

Social Norms, Status Spending and Household Debt: Evidence from Kyrgyzstan

Alisher Aldashev, NSE, Satbayev University

Life in Kyrgyzstan, Bishkek

October 23-24, 2019

Introduction

- Development economists have two key paradigms on poverty and financial markets.

Introduction

- Development economists have two key paradigms on poverty and financial markets.
- Poor but neoclassical (Duflo, 2006; Ghatak, 2015). Rational individuals in unfavorable environment (market frictions prevents realizing potential).

Introduction

- Development economists have two key paradigms on poverty and financial markets.
- Poor but neoclassical (Duflo, 2006; Ghatak, 2015). Rational individuals in unfavorable environment (market frictions prevents realizing potential).
 - With imperfect credit market the poor are unable to borrow and thus unable to invest in physical or human capital and thus remain in poverty.

Introduction

- Development economists have two key paradigms on poverty and financial markets.
- Poor but neoclassical (Duflo, 2006; Ghatak, 2015). Rational individuals in unfavorable environment (market frictions prevents realizing potential).
 - With imperfect credit market the poor are unable to borrow and thus unable to invest in physical or human capital and thus remain in poverty.
- Another view - even in the absence of market frictions the poor are subject to different constraints.

Introduction

- Development economists have two key paradigms on poverty and financial markets.
- Poor but neoclassical (Duflo, 2006; Ghatak, 2015). Rational individuals in unfavorable environment (market frictions prevents realizing potential).
 - With imperfect credit market the poor are unable to borrow and thus unable to invest in physical or human capital and thus remain in poverty.
- Another view - even in the absence of market frictions the poor are subject to different constraints.
 - Under extreme poverty subsistence considerations impede saving. Individuals are locked in a bad equilibrium (Ghatak, 2015).

Introduction

- Conspicuous consumption and social norms is an important research topic in development economics literature.

Introduction

- Conspicuous consumption and social norms is an important research topic in development economics literature.
- Social norms requiring families to spend on activities which do not contribute to their well-being constitutes constraints that the poor in many developing countries are facing.

Introduction

- Conspicuous consumption and social norms is an important research topic in development economics literature.
- Social norms requiring families to spend on activities which do not contribute to their well-being constitutes constraints that the poor in many developing countries are facing.
- One important example of conspicuous consumption is ceremonial expenditure. For example, weddings, funerals, etc.

Literature

- Poor people in the developing world spend large amounts on weddings, dowries, and christenings (Banerjee and Duflo, 2007; Brown et al., 2005).
- Spending on ceremonies is unproductive as it channels scarce resources of a household away from investment and hence families are locked in poverty traps (Moav and Neeman, 2008, 2012; Kaus, 2013).
- Due to social pressures and concerns for status, the poor are forced to cut basic necessities to afford gifts at social events (Chen and Zhang, 2012).
- Lavish spending on weddings is not uncommon in poor villages with poor households trying to imitate richer families (Block et al., 2004).

Public policy

- Policies to tackle poverty can be classified into three categories:
- Access to markets. It's about market frictions (say, imperfect financial markets);
- Public goods provision. For example, building roads, schools, etc.
- Providing help: unconditional cash transfers, conditional cash transfers and in-kind transfers.

Motivation

- In Central Asia ongoing debates about the excessive ceremonial expenditure.

Motivation

- In Central Asia ongoing debates about the excessive ceremonial expenditure.
- Tajikistan is the first country in the region to impose nation-wide cap on ceremonial spending.

Motivation

- In Central Asia ongoing debates about the excessive ceremonial expenditure.
- Tajikistan is the first country in the region to impose nation-wide cap on ceremonial spending.
- That restricts the number of invitees, amount of food served, number of cars in the wedding cortege.

Motivation

- In Central Asia ongoing debates about the excessive ceremonial expenditure.
- Tajikistan is the first country in the region to impose nation-wide cap on ceremonial spending.
- That restricts the number of invitees, amount of food served, number of cars in the wedding cortege.
- The violation of the regulation is penalised (roughly 580 USD).

Motivation

- In Kyrgyzstan in 2010 the bill to curb the excessive spending did not get the majority voting in parliament.

Motivation

- In Kyrgyzstan in 2010 the bill to curb the excessive spending did not get the majority voting in parliament.
- In 2017 the ruling party proposed a new bill to cap the ceremonial expenditure. Nothing happened.

Motivation

- In Kyrgyzstan in 2010 the bill to curb the excessive spending did not get the majority voting in parliament.
- In 2017 the ruling party proposed a new bill to cap the ceremonial expenditure. Nothing happened.
- In Kazakhstan, there was an initiative to pass a law on funerals.

Motivation

- In Kyrgyzstan in 2010 the bill to curb the excessive spending did not get the majority voting in parliament.
- In 2017 the ruling party proposed a new bill to cap the ceremonial expenditure. Nothing happened.
- In Kazakhstan, there was an initiative to pass a law on funerals.
- This would regulate burials to prevent excessive spending.

Motivation

- In Central Asia so far we have only a vague idea how much people spend on ceremonies.

Motivation

- In Central Asia so far we have only a vague idea how much people spend on ceremonies.
- The figures reported by public officials vary considerably.

Motivation

- In Central Asia so far we have only a vague idea how much people spend on ceremonies.
- The figures reported by public officials vary considerably.
- According to former deputy prime minister Ms Kudaibergenova the average expenditure on an event of a representative family is 1.5 mln soms (roughly 20,000 USD).

Motivation

- In Central Asia so far we have only a vague idea how much people spend on ceremonies.
- The figures reported by public officials vary considerably.
- According to former deputy prime minister Ms Kudaibergenova the average expenditure on an event of a representative family is 1.5 mln soms (roughly 20,000 USD).
- Given the official statistics on consumer spending per household, which is 33,180 soms per annum, saving on ceremonial events would cover the consumer spending for more than 40 years.

Motivation

- In Central Asia so far we have only a vague idea how much people spend on ceremonies.
- The figures reported by public officials vary considerably.
- According to former deputy prime minister Ms Kudaibergenova the average expenditure on an event of a representative family is 1.5 mln soms (roughly 20,000 USD).
- Given the official statistics on consumer spending per household, which is 33,180 soms per annum, saving on ceremonial events would cover the consumer spending for more than 40 years.
- The average spending on an event according to the former governor of Osh Oblast, Mr Zheenbekov, are much lower - about 300,000 soms (roughly 4400 USD).

Motivation

- In a nationally representative survey on customs (Koshbakova, 2011), 36.7% of respondents believe that families spend on ceremonies within their means.

Motivation

- In a nationally representative survey on customs (Koshbakova, 2011), 36.7% of respondents believe that families spend on ceremonies within their means.
- 34.4% believe that spending is excessive and 28.9% believe that weddings, funerals and other ceremonies became show-off contests.

Descriptive statistics

Table: Average Ceremonial Expenditure and Income, soms

| | Year | | |
|-------------------------------|--------|---------|---------|
| Ceremonial Expenditure | 2011 | 2012 | 2013 |
| Urban areas | 20,043 | 28,364 | 30,667 |
| Rural areas | 31,547 | 32,492 | 43,322 |
| Income | | | |
| Urban areas | 99,486 | 123,021 | 163,212 |
| Rural areas | 69,400 | 79,790 | 116,265 |

Descriptive statistics

Table: Expenditure to income ratio and probability of having an event

| | Year | | |
|------------------------------------|------|------|------|
| Expenditure to income ratio | 2011 | 2012 | 2013 |
| Urban areas | 0.15 | 0.15 | 0.11 |
| Rural areas | 0.32 | 0.51 | 0.31 |
| Probability of an event | | | |
| Urban areas | 0.29 | 0.29 | 0.24 |
| Rural areas | 0.31 | 0.41 | 0.33 |

Descriptive statistics

Table: Credit and Income, 2013

| | |
|--------------------------------|---------|
| Average Loan Size, soms | |
| Urban areas | 105,151 |
| Rural areas | 83,950 |
| Loan to Income Ratio | |
| Urban areas | 0.41 |
| Rural areas | 0.51 |

Motivation

- The main question of interest is whether people spend within their means on ceremonies or whether ceremonies endanger households to be locked in poverty.

Motivation

- The main question of interest is whether people spend within their means on ceremonies or whether ceremonies endanger households to be locked in poverty.
- Do households accumulate debt to pay for ceremonial events? If so, this has consequences for financial stability.

Empirical model

- Demand for borrowing is a function of ceremonial spending:
 $D_i^* = \beta_0 + \beta_1 CS_i + \beta_2 X_i + \epsilon_i$, where D_i^* - demand for borrowing, CS_i - log ceremonial expenditure, X_i - other household characteristics, ϵ_i - the error term.
- The bank decides whether to give a loan by comparing the demand for loan and expected payoff. If the expected payoff exceeds the demand, loan is granted.
- ED expected payoff is unobserved but related to the credit history of the household.

Empirical Model

- Define a dummy variable D_i which equals to one if the household receives a loan.
- $D_i = I(ED_i - D_i^* > 0)$.
- This equation could be estimated by probit with CS , X , and credit history information (CH_i) as potential regressors.
- $Pr(D_i = 1) = f(CS_i, X_i, CH_i)$

Empirical model

- $CS_i = \alpha_0 + \alpha_1 D_i + \alpha_2 X_i + \alpha_3 Shock_i + u_i$. (Eq 1)
- Ceremonial expenditure depends on the occurrence of a shock (marriage, death, birth etc), debt (D_i) and other household characteristics.

Empirical model

- $CS_i = \alpha_0 + \alpha_1 D_i + \alpha_2 X_i + \alpha_3 Shock_i + u_i$. (Eq 1)
- Ceremonial expenditure depends on the occurrence of a shock (marriage, death, birth etc), debt (D_i) and other household characteristics.
- On the other hand, $Pr(D_i = 1) = f(CS_i, X_i, CH_i)$ (Eq2), so CS and D are endogenous variables.

Empirical model

- $CS_i = \alpha_0 + \alpha_1 D_i + \alpha_2 X_i + \alpha_3 Shock_i + u_i$. (Eq 1)
- Ceremonial expenditure depends on the occurrence of a shock (marriage, death, birth etc), debt (D_i) and other household characteristics.
- On the other hand, $Pr(D_i = 1) = f(CS_i, X_i, CH_i)$ (Eq2), so CS and D are endogenous variables.
- Eq 1 is estimated by IV with Household credit history as instrument for debt.

Empirical model

- $CS_i = \alpha_0 + \alpha_1 D_i + \alpha_2 X_i + \alpha_3 Shock_i + u_i$. (Eq 1)
- Ceremonial expenditure depends on the occurrence of a shock (marriage, death, birth etc), debt (D_i) and other household characteristics.
- On the other hand, $Pr(D_i = 1) = f(CS_i, X_i, CH_i)$ (Eq2), so CS and D are endogenous variables.
- Eq 1 is estimated by IV with Household credit history as instrument for debt.
- Eq 2 is estimated by IV probit with shock as instrument for ceremonial spending.

Data

- I use the Life in Kyrgyzstan Survey. A nationally representative longitudinal survey of households.
- Survey started in 2010 and repeated 2011, 2012, 2013. The new wave 2016 to be made public soon.
- There is a household survey, individual survey and community survey.
- Questionnaire includes questions on housing, assets, education, health, consumption, expenditure, migration, income etc.
- For this analysis the household survey 2013 was used. Information on debt appears first in 2013 questionnaire.

Questionnaire items

- Dummy for debt is constructed from the question if the household took a loan within the last 12 months.
- The ceremonial expenditure is constructed from the question if the household spent on ceremonies within the last 12 months and what was the highest monetary and non-monetary expenditure.
- Credit history was constructed from two questions 1) Have your household members ever applied for a loan to a bank, microfinance agency etc.? 2) Have you received a loan every time you applied? $CH_i = 1$ if a respondent positively replies to both.
- Other household characteristics: region of residence, income, education level, etc.

Results

- First I estimate the effect of ceremonial spending on household debt.
- Ceremonial spending is endogenous. Need an instrument.
- The instrument need to affect debt indirectly (through ceremonial expenditure). Death of a household member who is a breadwinner might directly lead to borrowing irrespective of funeral expenses.
- Therefore I use death of a relative who is not a household member. As relatives usually participate financially in sharing the cost of funerals, death of a relative who is not a household member would affect ceremonial expenditure of a household but not affect debt directly.

Table 2: Effect of ceremonial spending on debt, IV probit model

| Dependent variable: Incidence of debt | | | | | | |
|---------------------------------------|-----------|-----|-----------|-----|-----------|-----------|
| variable | coef | sig | coef | sig | coef | sig |
| log spending | 0.62 *** | | 0.63 *** | | 0.61 *** | 0.62 *** |
| log income | -0.05 | | -0.05 | | -0.05 | -0.06 *** |
| wealth | -0.80 *** | | -0.96 *** | | -0.90 *** | -0.97 *** |
| city | -0.02 | | -0.02 | | -0.02 | -0.05 |
| years age | -0.00 | | | | | |
| share of females | 0.64 * | | 0.66 ** | | 0.60 ** | |
| share of elderly | -0.31 | | -0.43 | | -0.44 | |
| share of ethnic Russians | -0.07 | | | | | |
| share of ethnic Uzbeks | -0.31 | | | | | |
| years of siblings | -0.28 *** | | -0.36 *** | | -0.36 *** | |
| years of children 3-6 yrs | 0.00 | | 0.10 | | 0.10 | |
| years of children 7-17 | 0.03 | | 0.05 | | 0.05 | |
| household head female | 0.01 | | -0.01 | | | |
| household head medium-abled | 0.08 | | 0.09 | | | |
| household head high-abled | -0.01 | | -0.01 | | | |
| F-stat first stage | 21.7 | | 23.4 | | 24.3 | 24.5 |
| N | 687 | | 687 | | 687 | 687 |

Figure: Effect of ceremonial spending on debt. IV probit

Results

- Next, the effect of debt on ceremonial spending is estimated.
- Debt is endogenous. Credit history is used as an instrument.

Table 3: Effect of debt on log ceremonial spending, IV regression

| Dependent variable: Log ceremonial spending | | | | | | |
|---|-----------|-----|-----------|-----|-----------|-----------|
| variable | coef | sig | coef | sig | coef | sig |
| debt | 1.12 *** | | 1.13 *** | | 1.13 *** | 1.11 *** |
| log income | 0.36 *** | | 0.36 *** | | 0.35 *** | 0.35 *** |
| acoth | 0.76 *** | | 0.76 *** | | 0.77 *** | 0.78 *** |
| city | -0.25 ** | | -0.26 ** | | -0.29 *** | -0.31 *** |
| mean age | -0.01 | | | | | |
| share of females | -0.30 | | -0.29 | | 0.66 ** | |
| share of elderly | -0.07 | | 0.22 | | 0.34 | |
| share of ethnic Russians | -0.80 *** | | -0.86 *** | | -0.90 *** | -0.92 *** |
| share of ethnic Tatars | 0.12 | | 0.12 | | 0.13 | 0.12 |
| mean of infants | 0.22 ** | | 0.16 * | | 0.16 * | 0.15 |
| mean of children 3-6 yrs | -0.08 | | -0.12 ** | | -0.12 ** | -0.12 ** |
| mean of children 7-17 | -0.06 | | -0.09 ** | | -0.09 ** | -0.09 ** |
| household head female | -0.01 | | -0.02 | | | |
| household head medium-skilled | -0.10 | | -0.10 | | | |
| household head high-skilled | -0.12 | | -0.13 | | | |
| death relative | 0.50 *** | | 0.51 *** | | 0.51 *** | 0.52 *** |
| F-stat first stage | 30.3 | | 30.5 | | 30.9 | 30.0 |
| N | 687 | | 687 | | 687 | 687 |

Figure: Effect of ceremonial spending on debt. IV probit

Conclusions

- One of the usual policy recommendation to alleviate poverty: improvement of financial markets.

Conclusions

- One of the usual policy recommendation to alleviate poverty: improvement of financial markets.
- However, the theoretical model shows that if status is important, then improving access to the credit market will increase status spending. Empirical estimates support this.

Conclusions

- One of the usual policy recommendation to alleviate poverty: improvement of financial markets.
- However, the theoretical model shows that if status is important, then improving access to the credit market will increase status spending. Empirical estimates support this.
- Moreover, higher ceremonial spending leads to more debt. One percent increase in ceremonial expenditure increases borrowing likelihood by 0.16 percentage point.

Conclusions

- One of the usual policy recommendation to alleviate poverty: improvement of financial markets.
- However, the theoretical model shows that if status is important, then improving access to the credit market will increase status spending. Empirical estimates support this.
- Moreover, higher ceremonial spending leads to more debt. One percent increase in ceremonial expenditure increases borrowing likelihood by 0.16 percentage point.
- Borrowing leads to increase in spending on ceremonies and ceremonial expenditure leads to even more debt: a vicious circle traps households in poverty.

Conclusions

- One of the usual policy recommendation to alleviate poverty: improvement of financial markets.
- However, the theoretical model shows that if status is important, then improving access to the credit market will increase status spending. Empirical estimates support this.
- Moreover, higher ceremonial spending leads to more debt. One percent increase in ceremonial expenditure increases borrowing likelihood by 0.16 percentage point.
- Borrowing leads to increase in spending on ceremonies and ceremonial expenditure leads to even more debt: a vicious circle traps households in poverty.
- Policies which are aimed at removing market frictions or providing benefits to the poor will not have a desired effect.