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Intra-household decision making and long-term welfare effects: New empirical evidence.

Preliminary draft -

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Abstract

As yet long-term evidence of female financial responsibility within the household for welfare increasing effects are vague. This paper looks at household consumption and financial decisions made in a matrilineal society where women are by culture the financial household managers. This culture was strongly altered by the British in the mid-19th century. We use the distance to the former base as an instrument for women empowerment. Results show that households that follow the matrilineal Khasi tradition, spend more on education and nutrition, but are less likely to have savings left at the end of the month than patrilineal households. Our results lead us to reject the unitary model of the household and indicate that women have different preference to men.

JEL-Codes: I3, O1, R20, Z1

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1 Introduction

The empowerment of women has become an important goal of development policy. Indeed, the sustainable development goals, outlined in 2015, put great emphasis on equal opportunities for girls and women and on their empowerment. Behind this policy lies the belief that the empowerment of women is not just desirable in its own rights, but that the empowerment of women will benefit children and society at large.

This belief is, to a large extent, based on studies that have shown that increasing the resources that are controlled by women within the household will improve the education and nutrition of children (Duflo, 2003), as well as increase spending on long term durable goods Duflo (2012). Many also argue if women are empowered within the household that this will reduce spending on alcohol and drugs, as these products tend to be more in line with men's consumption patterns.

In order for women empowerment to lead to these beneficial outcomes two things need to hold. First, the empowerment of women will only lead to better outcomes for children and themselves, if the unitary model of the household is not an accurate description of how household decisions are made. In the unitary model, all household members have the same utility function and hence who is in charge of consumption and financial decisions does not matter for outcomes. If however, a non-unitary model of the household, in which outcomes depend on bargaining power and preferences of each household member holds, household consumption and financial outcomes will change according to who makes decisions. Although, many studies have rejected the unitary model of the household, open questions still remain regarding these theories (Fiala and Xi, 2016).

Second, for women empowerment to lead to better outcomes for children, women have to have innately different preferences to men and these preferences have to be more in line with the welfare of children. Indeed, cash transfers that are given to mothers have shown that these benefit children (Lundberg et al., 1997; Rubalcava et al., 2009; Bobonis, 2009). However, other papers argue that the observed effects of a change in female decision making power are not due to women having different preferences, but rather because of the role that women play within the household (Doepke and Tertilt,

2014). As most of the evidence on the empowerment of women is based on short term changes, evidence on women that have been empowered for a long time is strongly needed to answer this question.

This study is uniquely able to offer insights by looking at decisions made by households in which women are empowered for cultural reasons rather than through a shift in resources. This paper examines the impacts of female empowerment on household financial and consumption decisions looking at the matrilineal society of the Khasis in India, as a natural experimental setting. The Khasis live in the north-eastern state of Meghalaya, and form one of the few matrilineal cultures in the world (Nakane, 1967). In the Khasi culture, women are considered to be the household head and inheritance follows the mother's lineage. Females in the matrilineal society are the financial managers and responsible for the economic and financial decisions of the household. They are thus the textbook example of empowered females. Men in this society are ascribed to religious, political or farm activities outside the household (Nongbri, 1993). However, through Christian missionary activities in the mid-19th century the Khasi culture was strongly altered into a more male dominated direction (Nakane, 1967). Thus, some Khasis have changed their way of life towards a more patrilineal role structure, while others have kept their matrilineal culture and customs.

We use the arrival of the British as a natural experiment. Their influence on Khasi culture was strongest in areas closest to their base in Cherapunji. We are hence able to tackle potential endogeneity issues that may arise when examining the role of women empowerment by using the distance between the respondents' place of residence and Cherapunji as an instrument for the role for women empowerment within the household (Christiansen et al., 2008; Becker and Woessmann, 2009).

Our instrument is highly correlated with the role of women within the household. Households that are further away from Cherapunji are more likely to have a women reported as being the household head, are more likely to have a women solely responsible for financial and economic decisions. Furthermore, the land titles are more likely to be in the name of the women in the household. At the same time, we are able to show that the

distance from Cherapunji does not influence other observable household characteristics.

Using data, collected especially for the purpose of this study from Meghalaya, India that comprises of 665 Khasi households, our empirical results show that households, in which women are more empowered, i.e. who follow the Khasi tradition, have higher spending on education and nutrition, and spend less money on temptation goods such as tobacco and alcohol. This, however, comes at a cost, we are also able to show that households in which women are empowered, are less likely to have savings left at the end of the month.

We are able to contribute to the literature in two important ways. First, we are able to show that the unitary model of the household is not an accurate representation of how households make decisions. We do this, using a setting and identification strategy that is completely different from those that are normally used to study intra-household decision making. Second, we find evidence that shows that women have different preferences to men. This paper can therefore contribute to our understanding on what lies behind the effects of women empowerment. Households in which women are empowered, and have been for many generations, show consumption patterns that are in line with studies that examine the effect of short term empowerment of women. This evidence gives support to the arguments made by many policy makers that empowerment of women is not just a goal within itself, but would also have beneficial long term effects for children and society at large.

The remainder of this article proceeds as follows. The next section presents the relevant literature on female empowerment and intra-household decision making. Section 3 describes the data source and empirical strategy. The econometric results are presented in Section 4. Section 5 provides a discussion and concludes.

2 Theoretical Framework

2.1 Intra-household resource allocation

Early economic theory traditionally treated the household as a single unit (Samuelson, 1956; Becker, 1965). In these unitary model of the household all members have the same utility function and so have the same preferences. There is no bargaining process and hence there is no correlation between household expenditures, financial outcomes and who makes the household decisions. Pareto efficiency is reached in these models. More recently, this model of unitary decision making has been rejected by a number of studies and replaced by non-unitary models (McElroy and Horney, 1981; Manser and Brown, 1980). In the non-unitary models of the household, it is assumed that each household member has a different utility function and therefore has different preferences. A bargaining process takes place within the household and decisions are made according to each member's bargaining power. In these non-unitary models of the household, two factors determine household consumption and expenditures: i) each household members bargaining power and ii) their preferences. The outcome of these bargaining process therefore varies depending on who makes the decision.

2.2 Bargaining Power

Papers that study intra-household decision making processes often argue that bargaining power depends on the relative income that each partner or household member contributes to the household income. If one partner earns a higher income or receives a positive income shock, this increases their bargaining power and hence the bargaining process within the household will change in their favor (Manser and Brown, 1980). There is considerable evidence, based on observational data, that shows that control over resources leads to control over decisions (Lundberg et al., 1997). The consequence of these models is that if women become empowered within the household, expenditures will shift to align with their preferences.

However, there is also evidence that shows that control over resources and relative income is not the only determinant of bargaining power. Smith et al. (2010) study representative data from the United States and find that there is a strong tendency for men to be the financial decision makers, this is only slightly lessened if the women is considerably older and has higher cognitive abilities than her husband. Ashraf (2009) shows that increased income has an effect on the outcome of the decision process, but also emphasizes that information and communication are important for the outcomes of intra-household decision making. She also takes this as evidence of the role of culture in household decision making. She attributes the finding that only men respond to the information and communication treatment to the cultural background in the Philippines, where women are mostly in charge of household finances.

2.3 Preferences

At the same time, these non-unitary models of the household and the wider development literature often argue that women have different preferences to men. It is here often assumed that women's preferences are more beneficial to the next generation and to the development process in general. A number of studies have hence looked at exogenous changes to women's bargaining power and looked at the changes in household expenditures that results from this. Duflo and Udry (2004) show using a data from Cote d'Ivoire that increases in rainfall that benefits traditionally female crops, shifts household expenditure towards food consumption and so improve nutrition of children. Similarly, (Duflo, 2003) finds that an exogenous increase in pensions that is given to grandmothers raised nutrition of girls, but interestingly not that of boys. A considerable amount of evidence on the effect of increased bargaining power comes from conditional cash transfer programs that in many countries specifically target women. (Attanasio and Lechene, 2010) look at the effect of PROGRESA, a conditional cash transfer program given to women in Mexico. They argue that a substantial increase in household resources (which should reduce the share spent on food) is counteracted by the effect of a shift in bargaining power towards

women. In their study this leads to a large increase in household resources having no effect on the share spend on food. Also looking at the effect of PROGRESA Attanasio and Lechene (2010) find that the transfer programs increases investment in children, while Bobonis (2009) also controls for variation in rainfall but comes to the same conclusion. Similar results have been found in studies looking at cash transfer programs in Brazil (de Brauw et al., 2014). These show that cash in the hands of women leads to increased expenditure on long term durable goods. Using a program in Macedonia where the recipient of the transfer was randomized on a municipality level, Armand et al. (2016) find that cash transfers given to mothers rather than fathers increases the share of food consumption by 4 to 5%. Similarly, Ashraf et al. (2010) randomly give commitment savings accounts to some women and find that their self-reported bargaining power within the household increases. They also find a shift towards female orientated durable consumption goods. All these papers take their findings to reject the unitary-model of the household and as evidence that women have different preferences to men. Further they show that women's preferences are more in line with the welfare of children.

There is further evidence that women and men essentially have different preferences and that these preferences are innate. A large number of experimental studies have shown that women have different preferences to men (see (Andersen et al., 2013) for summary). Women have, further been found to be more risk averse (Dohmen et al., 2011; Eckel and Grossman, 2008) and more patient (Dittrich and Leipold, 2014), more pro-social (Eckel and Grossman, 1998) and less trusting (Buchan et al., 2008), although the evidence on trust is mixed. If men and women have different preferences that are innate and women's preferences are more conducive to the welfare of families, and so, in the long run, more conducive to growth, this has clear consequences for policy. Indeed, if this is the case great policy effort should be undertaken to empower women within the household.

However, there are other economic theories that could also explain change in household expenditures caused by an increase in resources controlled by women. (Doepke and Tertilt, 2014) argue that it is not a difference in preferences between men and women that cause expenditure on children to increase as women get empowered. Rather they

argue that it is the specific role that each spouse plays within the household that causes this shift. Using a theoretical model, they argue that men and women are involved to different extent in the production of public goods. In countries where labor market wages for women are low compared to men, women focus on the production of time intensive public goods such as the welfare of children. As a consequence of this, when resources are transferred to women rather than men, spending on nutrition and education will increase. At the same time, spending on labor intensive goods and investment decrease, as these are goods that men specialize on. In this case a shift in resources towards women will lead to a decrease in physical investment and so decrease growth in businesses. There is also empirical evidence for this model; de Mel et al. (2009) find that a transfer to male small business owners leads to an increase in profits, the same does not apply to female business owners.

2.4 Policy Implications

The matrilineal society of Meghalaya has been used as a natural experiment in a number of other papers. Interestingly, women in this society behave very differently to women observed in other studies. Filipiak and Walle (2015) show, that unlike in most countries studied so far, women in this part of India are just as financially literate as men. This also applies to their self-reported financial knowledge (Filipiak, 2016). Gneezy et al. (2003) show that women that live here are more competitive than the men living in this society. Similarly, Asiedu and Ibanez (2014) show that women in Meghalaya are more likely to punish in a public goods game with third party punishment. As women in Meghalaya have been shown to behave more similarly to men in other, patrilineal, societies, it would be reasonable to expect that households, in which women and men show similar expenditure patterns to those run by men alone. This would indicate that it is the specific role played within the household that causes a shift towards children as women's resources increase. However, if women have different innate preferences we would expect to find household expenditure patterns that are more focused towards female orientated goods and welfare of children.

Distinguishing between these two explanations for observed effects is crucial for policy makers wishing to empower women, because they are hoping for beneficial effect for the next generation and maybe even for increased growth through higher human capital investment. If women have different preferences from men, empowering them will have beneficial effects even in the very long term. If, however, the effects observed are due to the role that women play within the household, the beneficial effect of women's empowerment may be reduced and even disappear in the long term and hence not have the same benefits.

Our study can not just give insights into whether the unitary and the non-unitary model give accurate descriptions of how household decisions are made, but can also provide insights into the mechanism found as a results of a shift in household resources. They are not able to observe the mechanism behind the effect of empowerment on household expenditure. Our study is uniquely able to give evidence on the long run effect of women's empowerment. We look at a natural experiment that means that we are able to observe women that have been empowered and have had increased control over household resources for of all of their lives. We compare these households to households whose women are less empowered within their household, due to the influence that British colonialism had on their culture.

2.5 The Khasis

The Khasis are besides the Garos and the Jaintias one of three main ethnic communities in Meghalaya, a mountainous state in North East India and it is assumed they are descendants from the very first wave of Mongolian immigrants. After independence, Meghalaya was separated from Assam in 1972 and borders Bangladesh to the South and East and Assam to the North and West. Although it is not known, when exactly the three tribes settled in the hills of Meghalaya, they had likely been there centuries before the Indian

subcontinent was unified for the first time under British rule (Gait, 1906; India, 2002; Khasi, 2004).

“[...] who established themselves in their present habitat at a very remote period, and who, owing to their isolated position, maintained their independence, while their congeners in the plains below were submerged in subsequent streams of immigration from the same direction. [...] The place and river names in the hills they inhabit all seem to be Khasi, and the people themselves have no traditions of any such [other tribes’] movement.”

Until today, the Khasis reside predominantly in the Khasi Hills districts in the centre of Meghalaya (West Khasi Hills, East Khasi Hills, and Ri Bhoi). Thereby, the inaccessibility and remoteness of Meghalaya’s hills have minimized external cultural influence besides confrontation with the British rule in the 19th century so that many Khasi traditions have been preserved and an exceptionally large share of Meghalaya’s population have conserved their tribal identity (Gait, 1906; Herzog, 2001).

In the Khasis matrilineal culture, women are considered to be the household head and inheritance follows the mother’s lineage. The youngest daughter, the *Khaddu* inherits the largest share of the families property, and becomes the household head of the entire family in the future. She is traditionally seen as a manager of assets and financial resources subject to the advice of an elder man, usually the mothers brother in order to retain the maternal family line (Herzog, 2001). Men in this society are ascribed to religious, political or farm activities outside the household (Nongbri, 1983). Nonetheless, in her analysis of the Khasi matriarchy, Herzog (2001) explicitly analyses the power relations between women and men among the Khasis. She clearly stresses out that there is symmetry of powers between sexes as they have split the rule over different spheres of society. Also today, the power balance is reflected in different indicators. For instance, Meghalaya is amongst the Indian states the one with the highest sex ratio with 989 females per 100 males (Census of India, 2013). Also the overall literacy rate in Meghalaya is with 76 percent very high in comparison to other Indian states, with a literacy rate of 73 percent for females and 76 percent for males (IIPS, 2014). Thus, the Khasi culture provides a natural testing ground for investigating household consumption and expenditure patterns

of empowered women who in learn this role from early childhood. In addition, we can assume that bargaining power within the household is equally distributed among couples.

3 Data and Descriptive Statistics

3.1 Source

The data was self-collected for the special purpose of this study in the three Khasi districts of Meghalaya (East Khasi Hills, West Khasi Hills, and RiBhoi). Interviews took place between May and June in 2015 in randomly selected villages where field teams randomly selected households on different days and at different times of the day. Of each household, they chose one adult member for an interview during which a rich set of socioeconomic individual and household characteristics were captured with a central focus on variables of household finance. Especially, the data does not only include comprehensive information on income, expenditures and on who assumes which financial responsibilities. It also contains rich information on individuals' economic preferences and financial literacy. Overall, the dataset is representative of the Khasi population in East Khasi Hills, West Khasi Hills, and Ri Bhoi with a population of about 1.5 million in total according to the 2011 Indian census (Government of India, 2013).

3.2 Measurement of Variables

Dependent Variables

In order to investigate intra-household expenditures we consider different items as dependent variables. Firstly, the respondent is asked whether he or she has currently a credit. The variable *credit* takes on the value one if the respondent answers with yes and is zero otherwise. Secondly, the monthly amount of household *expenditures* for *food, education and temptation goods* is considered.

Explanatory Variables

Female empowerment is measured as follows. The survey asks the respondent who in the family is responsible for short-term financial decisions, long-term financial decisions, and the gender of the household head. The variable *shorttermsavingsfemale* takes on the

value one if the women in the household is responsible and is zero otherwise. Similarly, the variable *longtermsavingsfemale* takes on the value one if the women in the household is responsible for longterm savings and is zero if it is a man in the family. In addition we consider who is the household head, the variable *femalehh* takes on the value one if a women is household head and is zero if it is a man in the family. Whereas the latter rather reflect the position of the women with respect to empowerment in a more general sense, the former two variables indicate more directly female empowerment if they are one. Moreover, we consider whether the household owns a land title or not, and in whose name the land title is. The variable *felandtitle* takes on the value one if the land title is on the name of a female household member.

We consider furthermore, information on risk attitude, competitiveness, self-confidence with financial matters, and gambling behavior. Risk behavior was measured using a standard lottery question.¹ Since also other personal characteristics can influence investment as well as savings behavior we also take into account, *gambling behavior* which is often ascribed to men. This is captured by the number of tries the respondent needs to finish a simple but financially incentivized memory game played. We also take into account time preferences of the respondent using the question: “Suppose you have the option to receive RS 100 today or RS 150 three days later. It is sure that you will get the money. What would be your choice?” The variable *shortpreferences* takes on the value one if the respondent opts for the first option. In addition we consider a substantial number of variables reflecting socio-economic characteristics as controls such as age, education, income, or occupation.

3.3 Female empowerment and financial decision making

From the above discussion, it becomes clear that the interrelation between female empowerment and the possible effect on preferences in financial decision making are not straight-forward and causality is far from certain. There are potential endogeneity issues. If we were just to compare empowered women with less empowered women in any society

¹Competitiveness is self-assessed by asking the respondent “Suppose you are asked to toss a small ball into a small bin 10 feet away. You will have 10 opportunities to toss the ball. How many successful tosses do you think you will make?”

and to look at their preferences and financial decisions, we could be dealing with a potential endogeneity problem caused by unobserved variable bias. Similarly, reverse causality is an issue; it is possible that women that make better financial decisions, become more empowered in the process of making these decisions.

The dataset that we use in this paper provides a unique opportunity to circumvent these possible endogeneity problems. In the Khasi culture we do not only have a particular role setting with a gender symmetric bargaining structure within the household. In addition we have an historical event that allows us to induce some exogenous variation in the empowerment regressor of interest, namely when British missionaries tried to impose Christianity, and with it, more patrilineal societal norms.

This means that in some areas in Meghalaya, in particular those which are close to the place where the first Christian mission began females may be less empowered than elsewhere in Meghalaya. Since the British were most effective in their efforts to spread Christianity in the most accessible regions in the 19th century, we use the distance to Cherapunji, the regional capital as an *instrument* for the women's empowerment level. The exposure to Christianity and the British rule has had a considerable impact on the Khasi way of life. Most strikingly, the patriarchal structures of Christianity and British administration have questioned prevailing gender roles among the Khasis with property and inheritance laws challenging the matrilineal system of inheritance and their intra-household role structure in a much broader sense (Chaube, 1973; The Imperial Gazetteer of India, 1909). We use this exogenous shock to study financial behavior of households because households who live geographically closer to Cherrapunji were stronger (and for a longer time) affected by this cultural shock than households who live further away. The instrument is very well suited for two reasons. First, Cherrapunji was selected by the British, and secondly, individuals are similar in their cultural, socio-economic and personal characteristics in our sample but differ in the strength of female empowerment Table 1. Christian missionary workers and British officers first settled in Cherrapunji and then moved to Shillong so that both towns can be considered to have historically been main hubs of Christian missionary work and British administration. Especially, the

socioeconomic impact of Christianity and British rule has been considerable. We employ the respondents' distance to Cherrapunji as an instrument for female empowerment and contribute to other studies where distance is used as an instrument in other settings (Christiansen et al., 2008; Becker and Woessmann, 2009).

3.4 Descriptive Statistics

Table 1 shows the average share of our sample respondents and the self-reported household expenditures for temptation goods, education, groceries and the amount of repaying current loans. The table reveals that households who live geographically far from Cherrapunji spend on average less on temptation goods, more on education, more on food, and more for repaying loans. We use the sample mean as threshold to determine who lives far and who lives close. For instance, spend household far away from Cherrapunji on average 4663 RS, approximately 70 USD, which is significantly more on groceries than other households who spend on average 4229 RS, around 62 USD. This however, does not seem to be related to the households income level, because our descriptive statistics show that the average household income is lower for those living far from Cherrapunji. Household's for instance who live near to Cherrapunji spend on average 690 RS per month on temptation goods which is around 10 USD, whereas households who live further away spend with 610 RS on average 9 USD slightly less. Group differences are statistically significant except for education expenditures. A similar household income distribution can be observed for households who live far away from Shillong as reference city as the capital of Meghalaya. Although Shillong is still affected by influences from abroad through migration, or intra-religious marriages, results point still into the other direction with respect to intra-household expenditures as compared to Cherrapunji.

insert Table 1 about here

Since our focus lies on the strength of female intra-household decision making Figure 1 shows four selected indicators in this regard. We distinguish again between near and far

from Cherrapunji. Households who are located within a radius of 68 kilometers around Cherrapunji are classified as near. For instance, among those who live near Cherrapunji only 38.5 percent of females are household head, 46 of females obtain a landtitle, 48 percent of females are responsible for short term savings and investments and 43 percent of females are responsible for long term savings and investments. The share is larger for those who live further than 68 km from Cherrapunji, indicating that females there are more in charge of financial responsibilities.

insert Figure 1 about here

In order to contrast the impact of the missionary activities and to shed light on the intra-household bargaining power of females in the matrilineal society we display the same for those respondents who live in Shillong. Shillong is the capital of the state Meghalaya and thus, one could argue that the matrilineal Khasi traditions have weakened over time due to either Christianity or other influences from abroad, e.g. migration from bordering states and countries. Figure 2 reports the percentaged share of empowered females who live near and far away from the capital of Meghalaya, Shillong. The cut-point is the sample mean. Those who live within 32 km around Shillong are categorized as being located near, all others as far away.

insert Figure 2 about here

The figure shows in contrast to Figure 1 that females are more empowered if they live near Shillong. Although the share of women who are household head is with 46 percent slightly lower, more often with 59.5 percent a land title is in a females name, are females responsible for short as well as for long-term savings and investment decisions. Thus, indicating that in the capital females are more in charge of the intra-household financial responsibilities. This indicates, that the matrilineal culture holds also in the capital which is influenced by other exogenous factors, thus and supports our argument

that Cherrapunji serves as a natural testing ground among a homogeneous population.

Table 2 reports summary statistics for all explanatory variables employed in the empirical analysis. The table shows that most of the households expenditures are for food, namely 44 percent, 24 percent for education, 6 percent for temptation goods and 16 percent for credit repayments. Table 2 shows further that 36 percent of individuals live near Shillong and 47 percent near Cherrapunji. Among the personal characteristics, the average age is around 29 years. 52 percent are married, and the average monthly income is 10.171.000 RS which is around 140 Euros. 54 of our sample respondents are female, 20 percent the youngest daughter in the family, and the average level of education is middle school. When considering individual preferences, almost all with 90 percent report being risk-averse, report an average level of competitiveness, 57 percent prefer short term financial outcomes and gambling behavior is around the mean.

insert Table 2 about here

3.5 Econometric specification

In order to capture the average causal effect of female intra-household decision making on financial expenditures we make use of an instrument which is the distance from the respondent house to Cherrapunji. We employ OLS as well as 2 stage least square estimations (2SLS).

The main assumption that underlies our IV estimator is that the closer the Khasis live to Cherrapunji the more they have been exposed to (the legacies of) male-centered decision making structures of the British rule and the less likely they stick to their matrilineal Khasi tradition. Consequently, we expect that females have more intra-household decision making power with respect to financial decisions when they live far away from Cherrapunji while it should be the opposite for those who live further away. Using distance as an instrumental variable, this paper contributes to other studies where distance is used as an instrument in other settings (Christiansen et al., 2008; Becker and

Woessmann, 2009). More precisely, it follows the well-known examples of Becker and Woessmann (2009) and Nunn (2008), who also use the degree of exposure (approximated by distance) to a cultural shock as an instrument cultural differences and how they shape economic outcomes.

Our data provides three measures in this regard. Firstly, the variable *shorttermsavings*, which takes on the value one if a female in the household is primarily responsible for short-term savings and investments. Secondly, *longtermsavings*, which takes on the value one if a female in the household is responsible for long-term savings and investments, and thirdly the variable *femaleHH* which is one if a female is the household head in the family. In doing so, we exploit the variation in female intra-household decision making among the Khasis when they live either near or far from the main hub of Christian missionary Cherrapunji. The distance variable *Distancefar* is one if the respondent lives further away than 68 kilometers from Cherrapunji.² Thus, we first regress the three empowerment variables on the respondents distance (either near or far) to Cherrapunji, and X denotes a vector of covariates, H reflects whether a household has a land-title or not, in order to account for the asset or living standard of the household.

$$Empowerment_h = \alpha_1 + \beta_1 Distancefar_h + \gamma_1 X_i + \delta_1 H_i + \mu_i h \quad (1)$$

$$FinancialDecision_h = \epsilon_1 + \zeta_1 IV Empowerment_i + \eta_1 X_i + \theta_1 H_i + \iota_i h \quad (2)$$

We estimate the reduced form equation that incorporates ϵ reflecting the constant, ζ which is the estimator of our instrument for female empowerment, which should be significantly different from zero. The exclusion restriction and states that a valid instrument may not have any effect on the dependent variable *FinancialDecision* other than through the endogenous regressor *Empowerment*. Formally that requires that the instrument is uncorrelated with the error term of the structural equation (1):

²We computed the distance from each households to Cherrapunji according to the address stated in the survey with google maps.

$Cov(FarfromCherrapunji) = 0$. While the first condition can be empirically tested by estimating the reduced form equation (2), the second condition requires institutional knowledge about the determinants of cultural change among the Khasis.³ Whether a respondent lives near or far from Cherrapunji should not affect his or her intra-household financial decision making process.

4 Results

In our econometric specification we employ the aforementioned determinants reflecting female intra-household financial decision making to estimate the probability on expenditures for credit, food, education and temptation goods.⁴ The main argument that drives these regressions, is that females are assumed to make better economic and financial decisions than men, and thus female empowerment is considered as a major long-term goal among public policies.

Our results show that households where females are responsible for economic and financial decisions by culture and where this role is learned from early childhood are in line with our assumptions. We argue that our instrument the distance of the respondent to Cherrapunji where Christian mission began allows us to deal with the endogeneity problem arising from reversed causality. In addition cultural effects that are affecting intra-household gender roles are also often hard to capture and could lead to further endogeneity problems resulting from omitted variable bias.

For all four regressions, we can reject the null-hypothesis that the four selected determinants of female empowerment are exogeneous which implies that estimates would be biased. Moreover, the hypothesis of weak instruments can be rejected with an F-test on the coefficient of the variable *Farfromcherrapunji*. Results from the F-test, show that the selected instrument is strong enough to provide robust estimates. When female are responsible for *long-term* or *short-term savings and investments*, intra-household expen-

³As Cameron and Trivedi (2009:175) point out: “Instrument validity relies more on persuasive argument, economic theory, and norms established in prior related empirical studies.”

⁴A women is the household head, the land title is in the females name, a women is responsible for short-term savings and investments, and a women is responsible for long-term savings and investments see Table 3.

ditures are more in favor of welfare increasing goods such as food or education. Results indicate that in this setting households are also more likely to pay back credits, which might be related to credit disbursement towards females in developing countries e.g. through group savings. Although such indirects are not captured here, one might suggest that households where females are responsible for financial decisions may also disburse credit more in the favor of the households.

insert Table 3 about here

insert Table 4 about here

5 Discussion and Conclusion

This paper provides new empirical evidence for the outcomes of female empowerment on financial expenditures and contributes to the so far under-investigated hypothesis that females who are empowered make intra-household financial decisions in a more welfare increasing way compared to men. We use a unique setting the matrilineal culture that allows us to separate the potential counter-factual of empowered women, from women who are less empowered in one and the same state in India. The Indian state Meghalaya, was one of the first places in India where Christian missionaries have started their work in Cherrapunji. Thus, individuals who live near to this place have been influenced by the Christian culture substantially in their norms and traditions away from the traditional matrilineal Khasi way of life.

While most of the current literature argues that female empowerment is positively related to welfare increasing expenditures, little long-term empirical exist so far. Our data allows us to instrument for female empowerment and its effect on household financial expenditure. We make additionally use of a unique laboratory setting. The distance to Cherrapunji serves as a valid instrument for female empowerment. It can be assumed

that intra-household gender roles differ in households that are located near to Cherrapunji from those who are located further away while individuals do not differ much in their overall characteristics since they are all living in the same Indian state of Meghalaya¹. Our descriptive statistics support this assumption, showing that the indicators employed to assess the level of female intra-household financial decision making, such as female financial responsibilities for long- and- short term investment and savings decisions, or when the land-title is in the females name. These determinants differ significantly between those respondents who live near Cherrapunji and those who live far away. We take into account that individuals in particular women, may also differ in their personal characteristics what might influence financial behavior. Our data allows us to control for a substantial number of variables that could affect savings behavior such as financial literacy or personality traits like competitiveness or risk behavior. Since all respondents are from the same state in India, they are moreover similar in many other characteristics e.g. education or culture in a much broader sense and mainly differ in their intra-household gender roles.

All in all, our results point to the so far under-investigated research question whether females who are in charge of the intra-household financial expenditures are also more likely to spend more on welfare increasing goods. These results support the policies widely employed to support intra-household empowerment with respect to financial decision making and the empowerment of women as a whole.

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Table 1:
Female Empowerment and Distance

| | <i>km > mean</i> | | | <i>km < mean</i> | | | differences | |
|------------------------------|---------------------|----------|------|---------------------|----------|------|-------------|----------------|
| | mean | st. dev. | obs. | mean | st. dev. | obs. | difference | test statistic |
| Distance I (Cherrapunji) | | | | | | | | |
| Credit | 12.76 | 28.69 | 52 | 24.26 | 19.48 | 11.5 | 1.839 | 0.081 |
| Savings | 0.362 | 0.481 | 320 | 0.427 | 0.495 | 351 | 0.064 | 1.7165 |
| Food Expenditures | 46.63 | 23.58 | 320 | 42.29 | 24.71 | 351 | -4.341 | -2.322 |
| Education Expenditures | 26.788 | 63.75 | 320 | 22.24 | 26.20 | 351 | -4.539 | -1.050 |
| Temptationgoods Expenditures | 6.183 | 7.521 | 320 | 6.659 | 7.39 | 351 | 0.4761 | 0.776 |
| Distance II (Shillong) | | | | | | | | |
| Credit | 28.8 | 41.88 | 20 | 12.39 | 16.98 | 58 | -16.40 | -2.471 |
| Savings | 0.231 | 0.422 | 242 | 0.489 | 0.500 | 429 | 0.258 | 6.774 |
| Food Expenditures | 45.082 | 23.43 | 242 | 43.958 | 24.733 | 429 | -1.124 | -0.576 |
| Education Expenditures | 31.711 | 67.602 | 199 | 19.975 | 30.982 | 313 | -11.735 | -2.663 |
| Temptationgoods Expenditures | 6.832 | 7.609 | 212 | 6.182 | 7.371 | 381 | -0.650 | -1.0174 |

Table 1 reports means and standard deviations for group differences between households living close to Cherrapunji and far. The variables takes on the value one if the individual lives 68 km or closer (which is the mean). Variables denoted with an Astrix are metric and t-test for group differences were employed. All other variables are binary and we employ a chi^2 test for group differences. The number of observations for those living far from Cherrapunji is 320 and for those who live close to Cherrapunji is 351.

Figure 1:

Determinants of Female Empowerment: Cherrapunji

The Figure shows four variables reflecting female empowerment: a female is household head, the land-title is in a womens' name, a female is responsible for short-term savings and investments and a female in the household is responsible for long-term savings and investments. Dark blue bars reflect the fraction for respondents living near to Cherrapunji and the light-blue bar reflects the fraction that lives far away. The figure shows the percentages of female empowerment in both places (near and far from Cherrapunji).

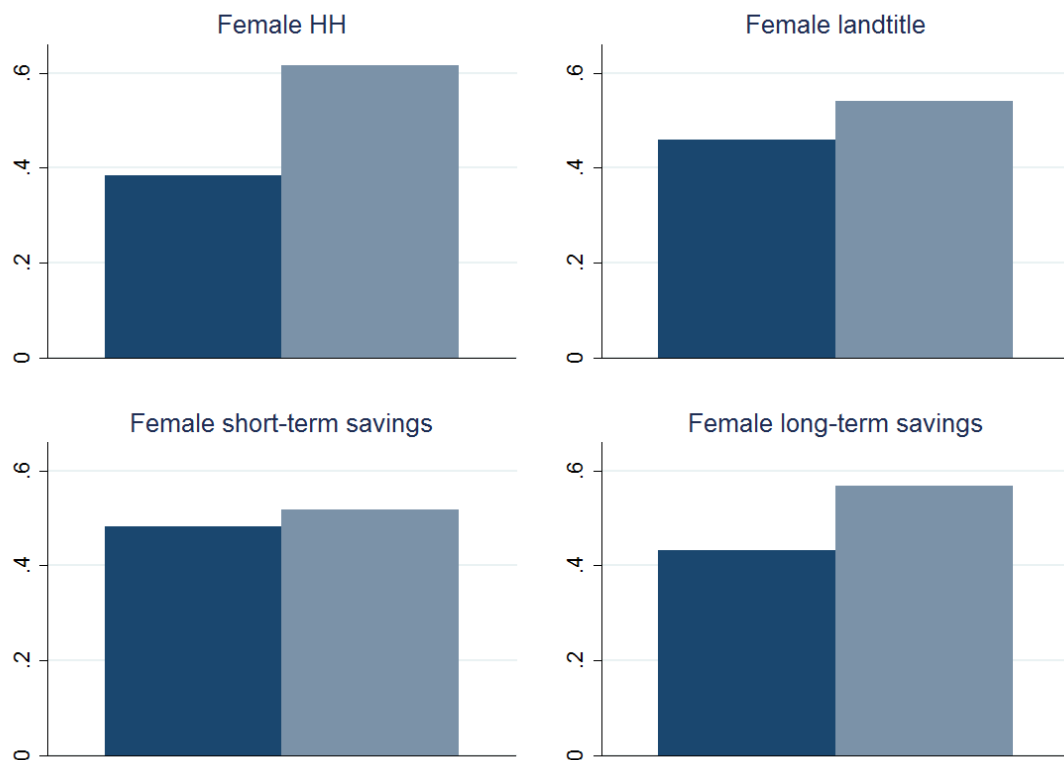


Figure 2:

Determinants of Female Empowerment: Shillong

The Figure shows four variables reflecting female empowerment: a female is household head, the land-title is in a womens' name, a female is responsible for short-term savings and investments and a female in the household is responsible for long-term savings and investments. Dark blue bars reflect the fraction for respondents living near to Shillong and the light-blue bar reflects the fraction that lives far away.

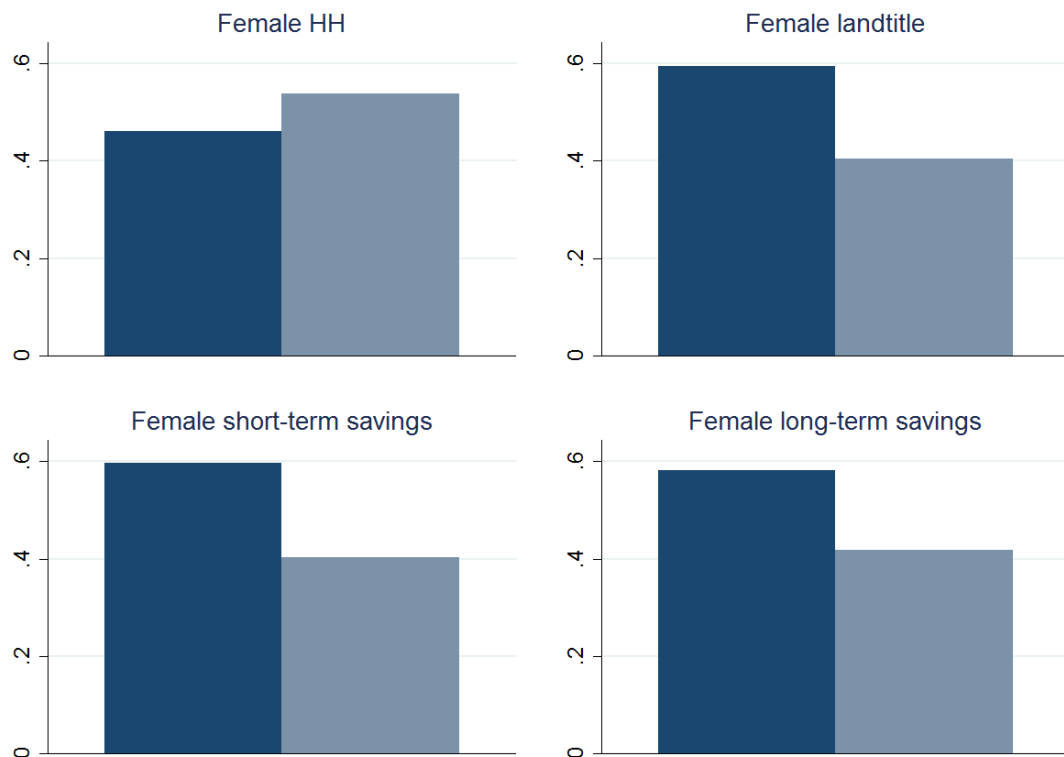


Table 2:
Summary Statistics for Explanatory Variables

| | Mean | SD | Min | Max |
|---------------------------------|--------|---------|-------|--------|
| Financial Expenditures | | | | |
| Food | 44.363 | 24.261 | 0.5 | 150 |
| Education | 24.536 | 48.884 | 0.5 | 500 |
| Temptation goods | 6.414 | 7.457 | 0.5 | 60 |
| Creditrepayment | 16.602 | 26.428 | 1 | 200 |
| Regional Characteristics | | | | |
| Shillong | 0.360 | 0.480 | 0 | 1 |
| Cherrapunji | 0.476 | 0.499 | 0 | 1 |
| Personal Characteristics | | | | |
| Age* | 29 | 10.24 | 15 | 60 |
| Married | 0.52 | 0.49 | 0 | 1 |
| Income* (‘000 of RS) | 10.171 | 7.970.5 | 1.300 | 65.000 |
| Female | 0.538 | 0.498 | 0 | 1 |
| Khaddu | 0.201 | 0.401 | 0 | 1 |
| Education | 5.48 | 2.18 | 1 | 11 |
| Preferences | | | | |
| Risk-avers | 0.916 | 0.276 | 0 | 1 |
| Competitiveness | 4.614 | 2.446 | 5 | 10 |
| Self-confidence | 0.539 | 0.498 | 0 | 1 |
| Short-term fin. preferences | 0.567 | 0.495 | 0 | 1 |
| Gambling | 16.11 | 4.652 | 15 | 36 |

Table 2 reports summary statistics for explanatory variables used. Those respondents are considered who do not possess a savings account at present and within the past twelve months. Official data for Indian states are used to control for regional characteristics such as the number of financial institutions, the Gross Domestic Product (GDP) per capita at the state level and the number of banks per state are given in Rupees (RS). Income is computed by earnings minus expenditures and can therefore be negative.

Table 3:
Intra-household decision making and expenditures
Instrumental variable 2SLS

| Variables | (1) Credit | (2) Food Expenses | (1) Education Expenses | (2) Temptation Goods |
|---|------------------------|---------------------------|---------------------------|-------------------------|
| Long-term decisions female | 0.0828*** (0.0274) | 574.5*** (162.4) | 5.462** (2,649) | -283.3 (340.4) |
| Short-term decisions female | 0.219** (0.108) | 2,178*** (753.2) | 3.869** (1.803) | -188.3 (221.1) |
| Female HH | 0.467* (0.258) | 4.636** (2.141) | 7.331* (3.930) | -615.1 (795.4) |
| Sociodemographic characteristics | | | | |
| Age | -0.000153 (0.00566) | 0.00347* (0.00207) | -0.00125 (0.00542) | 0.00153 (0.00209) |
| Married | -0.252* (0.146) | -0.281*** (0.0421) | -0.400** (0.162) | -0.311*** (0.0424) |
| Education | 0.0231 (0.0256) | 0.0134 (0.00972) | 0.0389 (0.0250) | 0.0218** (0.00980) |
| Owmland | 0.130 (0.117) | -0.163*** (0.0431) | 0.0380 (0.127) | -0.164*** (0.0435) |
| Income | 4.03e-06 (7.68e-06) | -5.25e-06** (2.62e-06) | 4.34e-06 (7.50e-06) | -3.04e-06 (2.64e-06) |
| Personality traits | | | | |
| Risk behavior | 0.223 (0.182) | 0.0636 (0.0664) | 0.257 (0.176) | 0.0833 (0.0670) |
| Gambling (no. of tries memory) | 0.0351 (0.0262) | -0.0233*** (0.00763) | 0.0255 (0.0282) | -0.0198** (0.00769) |
| Short-preferences | 0.0238 (0.104) | -0.0340 (0.0377) | 0.0785 (0.0984) | 0.0179 (0.0381) |
| Competitiveness | 0.192* (0.107) | 0.0144 (0.0396) | 0.114 (0.108) | -0.0308 (0.0399) |
| Constant | 0.401* (0.238) | 0.597*** (0.122) | -0.168 (0.580) | 0.599*** (0.123) |
| Observations | 656 | 656 | 656 | 656 |

Table 3 reports the coefficients on the probability that a household has savings left at the end of the month. (1) denotes the first stage IV-Probit regressions and (2) the second stage, with the variable Farfromcherapunji as an instrument for female empowerment. Wald-Test F-statistics are obtained from the 2SLS Regressions. ***, **, * denote significant at the 1, 5, 10 percent level.

Table 4:
IV: Far from Cherrapunji fist stage

| Endogeneous Regressor: | (1) Long-term investments | (2) Short-term investments | (3) Household Head |
|---|------------------------------|-------------------------------|-----------------------|
| Far from Cherrapunji | 0.169*** (0.042) | 0.2579*** (0.043) | 0.1211*** (0.040) |
| N | 640 | 640 | 640 |
| F-Test on excluded Instruments | 36.22*** | 15.80*** | 9.15*** |
| Kleibergen-Paap (test of under identification) | 33.90*** | 15.41*** | 9.06 |

Table 4 reports the coefficients of the first stage of the 2SLS regressions with dependent variables credit, food expenses and temptation goods. Values in round brackets are heteroskedasticity - robust standard errors. Other covariates include all those listed in Table 2.