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Culture, Family Ties and the Saving Hand

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- Different cultures entail both a great diversity of household structures and different saving patterns.
- The diversity of family relations and saving patterns creates different incentives for physical and human capital accumulation.
- Policies can alter saving incentives and create the conditions for household structures themselves to change.

Cultural diversity gives rise to a wide range of household structures and kinship relations...

The diversity of household structures within and across countries is impressive. Across societies household composition can change dramatically. In some, as in Ghana, almost half of households are single-parent , many headed by wives of polygamous men. In others, such as Côte d'Ivoire, the majority of people live with members of their extended family such as uncles or cousins.

Even common classifications hide important differences. The reality of polygamy, for example, is very different across countries. In Arab countries it concerns only a wealthy minority. In Cameroon over half of all men across income groups are in polygamous unions.

Differences in household structures entail important differences in their composition. For example, in Côte d'Ivoire, average household size ranges from three for single parent households to ten for polygamous or extended households. Dependency ratios are also higher by 7 per cent in extended, compared to nuclear households, and by 12 per cent in polygamous compared to monogamous households. These differences profoundly affect the economic organisation of the household.

Kinship relations' influence in economic life remains very strong in both Asia and Africa. In some cases richer households have a social obligation to accommodate members of their group or foster the children of poorer parents. In other cases, social ties help underpin strong business networks, thus functioning as engines of growth for specific communities, as has been documented for Chinese communities in South East Asia.

... as well as different saving patterns

Family relations shape saving institutions. In many African countries, where men and women have different roles in managing family finances, Roscas (rotating savings and credit associations) are often all-female. This gender segregation allows women to render their savings illiquid, and even to hide them from their partners. They are then better equipped to resist pressures to draw on them when disagreements about saving and consumption choices erupt in the couple.

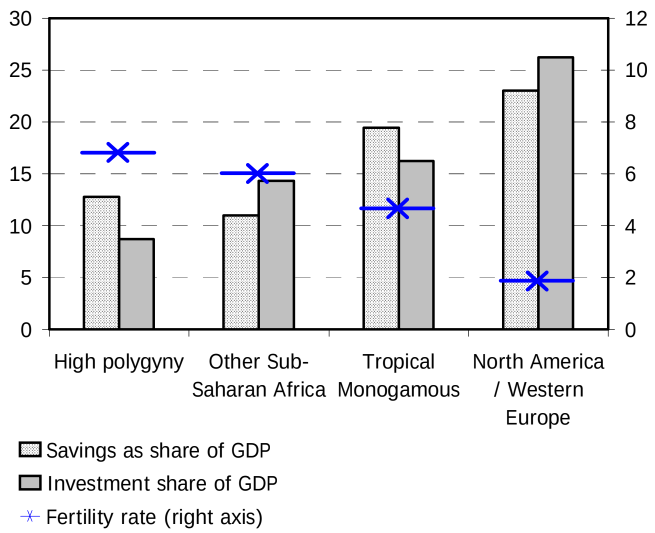
Strong kinship ties also allow individuals to borrow from members of their family group, even when financial systems fail them. This can allow even the poor to save and invest without collateral, documents, interest and often any repayment schedule. Social pressure is enough to guarantee repayment.

Family relations and saving patterns have implications for capital accumulation

By helping to provide financial services, family ties can free up capital and allow productive investment. Such ties help explain the high rates of savings even among the poor in South East Asia. In Africa, Roscas allow women to save more in order to pay for school fees and uniforms, or to buy kitchen ware and furniture. Family institutions also affect human capital accumulation: fostering makes it possible for the children of poor parents to attend school even where the state does not provide them with free education.

The implications can also be negative. Polygamy provides a prime example. Wherever polygamy exists, men must pay an important bride-price to her father. In Uganda, for example this amount is of the same order as GDP per capita. This practice diverts savings away from productive investment. Cross-country comparisons between countries where polygamy is widespread and those where it is forbidden or limited show that fertility rates are higher while saving and investment rates are lower in the former. Survey data from Ghana correspondingly show that wealth per capita is lower in polygamous than it is in monogamous households. Human capital accumulation is also affected: enrolment rates and expenditures per schooled child are lower in polygamous households.

Figure 1. **Fertility, Saving and Investment: by Prevalence of Polygyny and by Region**



Source: OECD DEV, based on "Polygyny, Fertility and Savings", M. Tertilt, *Journal of Political Economy* (2005).

The cost of fulfilling certain social obligations provides a second example. Having to accommodate any person of the kinship group constitutes an in-kind transfer that generates disincentives to invest. It can breed opportunistic behaviour if no obligation to reciprocate by working exists. Such behaviour has indeed been documented by ethnologists in Ivorian towns. As a response, individuals may conceal a part of their wealth in order to avoid transfers – farmers do so by holding cash instead of grain or by dispersing their cattle so that it is less visible – or forego investment opportunities altogether.

Policy can alter cultural incentives to save and invest

Taking into account the incentives – and disincentives – to save and invest that emerge from family relations can lead to somewhat counter-intuitive policy conclusions. When family pressures to redistribute are strong, relatively illiquid means of saving may be preferred by many. But such instruments are seldom the focus of development policy.

Furthermore, social and fiscal policy interventions generate incentives that shape household composition, intentionally or not. For example family support or benefits based on the number of dependants encourage larger families and fostering, which drive up the dependency ratio, limiting disposable income and thereby lowering savings.

Households are the subject of much of the analysis that underpins poverty reduction strategies and development action. They are also the object of social and fiscal policies. Understanding the incentives created by the family ties that bind households together is key in formulating policy that is sensitive to cultural differences yet encourages saving, investment and ultimately, greater prosperity

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