The Family and Economic Development

Dr. Maria Sophia Aguirre

Department of Business and Economics

The Catholic University of America

Family as Foundation for Social and Economic Development

Focus on the Family

July 7-8, 2004
Is the Family Relevant for Economic Development?

- Some would argue that the family is key because:
  - The earth is limited
  - The family is a hostile place for woman and children
  - Large families threatens countries’ stability

- Others argue that the family is key because:
  - Healthy families are needed for the economy to fulfill its purpose
  - Growth of population does not equal poverty
  - Aging population “trap” threatens sustainable economic growth and development
I Would Like to Argue

- The focus on family and population is not necessarily incorrect, but both the population control policies used and the approach of some international organizations and countries to the family are mistaken.

- This is so because:

  - Healthy families are essential for a country as they have a direct impact on human, moral, and social capital, and therefore, on resources use, economic activity, and economic structures.

  - Resources are used inefficiently when directed towards policies that weaken families in stead of policies that strengthen them. This, in turn, hampers the sustainability of real economic growth and perpetuates poverty.
On this point, I have good company

Nobel Laureate, 1992

- “No discussion of human capital can omit the influence of families on the knowledge, skills, values, and habits of their children and therefore on their present and future productivity.”

Nobel Laureate, 1998

- “The human development approach must take full note of the robust role of the human capital, while at the same time retaining clarity about what the ends and means respectively are. What needs to be avoided is to see human beings as merely means of production and material prosperity.” Sen (1994)
# How Does the Family Fit in the Economy?

<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 and Optimization</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>Buying Power and Distribution</td>
<td>Appropriate distribution</td>
<td>Wellbeing (welfare)</td>
</tr>
</tbody>
</table>
Several elements of the economy degenerate if they are not ordered towards the family

- Purpose of the economy -- meet family needs to obtain and to consume
- Motivation to work – lower productivity
- Distribution of goods and services – fairness
- Motivation to save or invest beyond retirement -- capital production
- Moderation of consumption and spending -- waste
- Role of the government -- meet in a subsidiary manner the needs of the family
Socioeconomic Relevance

- **Children develop best** within a family that is functional, i.e., with their biological parents in a stable marriage.

- The **academic and social performance** of a child is very closely related to the structure of the family in which he lives and this is important for the quality of the human and social capital.

- The **psychological stability and health** of a child is closely related to healthy families and this is important for worker’s productivity and government finances.
The breakdown of the family is a symptom of a sick and weak society

- Women abuse is 25 times more likely to occur in irregular family.
- Men who have witnessed domestic violence are three times more likely to abuse their own wives and children.
- Substance abuse and teen-age pregnancy is higher in broken families.
- Women and children of broken families have a higher probability of living in poverty.
- Increase of social welfare expenditures burden.
There is considerable scientific evidence of the psychological damage done by voluntary breakup of the family. Children are worse off

- Tend to have more social, psychological, health, and academic problem
- Non-maternal care increases children’s aggressive and violent behavior
- Child abuse is 6 times more likely to occur in irregular family settings
Percentage of Families that are in Poverty by Family Structure and Ethnicity, 2002

<table>
<thead>
<tr>
<th></th>
<th>Married</th>
<th>Single</th>
</tr>
</thead>
<tbody>
<tr>
<td>White</td>
<td>4.4</td>
<td>27.1</td>
</tr>
<tr>
<td>Asian and Pacific</td>
<td>7.7</td>
<td>29.2</td>
</tr>
<tr>
<td>Black</td>
<td>6.1</td>
<td>54</td>
</tr>
<tr>
<td>Hispanic</td>
<td>14.1</td>
<td>47.4</td>
</tr>
</tbody>
</table>

Percentage of Women who are in Poverty by Family Structure and Ethnicity, 2001

Percentage of Children who are in Poverty by Family Structure and Ethnicity, 2001

Developed Countries Welfare Expenditures vs Developing Countries Debt in 2001

<table>
<thead>
<tr>
<th>Country</th>
<th>Welfare Expenditure (1000s of Dollars)</th>
<th>Debt (Million of Dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China (Taiwan)</td>
<td>9.5</td>
<td>112</td>
</tr>
<tr>
<td>Mexico</td>
<td>191</td>
<td>70</td>
</tr>
<tr>
<td>Brazil</td>
<td>251</td>
<td>221</td>
</tr>
<tr>
<td>UK</td>
<td>393</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>462</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>728</td>
<td></td>
</tr>
<tr>
<td>US</td>
<td>2120</td>
<td></td>
</tr>
</tbody>
</table>

The family faces 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, linked to an inability to cope with it
# 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>66/48 / 99</td>
</tr>
<tr>
<td>House Connection: sewerage</td>
<td>56/46 / 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>13/ 19 / 94</td>
</tr>
<tr>
<td>Literacy</td>
<td>85.8/49 / 100</td>
</tr>
<tr>
<td>Under-five mortality (per 1000)</td>
<td>39/107 / 6</td>
</tr>
<tr>
<td>Public Expenditures on Health (%GDP)</td>
<td>1.9/ 1.3 / 6.2</td>
</tr>
</tbody>
</table>

© copyright
The family faces serious health problems, especially in the developing world

The main health risks and causes of death for man and woman are:

- Cardiovascular diseases (kills 16.7 million)
- Malignant neoplasms (cancer) (kills 7.1 million per year)
- Injuries (kills 5.2 million)
- Respiratory diseases (kills 3.7 million)
- Perinatal conditions (kills 2.5 million)
- Respiratory infections (kills 3.9 million)
- HIV/AIDS (5 million new cases and kills 2.8 million)
- Diarrhoeal Diseases (kills 1.8 million per year)
- Tuberculosis (8 million new cases per year and kills 1.8 million people per year.)
- Malaria (300-500 million new cases per year and kills 1.2 million)
- Maternal condition (kills 540,000 per year)

These diseases are rare and treatment is accessible in developed countries and their cost is remarkably low.

# Low Cost Effective Interventions

(annual cost per capita)

<table>
<thead>
<tr>
<th>Treatment</th>
<th>Costs</th>
<th>Effectiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemotherapy for TB (6 months)</td>
<td>$20.00</td>
<td>95%</td>
</tr>
<tr>
<td></td>
<td>($0.60)</td>
<td></td>
</tr>
<tr>
<td>Contraceptives (HIV)</td>
<td>$14.00</td>
<td>99% (85%-95%)</td>
</tr>
<tr>
<td></td>
<td>($1.90)</td>
<td></td>
</tr>
<tr>
<td>Hydration salts for Diarrhea</td>
<td>$0.33</td>
<td>95%</td>
</tr>
<tr>
<td></td>
<td>($1.60)</td>
<td></td>
</tr>
<tr>
<td>Pneumonia Antibiotics (5 days antibiotics)</td>
<td>$0.27</td>
<td>High</td>
</tr>
<tr>
<td>Measles (1 douses of vaccination)</td>
<td>$0.26</td>
<td>98%</td>
</tr>
<tr>
<td></td>
<td>($0.50)</td>
<td></td>
</tr>
<tr>
<td>Malaria</td>
<td>$10</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>($0.05)</td>
<td></td>
</tr>
</tbody>
</table>

*Sources: CDS, WHO*
Solutions Often Proposed: Millennium Goals

- Population control

- “Safe sex“ and antiretroviral drugs.
  - Although condoms give the “best” protection against HIV for men, the risk reduction for women is not as high (*Davis and Weller*, 1999)
  - Use of condoms increased the risk of contracting AIDS. (*UNAIDS 1996 and NACHHD 1999*)
  - Not of use in China: Drugs and Blood transfusion, not homosexuality
The Population Control Argument

- First, rapid growth in population means the spread of poverty and aggravates conditions such as as poor health, malnutrition, illiteracy, and unemployment. (Bucharest, 1974)

- Second, population threatens government stability in developing countries, and encourages the confrontation between developed and developing countries. (Memorandum 200)

- Third, it pushes future generations to scarcity, and an unsustainable environment carrying capacity. (Rio, 1992)

- Fourth, it sees population growth to be symptomatic of the larger problem of women's oppression—the more children a woman has, the less opportunity she has for her own self-actualization and development. (Cairo, 1994 and Beijing, 1995)
Summary

Assuming a fixed level of resources, it predicts a decrease in per capita income in two ways: more consumers divide any given amount of goods, and each worker produces less because there is less capital, private and public, per worker. In addition, the growing number of young children poses an additional burden in the reduction of consumption because they consume but they do not produce. Finally, population growth hinders economic growth because, by reducing savings and education, it reduces investment. The key assumption made in this theory is the ceteris paribus condition where resources are given and therefore constant.
In China

- GDP has increased on average 7.8% (1997-2003)
- Life expectancy has increased. Infant mortality has decreased more than 64% since 1970, malnutrition has been reduced by more than 20%, and the number of children receiving vaccination has increased by 79%.
- The increased access to health services, water, and electricity have allowed for these improvements.
- Alphabetization among adults has increased from 48% to 85.8% between 1970 and 2001. Primary education has increased from 60% to 97% while secondary education has moved from 45% to 70% during the same period, while tertiary education reached 54%.
Aging Population: Facts

- No debate over if or when an aging population will manifest itself: by 2035 China will have a reversed age pyramid

- From 2000 to 2025, people above 65 will triple while youngsters under 15 will increase by only 6%

- The dependency ratio (defined as the percentage of the population aged 65+ over the percentage of the population aged 15-64) will increase from an average of 50% in 1995, to an average of 85%-90% by the year 2050.

- Today in China only 44.9 % of the urban employees and 85.4 % of the retirees covered by social security
China’s Population Distribution, 2000

Age Distribution

- 0-14: 23.41%
- 59-15: 52.50%
- 60-65: 10%
- over 65: 14%

Aging Trap

- Social security system funding: the family can not support the elderly
- Competition between the younger and older people
- Early retirement
- To provide for the economic needs of the elderly, there is a reduction of funding allocated to training new generations
- The transmission of cultural, scientific, technical, artistic, moral and religious goods is endangered: "moroseness"
- Saving rates are affected by a society's age structure, mirroring the change in an individual's saving rate over the life cycle.
Cost of malaria to African countries is 1-5% of GDP. Direct and indirect costs of malaria in sub-Saharan Africa exceed $2 billion.

World Bank lending for malaria amounted to $300 million and for tuberculosis amounted to $560 million.


For HIV/AIDS, World Bank allocated $1.5 billion in grants, loans and credits to fight HIV/AIDS over the past five years.

Cost of Antiretroviral regimen had decreased significantly ($12,000 per year to $500).

Annual population assistance levels reached $2 billion a year.
Expenditures on Grant-Financed Development Activities of the United Nations System by Sector

Source: Compiled from *Comprehensive Statistical Data on Operational Activities for Development*, years 1990-2003.
China Allocation of Funds

<table>
<thead>
<tr>
<th>Service</th>
<th>Billion of Dollars</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Military</td>
<td>60.00</td>
<td>4.3%</td>
</tr>
<tr>
<td>Education</td>
<td>20.00</td>
<td>2.1%</td>
</tr>
<tr>
<td>Debt Service</td>
<td>20.00</td>
<td>2.1%</td>
</tr>
<tr>
<td>Health</td>
<td>10.00</td>
<td>1.9%</td>
</tr>
</tbody>
</table>
China Has Proposed

- Focused in major exporting industries: attract foreign investment and create labor force
- Bail out banking system (bad loans) and farm subsidies
- Increase access to water and electricity in rural areas (Cybernetic Revolution)
- Continue population control: one child policy
- Increase spread of contraceptives: AIDS
- Little on social security and welfare programs: shift burden to community level ($607 million in 2003 and decrease on education)
- Relay heavily in the present structure of the family
How Government Policies Can Help: Some Examples

- Legislation that supports families *vis a vis* other types of living styles
- Programs that support and promote healthy marriages and stable families
- Changes in family subsidies/penalties for children
- Parental leaves
- Promotion and protection of the family as a means to eradicate poverty, especially the feminization of poverty
- Programs directed towards fostering functional societies and markets, where corruption is not a fundamental part of governmental operations
Microcredit

- It has shown to be a successful and dollar-efficient lending tool that has positive results for both individuals and families. It opens doors to low-income populations in developing countries while generating significant financial return.

- It increases income and improves consumption patterns while bettering the well-being of families. Reduces dependency

- Targeting women and married men has proven to be especially advantageous for successful programs and for family well-being.

- A group lending model without non-business social objectives programs attached to it has proven to be most successful.

- It fosters development, as well as habits that are fundamental for economic growth: responsibility, accountability, trust, market operations, education, and creativity.
It includes the World Bank, USAID, IDB, ADB, ADB, UN
Microcredit vs Citigroup Return on Equity

<table>
<thead>
<tr>
<th>Organization</th>
<th>ROE</th>
</tr>
</thead>
<tbody>
<tr>
<td>F.J. Nieborowski</td>
<td>80.3%</td>
</tr>
<tr>
<td>CMAC</td>
<td>55.0%</td>
</tr>
<tr>
<td>Compartamos</td>
<td>53.2%</td>
</tr>
<tr>
<td>Adopen</td>
<td>50.9%</td>
</tr>
<tr>
<td>CMAC Arequipa</td>
<td>54.7%</td>
</tr>
<tr>
<td>Confia</td>
<td>49.8%</td>
</tr>
<tr>
<td>FIE</td>
<td>24.9%</td>
</tr>
<tr>
<td>WWB Popayan</td>
<td>17.0%</td>
</tr>
<tr>
<td>Average for MicroRate</td>
<td>22.3%</td>
</tr>
<tr>
<td>Citigroup</td>
<td>20.2%</td>
</tr>
</tbody>
</table>

Source: MicroRate Database, Sample of most profitable profiles, 2003
Microcredit vs Citigroup Return on Assets

FDI Nieborowski: 21.5%
Compartamos: 21.0%
WWB Popayán: 16.0%
CMAC Arequipa: 8.0%
CMAC: 6.7%
Confia: 5.9%
FIE: 2.1%
Adopen: 0.3%
Average for Microrate: 1.8%
Citroup: 1.6%

Source: MicroRate Database, Sample of most profitable profiles, 2003
Debt / Equity Ratio

Source: MicroRate Database, Sample of most profitable profiles, 2003
Source: MicroRate Database, Sample of most profitable profiles, 2003
Ratio of Social to Financial Staff by Regional Institutional Characteristics

Ratio of Social to Financial Staff by Regional Institutional Characteristics

Productivity Indicators

Source: MicroRate and Grameen Bank
Conclusion

- The family is the framework needed to achieve and sustain economic development
  - It generates or hampers human, social and moral capital. All essential for development.
  - Children develop in the best way within a family that is functional, i.e., with his biological parents in a stable marriage.
  - The breakdown of the family: damages the economy and the society since human, moral, and social capital is reduced and social costs increased.
The Neo-Malthusian approach is seriously flawed on many levels and policy actions based on such assumptions are inefficient, undermine the family, and damage real sustainable development. They lead to:

- Aging trap: one child policy
- Weakens the family
- Health problems
- Financial burden for government
- Depletion of savings

Some of the resent reevaluations of family policies in developed countries seem to point in the right direction.

Microcredit provide opportunity to the very poor