Family Structure, Wealth, and Economic Growth

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World Congress of Families IV
Warsaw, Poland
May 10-13, 2007
• Today it is more feasible than ever before to achieve the desired goal of economic and social development in terms of technology and productive potential. Yet:

  – 1.3 billion persons live in extreme poverty with a per capita income of less than $1 / per day.

  – 3 billion persons are at the poverty level and subsist on less than $2 / per day.

  – 1.3 billion persons have no access to drinking water.

  – 3 billion persons have no basic sanitation facilities.

  – 2 billion persons have no electricity.
## Environmental Health, Welfare and Living Conditions in Low Income Countries

<table>
<thead>
<tr>
<th>Indicator</th>
<th>% access</th>
</tr>
</thead>
<tbody>
<tr>
<td>House Connection: water</td>
<td>48 / 99</td>
</tr>
<tr>
<td>House Connection: sewerage</td>
<td>46 / 99</td>
</tr>
<tr>
<td>House Connection: electricity</td>
<td>62 / 100</td>
</tr>
<tr>
<td>Water consumption (liter per person)</td>
<td>30 / 600</td>
</tr>
<tr>
<td>Wastewater treated</td>
<td>29 / 97</td>
</tr>
<tr>
<td>Solid waste disposal: landfill or incinerated</td>
<td>31 / 78</td>
</tr>
<tr>
<td>Solid waste disposal: other (dump, recycled, etc.)</td>
<td>66 / 22</td>
</tr>
<tr>
<td>Paved Road</td>
<td>19 / 94</td>
</tr>
<tr>
<td>Literacy</td>
<td>49 / 100</td>
</tr>
<tr>
<td>Under-five mortality (per 1000)</td>
<td>107 / 6</td>
</tr>
<tr>
<td>Public Expenditures on Health (%GDP)</td>
<td>1.3 / 6.2</td>
</tr>
</tbody>
</table>
Families face serious health and poverty problems, especially in the developing world

- Lack of income and assets to attain basic needs:
  - Human assets
  - Natural assets
  - Physical assets
  - Financial assets
  - Social assets
  - Aging security

- Vulnerability to adverse shocks are linked to an inability to cope with them
There is a positive correlation between
- human capital, infrastructure and economic growth
- healthy institutions and economic development
- health and income per capita

These positive correlations reflect an essential causal link running from human capital to
- healthy institutions (social capital)
- infrastructure and technology

Life expectancy is a significant predictor of economic growth
Neo-Classical Theory

Investment plays a key role in the economic process.

✓ The adjustments in growth take place due to the behavior of investment in physical capital.

✓ Investment determines the growth adjustment process.

✓ Country characteristics determine the relative level of income.

✓ Shocks only play a minor role in determining economic growth.

✓ These models have explained the experience of developed countries, they have failed to explain the worldwide experience. Human Capital has also been incorporated.
## How Does the Family Facilitate Investment?

<table>
<thead>
<tr>
<th>Basic Activities</th>
<th>Means Used</th>
<th>Role of the Family</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production</td>
<td>Resources</td>
<td>Human Capital</td>
<td>Basic Needs</td>
</tr>
<tr>
<td>Exchange</td>
<td>Market</td>
<td>Human, Moral, Social Capital</td>
<td>Profit</td>
</tr>
<tr>
<td>Consumption</td>
<td>Optimization and Distribution</td>
<td>Appropriate distribution</td>
<td>Wellbeing (welfare)</td>
</tr>
</tbody>
</table>
Questions to be addressed

✓ Is the family relevant to the process of production within the economy only because it affects human capital or it affects investment as well?
✓ If so, How?

✓ With this goal we analyzed the relationship between family structure and wealth in three countries:

✓ Canada
✓ Guatemala
✓ USA
## Impact in Numbers

<table>
<thead>
<tr>
<th></th>
<th>Canada</th>
<th></th>
<th></th>
<th>Guatemala</th>
<th></th>
<th></th>
<th>USA</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>T</td>
<td>M</td>
<td>SM</td>
<td>T</td>
<td>M</td>
<td>SM</td>
<td>T</td>
<td>M</td>
<td>SM</td>
</tr>
<tr>
<td></td>
<td>-5.3</td>
<td>2.3</td>
<td>-7.2</td>
<td>-0.12</td>
<td>0.27</td>
<td>-15</td>
<td>4.3</td>
<td>23</td>
<td>15</td>
</tr>
<tr>
<td>Education</td>
<td>3</td>
<td>6</td>
<td>2</td>
<td>-2.2</td>
<td>3.5</td>
<td>-6</td>
<td>12.3</td>
<td>7.4</td>
<td>1.6</td>
</tr>
<tr>
<td>Breakdown</td>
<td>Family</td>
<td>-14</td>
<td>-32</td>
<td>-10</td>
<td>9.4</td>
<td>-18</td>
<td>-42</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Children</td>
<td>-.05</td>
<td>2.3</td>
<td>-15</td>
<td>5</td>
<td>-.23</td>
<td>-36</td>
<td>2</td>
<td>-.10</td>
<td>-6</td>
</tr>
<tr>
<td>Race</td>
<td>-.21</td>
<td>1.4</td>
<td>-4</td>
<td>.007</td>
<td>.005</td>
<td>.26</td>
<td>13.7</td>
<td>-2.9</td>
<td>-42</td>
</tr>
<tr>
<td>Occupation</td>
<td>17</td>
<td>18</td>
<td>12</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>18.7</td>
<td>7.7</td>
<td>2.7</td>
</tr>
<tr>
<td>Regular Income</td>
<td>45</td>
<td>34</td>
<td>21</td>
<td>32</td>
<td>45</td>
<td>22</td>
<td>113</td>
<td>117</td>
<td>113</td>
</tr>
<tr>
<td>Housing</td>
<td>45</td>
<td>63</td>
<td>23</td>
<td>50</td>
<td>55</td>
<td>10</td>
<td>198</td>
<td>118</td>
<td>67</td>
</tr>
</tbody>
</table>
Net Wealth USA

Average of NETWORTH

$25,000,000
$20,000,000
$15,000,000
$10,000,000
$5,000,000
$0

Net Wealth

Years of Education

Marital Status

EDCL

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Net Wealth in Canada

Canadian Dollars

Level of Education

Marital Status

Less HS        HS       Terciary       College
Chinese Famine 1958-1961

- Unexpectedly occurred when grain per capita had increased
- 30 million casualties and 33 million postponed births
- Causes thus far put forward are able to explain its magnitude but not how it first started:
  - Bad weather
  - Reduction in sown acreage
  - Government’s high grain procurements
  - Forced collectivization
  - Bad management
  - Collapse of incentive mechanisms
Communal Dining Halls

- 1958 Mao and Party created 2.65 million.
- Private kitchens were destroyed.
- Peasants’ private food stocks were collectivized.
- Cooking woks and pots were collected and melted down to serve as iron or steal.
- Free food was provided and food products were channeled directly unto dining halls.
- “Open your stomach, eat as much as you wish, and work hard for socialism.”
Consequences

- **Overconsumption** (a six month supply was depleted in three months)

- **Inefficient use of resources**
  - Leftovers thrown away
  - Wasted food in the process of transfers from storage to cooking due to neglect or poor management

- By the end of 1958 **food shortage/starvation**

- Mao refused to reverse this policy until the mid of 1961

- At the time most **farmers chose to return to home dining**

- By the end of 1961, famine was ended in six months
Number of Deaths by Percentage of Population Use of Communal Dining Halls

Source: Chang and Wen (1997), Table 5.
China late 1990s-2006

- Children consumption in cities higher than that of adults.
- Parents provide to children their food wishes but no balance diet.
- Family meals have been replaced by milk, cookies, cold drinks, or health supplements children do not need.
- Children experiencing many health digesting problems.
- Forecast show Chinese families can’t support pattern of consumption and therefore standard of living for parents are falling.
- Negative human and social capital effects.
Conclusions

- Family structure is relevant for wealth. This happens to be the case after other characteristics are controlled by.

- The impact of children on family wealth is best within marriage.

- Evidence seems to hold across countries. In socialized market economies the negative impacts seem to be mitigated but not eliminated.

- Life-cycle theory of savings seems to be supported by empirical evidence.

- Healthy family structures support private property.