

Risk, Consumption Smoothing and the Family: Portfolio Management of Children and Assets in Rural Families

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This paper analyses the kinds of risk faced by the family in a rural setting, sources of risk mitigation and the resulting derived demand for children by applying the principles of safety first and the portfolio choice theory. When incomes are uncertain, family designs a portfolio of assets to smooth the consumption streams. Two principal forms of risk mitigation are the number of children and asset accumulation, which are risky investment. The family's problem is to avoid the disaster occurring. It is shown that, when parents are motivated to maximize the expected returns from these risky investments subject to the safety margin, the 'output' of children will be higher. When children are the only form of security or even if alternative forms of investment in physical and financial assets are available, the parents risk mitigation strategy leads to a demand for more number of children. Higher the demand for returns from investments, higher will be the demand for assets. Some supporting evidence for the conclusion have been derived from the available few studies in the Indian context.

I Introduction

The notion that reproductive behaviour of couples is responsive to risk and uncertainty is not unfamiliar. In the demographic literature, the utility of children as sources of security in old age and in a variety of other contexts passing references are made (Nugent, et.al, 1983; Chernichovsky, 1982). Much has been analysed on the possible relationship between fertility and the risk or incidence of infant death. However, the potential importance of environmentally and socially determined risk as a source of derived demand for children has yet largely been overlooked. Only recently few studies attempt for such type of analysis (Cain, 1981; Kotlikoff and Spivak, 1981).

In a developing country environment, the family faces many risks and uncertainties in the survival process. The nature of risks and uncertainties are so varied and complex, ranging from accidents to maintenance of consumption, the family places high value on risk mitigating mechanisms. Especially, people wish to be on the safer side. Hence, the source of risk insurance are highly valued. In this paper, we attempt to analyse the kinds of risk faced by the family, risk mitigation strategies and the resulting derived demand for children, in a rural family context. We show, even if parents' only source of security is children or if other forms are also available, the concern about future security by parents will unambiguously result in higher demand for children.

The paper is organised as follows: In section II, we define the concept of risk in the context of family consumption smoothing and