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# Development Economics

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Lecture 17: Economic Lives of the Poor  
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# Today

1. Banerjee and Duflo (2007) “The Economic Lives of the poor”
2. Appendix Tables from the Working Paper (Handout)
3. Unanswered questions

Paper with Appendix Tables is on the website

# How do the poor live?

- Consider how you would go about living on around a \$1 a day
  - What would you buy?
  - What would you eat?
  - Where would you live, and in what?
  - Who would live with you?
- Jot down some answers to these questions.

# How do the poor live?

- Tendency of the rich to think of poor as powerless and without choice
- More recent analysis suggests that poor are not nearly as constrained as we usually think
  - They make choices, constrained by their budget, just as everyone else does
  - Their choices are more difficult, but are nonetheless real choices—they could have behaved differently and chose not to
  - Job of economists not to judge choices, but to seek to understand them

# How do the poor live?

- Know far more about the poor than we used to because of recent surveys
  - Living Standards Measurement Survey (LSMS) by the World Bank in many poor countries
  - Family Life Surveys by the Rand Corporation
  - Demographic and Health Surveys (DHS) cover many developing countries
- Many developing countries (Indonesia, India, Philippines) have excellent national surveys
- Great sources for senior theses

# Banerjee and Duflo (2007)

- Collects surveys from a number of countries
- Mostly from 1995-2002
- Examines what the surveys report about those who are poor at
  - \$1.08 a day
  - \$2.16 a day
- Surveys are relatively small, but do give an interesting snapshot

# Banerjee and Duflo (2007)

Table 1: Data sets description

Country	Source	Year	Avg Monthly Consumption per capita (In PPP\$)	Households (HHs) Living On Less Than			
				\$1.08 per person per day		\$2.16 per person per day	
				Number Surveyed	Percent of Total Surveyed HHs	Number Surveyed	Percent of Total Surveyed HHs
Cote d'Ivoire	LSMS	1988	664.13	375	14%	1,411	49%
Guatemala	GFHS	1995	301.92	469	18%	910	34%
India - Hyderabad	Banerjee-Duflo-Glennerster	2005	71.61	106	7%	1,030	56%
India - Udaipur	Banerjee-Deaton-Duflo	2004	43.12	482	47%	883	86%
Indonesia	IFLS	2000	142.84	320	4%	2,106	26%
Mexico	MxFLS	2002	167.97	959	15%	2,698	39%
Nicaragua	LSMS	2001	117.34	333	6%	1,322	28%
Pakistan	LSMS	1991	48.01	1,573	40%	3,632	83%
Panama	LSMS	1997	359.73	123	2%	439	6%
Papua New Guinea	LSMS	1996	133.38	185	15%	485	38%
Peru	LSMS	1994	151.88	297	7%	821	20%
South Africa	LSMS	1993	291.33	413	5%	1,641	19%
Tanzania	LSMS	1993	50.85	1,184	35%	2,941	73%
Timor Leste	LSMS	2001	64.42	662	15%	2,426	51%

- Online appendix: 11 tables that support the analysis in “Economic Lives of the Poor” (Table 1 is the list of surveys)

# Appendix Tables

- Form groups of 4 or 5
- Each group take one table
- Take about 10 minutes, then lets discuss the answers to the following questions together
- Questions:
  - What does your table tell us about the lives of the poor?
  - Are the poor similar across countries? Urban and Rural?
  - Are those living on \$2 a day similar to those living on \$1 a day?
  - What surprised you about the way the poor live? Is it different from the way you think you would live if you were poor?



# Table 2: Demographic Table

- Number of children
- Compare sex ratio (Men/Women)
- Age distribution
- Compare
  - \$1/day vs. \$2/day
  - Urban vs. Rural
  - Across countries

# Table 3: How the poor spend their money

- How much spent on food?
- How about spending on health and education?
- Compare
  - \$1/day vs. \$2/day
  - Urban vs. Rural
  - Across countries
  - Any large differences?

## Table 4: What do the poor own?

- Ownership of radio and TV
- Ownership of bicycle
- Ownership of land
- Compare
  - \$1/day vs. \$2/day
  - Urban vs. Rural

## Table 5: Economic environment of the poor

- How many HHs have in-house water?
- How many have a toilet?
- How many HHs are electrified?
- Compare
  - Urban vs. Rural
  - \$1/day vs. \$2/day

## Table 6: How the poor earn their money?

- How many own land / work in agriculture?
  - Urban vs. Rural
  - \$1/day vs. \$2/day
- How many are self-employed?
- Different across countries?

# Table 7: Health in the household

- What portion of HH are sick?
  - Urban vs. Rural
  - \$1/day vs. \$2/day
- How many consult care?
- What is the infant mortality rate?
  - Different across countries?

## Table 8: Market for credit and savings

- Does there seem to be access to credit and savings?
  - Urban vs. Rural
  - \$1/day vs. \$2/day
- Are loans more formal or informal?

# Table 9: Education

- Who has access to schooling?
  - Urban or Rural
  - Young or Old?
  - Males or Females?
- Different for \$1/day vs. \$2/day?
- Different across countries?



# Table 10: Non-agriculture enterprises

- Are non-ag enterprises common?
- Where is non-ag enterprise more common?
  - Urban vs. Rural?
  - Different across countries?
- How large are these enterprises?
  - Employment? Paid or unpaid?
  - Capital?

# Table 11: Market for insurance

# Table 12: Migration

- Is insurance common?
  - Urban vs. Rural?
  - \$1/day vs. \$2/day
  - Different across countries?
- Are there differences in degree of migration?
  - Urban vs. Rural?
  - \$1/day vs. \$2/day
  - Across countries?

# Unanswered Questions

- We do not entirely understand the choices the poor make.
- Questions:
  - Why don't they specialize more?
  - Why are there so many entrepreneurs among the poor?
  - Why don't the poor eat more?
  - Why don't the poor invest more in education?
  - Why don't the poor save more?
  - Why don't the poor migrate more and for longer?

# Why so little specialization?

- Poor engage in many activities
  - Some agriculture, some self-employed, some wages

## Why?

- To manage risk—lots of activities allows diversification
- To use otherwise wasted time (surplus labor)
  - Agriculture only requires labor at some times of year
- Poor cannot raise sufficient capital to expand business

# Why so many entrepreneurs?

- Most poor households have someone who is an entrepreneur

## Why?

- With few marketable skills, being an entrepreneur is often the *only* thing to do (particularly for women)
- Extremely small scale—inefficient, and so do little to create jobs for others

# Why don't the poor eat more?

- Poor could spend more on food, and spend on food in more efficient ways (eat less sugar, expensive calories)
- Yet poor are at unhealthy weight levels

## Why?

- Eating more might not be effective—lose it all when become sick again (bad investment)
- A self control problem?
  - But poor buy televisions, spend on festivals, which require some savings
- Poor prefer better tasting foods to calories?

# Why don't the poor invest more in education?

- Poor send children to school, but schools are terrible
- Yet poor don't seem to try to do better

## **Why?**

- Illiterate parents may not know quality of school
- Limited perceived returns to schooling?
- May have trouble organizing to ask for better schools

# Why don't the poor save more?

- Poor lack capital, have debts
- Yet poor do not seem to accumulate wealth, even though they could

## Why?

- No good way to save. Bank accounts not available, savings at home could be stolen
  - But poor have debts—expensive, could pay down
- Saving is hard, requires not spending now to save in future—a constant temptation
  - Self-control problem?



# Why don't the poor migrate more?

- Poor migrate for short periods, but not for longer periods despite high earnings
- Poor don't tend to permanently migrate.

## Why?

- Maybe poor benefit from local kinship networks which provide insurance.
- Maybe markets for land bad—the poor can't sell their land, or have to stay and protect it, and so can't leave.