Extended Families and Child Well-being (with Duncan Thomas)

How intergenerational transfers affect child well-being and human capital accumulation is poorly understood. Despite its importance, few data sets provide the information on resources under the control of both co-resident and non co-resident family members necessary to examine sharing within extended families. Even fewer data sets provide information that links the level and distribution of resources in the extended family to child health and development outcomes. Using extremely rich longitudinal data from the Indonesia Family Life Survey (IFLS), this paper provides empirical evidence on whether, and how, resources under the control of parents, grandparents, and other non co-resident family members contribute to child development. We present results in the context of a general model of family behavior that provides a natural, but previously unused, framework to examine how human capital formation is influenced by intergenerational exchange and resource allocation.

There is a growing body of literature on the importance of the extended family in economic models of decision making. This is particularly true in developing settings where nuclear, two adult households are far less common than in the developed world. Living arrangements in developing countries frequently consist of multi or skip generation households, and the extended family often fills gaps created by the absence of formal social safety nets. Previous studies across the social sciences suggest that intergenerational transmission of resources plays a particularly important role in establishing early life health and well-being. The IFLS offers a rich design and set of outcomes to study these phenomena, and we focus specifically on three markers of human capital; health as captured by height-for-age, early school attendance, and cognition.

We examine the links between extended family resources and child well-being within the context of models of family decision making. This is a unique approach, as the intrahousehold literature primarily focuses on consumption allocations of nuclear households and rarely considers the extended family or health. We consider both the neoclassical unitary model of the family as well as the collective rationality model. The later offers the least restrictive approach in the intrahousehold literature, and relies only on the assumption that family members reach Pareto efficient outcomes when allocating resources. Although very few papers have used this model to examine the extended family, it is an appealing approach, as it permits heterogeneous preferences across family members and generations, while placing plausible, testable restrictions on the nature of interactions between relatives.

Where other studies have been limited by the lack of data on the distribution of resources both within households and the extended family, we benefit from the rich longitudinal panel of the IFLS. The study is an ongoing population representative panel that began in 1993 and currently contains data through 2007. The structure of the survey allows us to identify extended families in the data by linking individuals who split-off from baseline households back to their original household of origin. Once a dynasty is identified, we take advantage of detailed health, education, and cognition measures to assess how the resources within a child’s family impact their development.

The results show that children are affected not only by the resources under control of their parents, but also those held by extended family members. While this may not be surprising, the extended family not only influences child outcomes, but they do so in a way that is consistent with a cooperative unit of heterogeneous individuals who coordinate their behavior. The empirical results strongly reject the unitary model as the appropriate framework for the extended family, but we are not able to rule out that families allocate resources in a Pareto efficient manner. The results emphasize the importance of investigating the larger network of family resources when constructing and evaluating policies.