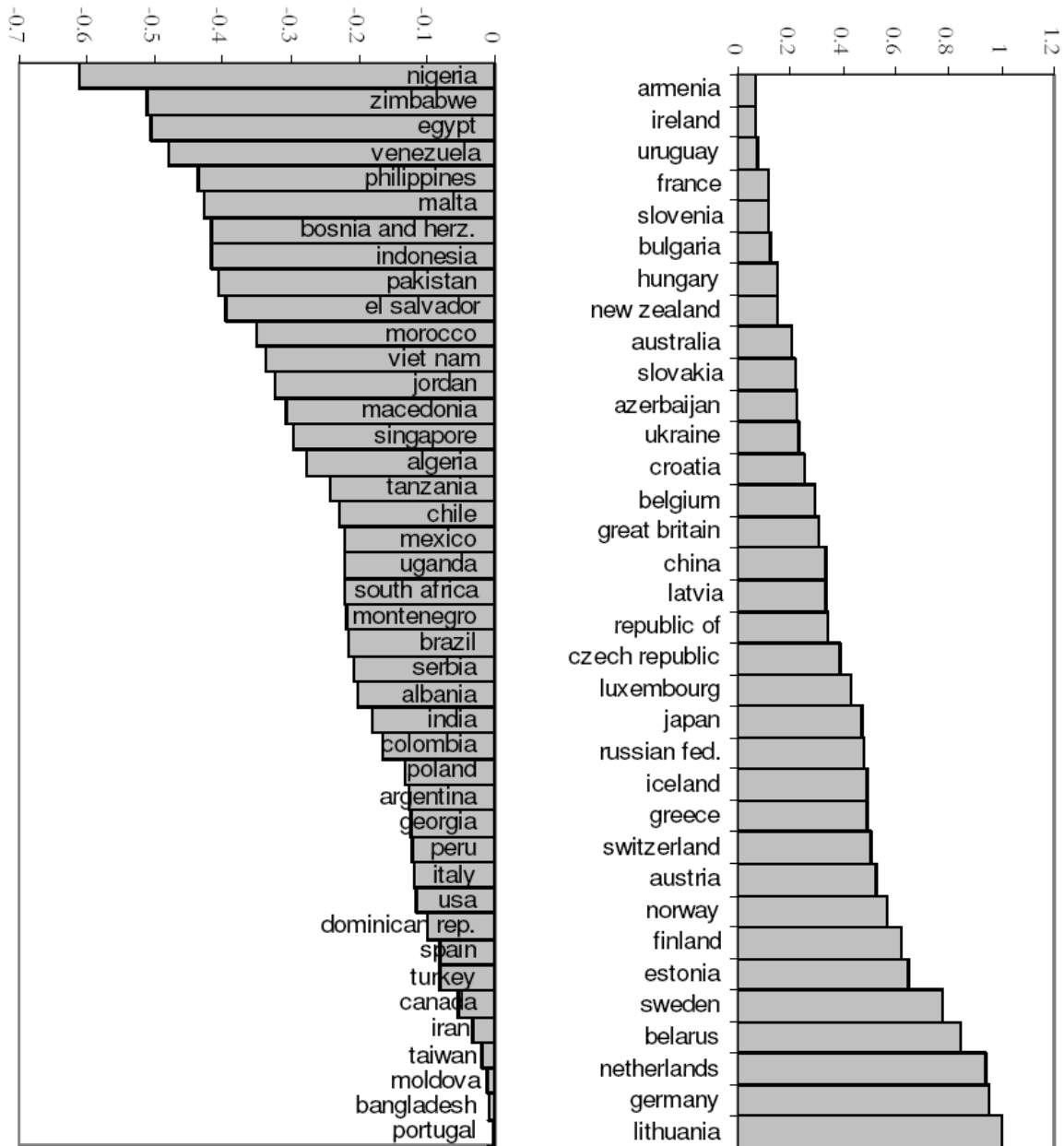
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Annex – Figures and Tables

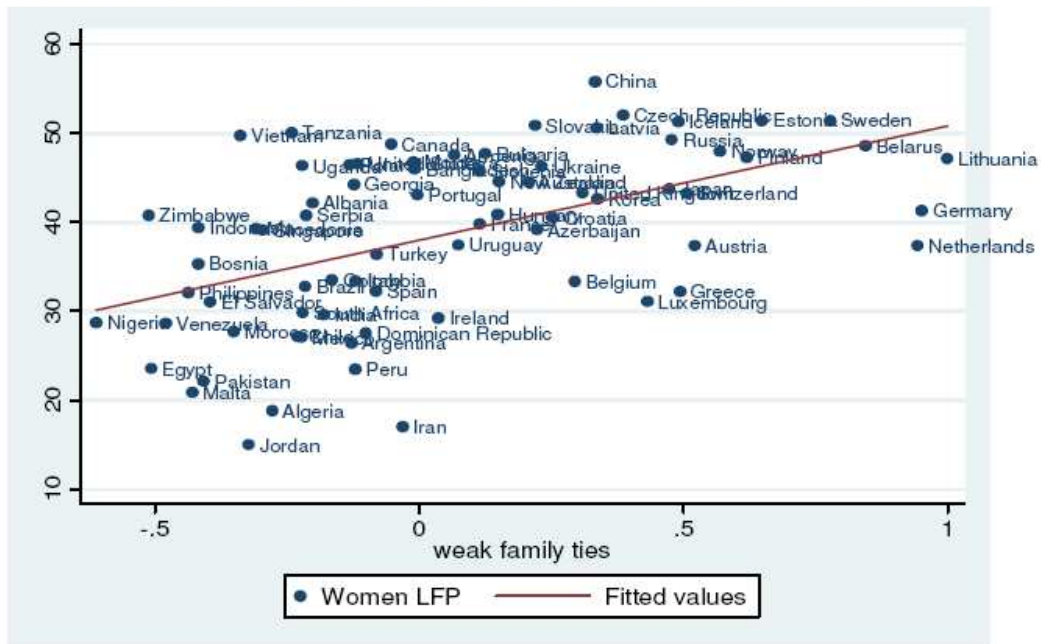
Figure 1: Weakness of family ties



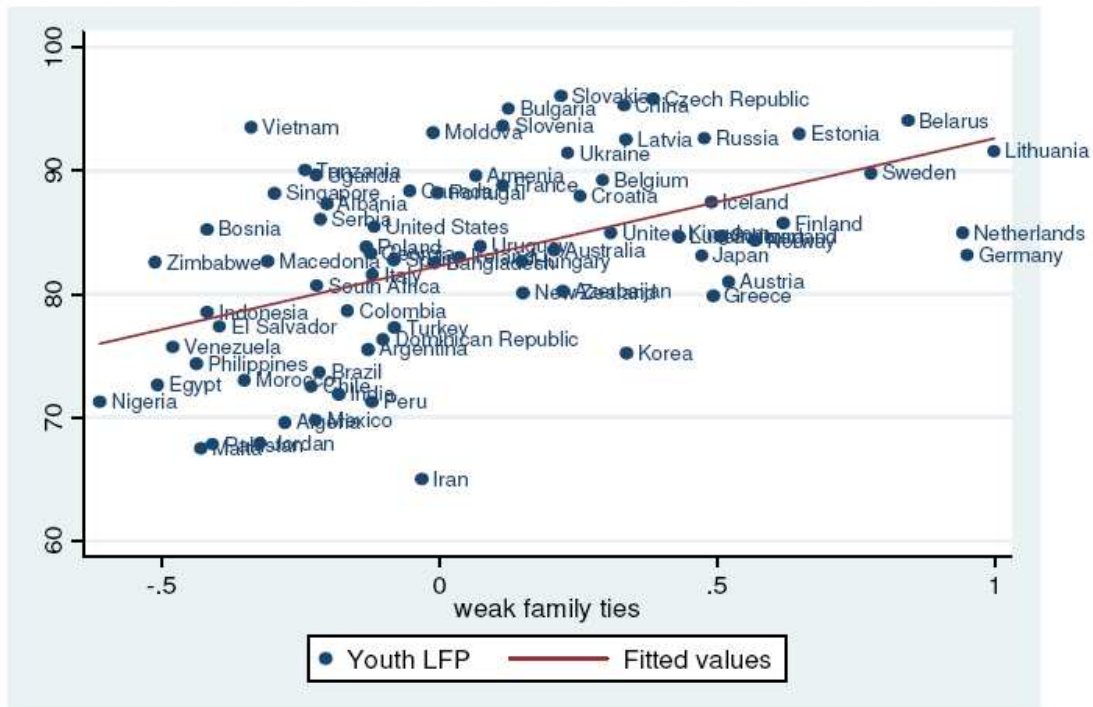
Source: Alesina and Giuliano (2007), p. 41

Figure 2: Family ties and labor force participation

a) Family Ties and Female Labor Force Participation

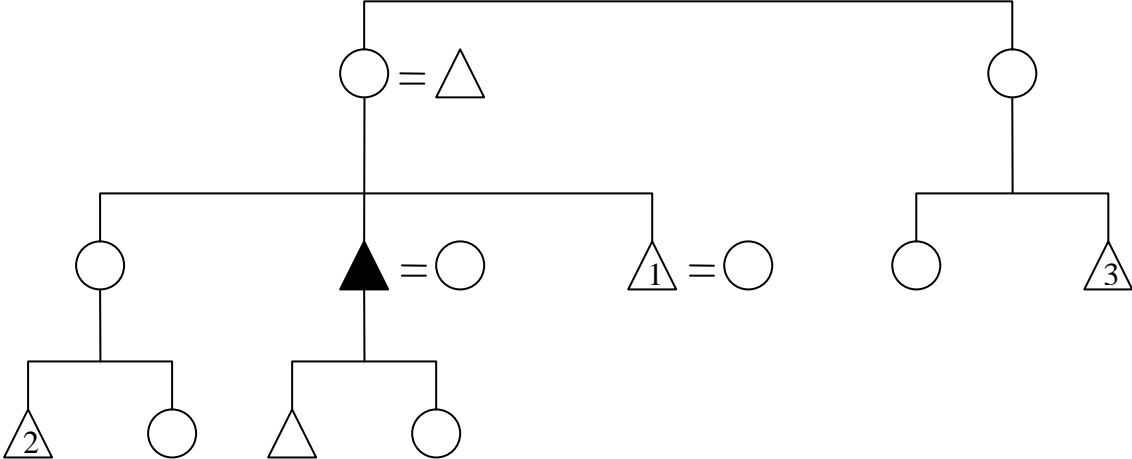


b) Family Ties and Youth Labor Force Participation



Source: Alesina and Giuliano (2007), p.44

Figure 3: Matrilineal inheritance



△ Male
○ Female

Dark area refers to household head. Numbers indicate order of inheritance

Source: La Ferrara (2007), p. 285