

Lecture II: Well-being (People)

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1. Motivation

- The ultimate aim in development is to raise well-being for many people
- Two questions:
 - What is well-being?
 - What kinds of change would rise well-being for people living in developing countries?
- Economics can help in answering these questions: looking into the behavior of the poor give us an idea of what they consider relevant for their well-being
- However, recall this depends on the socioeconomic context and institutions

How the poor live in Colombia?

- Let's discuss base on the following documentary:
Colombia - La pobreza cronica inunda la vida urbana
<https://www.youtube.com/watch?v=eP9C5UDaID4>

How the poor live in other parts of the world?

- Watch the following documentary:
Hear Our Voices - The Poor on Poverty

`https:
//www.youtube.com/watch?v=6KJSPEacHxw&t=1101s`

2. Defining well-being

- Let's consider the following definition of well-being

Well-being

"A person's well-being is a summary assessment of how good or bad her life circumstances are, paying attention at minimum to the quantities and qualities of the goods and services she consumes, the activities to which she allocates her time, and her hopes and fears regarding the future."

- Two subtle questions:
 - What is the relationship between well-being and happiness?
 - Does well-being relate to what people ultimately succeed in consuming, doing, and experiencing, or does it relate also to the rights and freedoms that shape their ability to attain these things?

- Economists think of well-being as an outcome determined in part by circumstances beyond people's control and in part their choices
- These life circumstances influence the activities people do in order to pursue well-being:
 - Earning income
 - Acquiring goods and services
 - Coping with fluctuations
 - Building futures through investment

2.1 How households in developing countries earn income?

- Agriculture occupies a much larger share of the labor force
- The nature of employment arrangements is different: self-employment is large
- Even among wage employees, the typical job tends to be different than the developed world (demands of skills, complexity of production, and size of establishments)

Agriculture is the main source of income for the poor

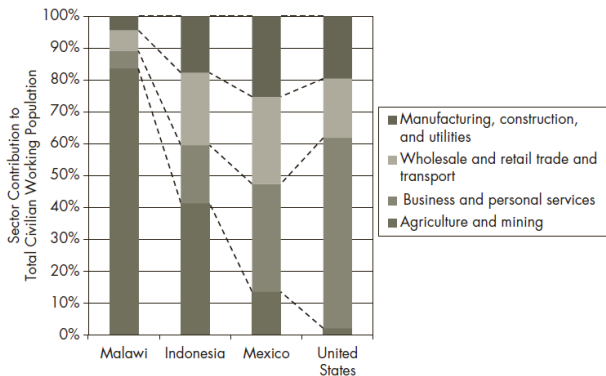


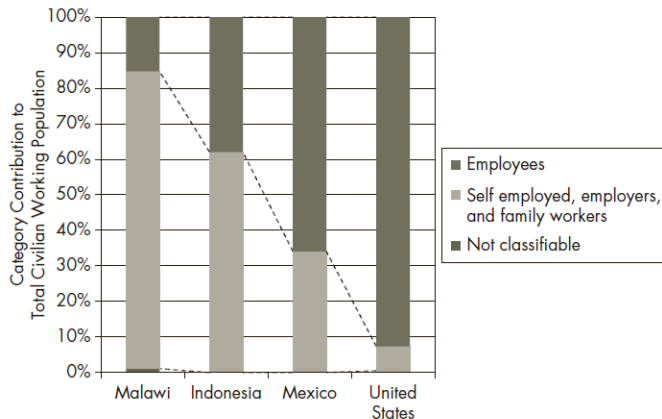
FIGURE 2.1
Percentage Distribution of Civilian Workers across Sectors in Countries at Different Income Levels

Source: ILO (2010). Based on data from national censuses and surveys in Malawi (1998), Indonesia (2008), Mexico (2008), and United States (2008).

Most workers are self-employed

FIGURE 2.2
Percentage Distribution
of Civilian Workers by
Employment Status in
Countries at Different
Income Levels

Source: ILO (2010). Based on data from national censuses and surveys in Malawi (1998), Indonesia (2008), Mexico (2008), and United States (2008).



Heterogeneities are important

TABLE 2.1 Percentages of Households Earning Incomes from Various Sources by Income Level and Rural/Urban Location^a

	Less than \$1/day		Less than \$2/day		\$2–\$4/day		\$6–\$10/day	
	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban
Malawi (2004–05)								
Share of all households	21%		63%		27%		3%	
Self-employed in agriculture	98.4	64.2	98.1	55.8	95.0	41.1	90.5	33.6
Self-employed in nonagriculture	25.6	24.1	28.3	34.8	34.3	39.7	32.1	36.6
Wage employed in agriculture	65.8	56.5	58.3	40.1	42.4	20.7	23.6	19.0
Wage employed in nonagriculture	22.1	37.0	23.3	47.9	27.5	60.4	31.7	67.6
Indonesia (2000)								
Share of all households	7%		55%		37%		3%	
Self-employed in agriculture	52.6	13.6	55.7	12.8	51.7	9.6	45.5	7.2
Self-employed in nonagriculture	35.7	50.1	35.1	48.7	43.2	52.0	51.8	52.4
Wage employed in agriculture	36.9	28.1	31.5	16.6	21.8	10.5	7.4	5.1
Wage employed in nonagriculture	33.4	74.1	36.2	71.4	40.5	72.1	46.3	71.6
Mexico (2002)								
Share of all households	14%		37%		31%		11%	
Self-employed in agriculture	27.2	1.8	25.4	6.4	21.2	6.1	16.3	7.5
Self-employed in nonagriculture	21.6	22.0	22.4	26.4	21.7	25.4	20.3	30.1
Wage employed in agriculture	23.6	2.1	18.3	1.6	7.8	1.2	5.6	0.5
Wage employed in nonagriculture	36.9	72.6	44.0	69.5	58.3	72.2	60.8	67.9

Sources: For Malawi data, author's calculations from the Malawi Second Integrated Household Survey, 2004–05. For Indonesia and Mexico, from Banerjee and Duflo (2008).

^a Percentages indicate the shares of households within group (defined by income and rural/urban location) with at least one member in the indicated employment category.

Important differences across countries (Duflo et al 2007)

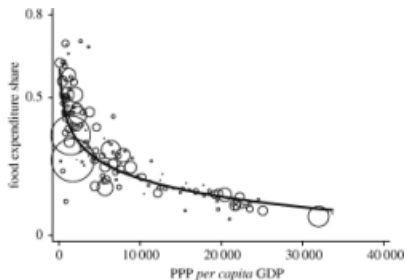
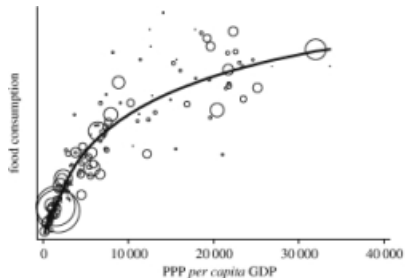
Table 6: How the poor earn their money: Occupation

	Percent of Households that own land	Median Area Of Land Owned	Percent of Households in which At Least One Member:				Percent of HHs That Receive Income From Multiple Sectors	
			Is Self Employed In		Works for a Wage or Salary in			
			Agriculture	Other	Agriculture	Other		
Living on less than \$1 a day								
Rural								
	Cote d'Ivoire	62.7%	300	37.2%	25.9%	52.4%	78.3%	72.1%
	Guatemala	36.7%	29	64.4%	22.6%	31.4%	86.4%	83.8%
	India - Udaipur	98.9%	60	98.4%	5.9%	8.5%	90.7%	94.0%
	India - UP/Bihar		40	72.1%	40.2%	2.0%	18.9%	41.8%
	Indonesia	49.6%	60	49.8%	36.6%	31.1%	34.3%	50.4%
	Mexico	4.0%		4.9%	20.4%	2.8%	72.6%	13.2%
	Nicaragua	50.4%	280	54.7%	11.6%	0.3%	42.8%	18.4%
	Pakistan	30.4%	162	72.1%	35.5%	32.6%	50.8%	66.8%
	Panama	85.1%	300	69.1%	17.7%	0.0%	0.0%	19.2%
	Peru	65.5%	150	71.7%	25.2%			34.8%
	South Africa	1.4%		0.0%	9.1%	27.9%	26.6%	0.4%
	Tanzania	92.3%	182					
	Timor Leste	95.2%	100	78.5%	12.0%			10.4%
Urban								
	Cote d'Ivoire	57.3%	300	35.0%	4.8%	92.3%	26.3%	47.4%
	Guatemala							
	India - Hyderabad	17.6%	20	0.0%	18.0%	0.8%	89.8%	11.5%
	Indonesia	10.7%	5	9.6%	50.8%	35.6%	77.0%	56.9%
	Mexico	37.1%		27.3%	20.7%	24.3%	36.3%	24.2%
	Nicaragua	15.0%	350	24.9%	37.7%	0.0%	31.6%	8.3%
	Pakistan	1.5%	121	17.6%	51.2%	4.2%	67.2%	38.3%
	Peru	8.6%	100	6.2%	57.6%			21.9%
	South Africa	0.0%		0.0%	6.8%	9.0%	46.4%	0.0%
	Tanzania	71.9%	162					
	Timor Leste	89.8%	100	80.6%	7.6%			2.1%

2.2 How households in developing countries spend income and acquire goods and services?

- Basic foods are very important in the budgets of low-incomes households (Engel's law)
- Other relevant items are clothing, furniture, medicine, school fees, and social custom related expenditures (celebrations, weddings, etc)
- Sometimes, money is not enough to buy goods and services (time, non-monetary bribes, etc)

World food Engel curve

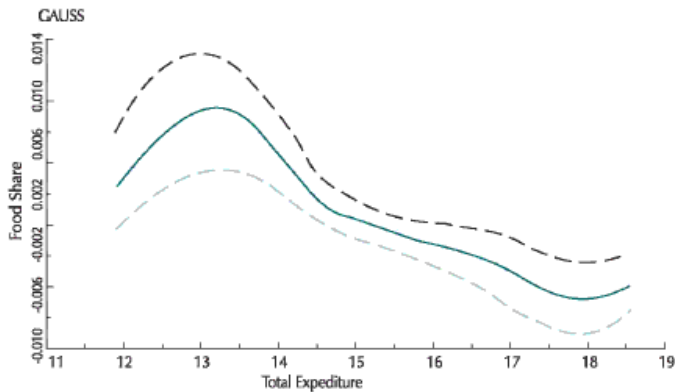


Colombia food Engel curve (Bogota)

Graph 1

Nonparametric Estimated Effect of Total Expenditure on Foodshare.

Bandwidth $k = 1.9$



Source: author's calculations.

Other expenditures are also relevant (Duflo et al 2007)

Table 3: How the poor spend their money

	As a Share of Total Consumption					% HHs with any Festival Expenditure	
	Food	Alcohol/ Tobacco	Education	Health	Entertainment	Festivals	
Living on less than \$1 a day							
Rural							
Cote d'Ivoire	64.4%	2.7%	5.8%	2.2%	0.0%	1.3%	59.9%
Guatemala	65.9%	0.4%	0.1%	0.3%		0.1%	7.7%
India - Udaipur	56.0%	5.0%	1.6%	5.1%	0.0%	14.1%	99.4%
India - UP/Bihar	80.1%	3.1%	0.3%	5.2%	0.1%	2.2%	
Indonesia	66.1%	6.0%	6.3%	1.3%	0.0%	2.2%	80.3%
Mexico	49.6%	8.1%	6.9%	0.0%	0.7%	0.0%	2.7%
Nicaragua	57.3%	0.1%	2.3%	4.1%	0.0%	0.0%	1.8%
Pakistan	67.3%	3.1%	3.4%	3.4%	0.3%	2.4%	64.8%
Panama	67.8%		2.5%	4.0%	0.6%	0.0%	0.0%
Papua New Guinea	78.2%	4.1%	1.8%	0.3%	0.2%	1.5%	21.7%
Peru	71.8%	1.0%	1.9%	0.4%	0.0%		
South Africa	71.5%	2.5%	0.8%	0.0%	0.1%	3.2%	90.3%
Timor Leste	76.5%	0.0%	0.8%	0.9%	0.0%	0.0%	49.0%
Urban							
Cote d'Ivoire	65.0%	3.5%	5.1%	1.6%	0.0%	2.5%	73.9%
India - Hyderabad	59.8%	2.5%	4.7%	4.6%	1.2%	4.3%	
Indonesia	58.5%	5.5%	8.8%	0.9%	0.0%	2.0%	87.2%
Mexico	59.6%	3.6%	6.3%	0.0%	0.1%	0.1%	1.6%
Nicaragua	56.3%	1.0%	3.6%	6.6%	0.0%	0.0%	2.5%
Pakistan	63.4%	3.0%	6.1%	3.8%	0.3%	2.2%	60.4%
Papua New Guinea	81.7%	0.6%	0.4%	0.0%	1.9%	0.0%	0.0%
Peru	58.5%	0.2%	2.9%	0.4%	0.0%		
South Africa	57.9%	5.0%	1.2%	0.0%	0.1%	4.2%	92.2%
Timor Leste	74.1%	0.0%	0.7%	1.3%	0.0%	0.0%	51.9%

2.3 How households in developing countries cope with fluctuations and shocks?

- Households face shocks of diverse nature:
 - Agriculture introduces seasonal fluctuations
 - Life cycles variation in household members (household head age, children's age, etc.)
 - Agricultural shocks play an important role (temperature, rainfall, exposure to crop diseases, etc)
 - Variation in market prices
 - Catastrophic shocks due to natural disasters, illness, and insecure property rights
- Households use diverse strategies to cope with shocks:
 - Ex-post responses to fluctuations consumption smoothing
 - Ex-ante responses to fluctuations: income smoothing

Insurance by the poor (Duflo et al 2007)

Table 11: Market for Insurance and the poor

Percent of Total Households with Insurance:

	Any Type	Health	Life
Living on less than \$1 a day			
Rural			
Cote d'Ivoire			
Guatemala			
India - Hyderabad			
India - Udaipur			3.8%
India - UP/Bihar	9.2%	4.7%	3.8%
Indonesia	6.0%	3.9%	0.0%
Mexico		50.7%	
Nicaragua	0.0%	5.5%	
Pakistan			
Panama		0.0%	0.0%
Papua New Guinea			
Peru		5.6%	0.0%
South Africa	5.4%		
Tanzania			
Timor Leste			
Urban			
Cote d'Ivoire			
Guatemala			
India - Hyderabad	11.2%	0.0%	10.0%
India - Udaipur			
India - UP/Bihar			
Indonesia	25.4%	23.1%	0.0%
Mexico		24.9%	
Nicaragua	0.0%	7.6%	
Pakistan			
Panama			
Papua New Guinea			
Peru		13.3%	0.0%
South Africa	5.7%		
Tanzania			
Timor Leste			

2.4 How households in developing countries build better futures through investment?

- Households in developing countries undertake investments of many sorts:
 - Physical assets: Farm land, irrigations, wells
 - Public assets: schools, irrigation systems
 - Human capital: education, health
- These investment are only feasible if household are able to financing it

Assets of the poor (Duflo et al 2007)

Table 4: What do the poor own

		Percent of Households with:			
		Radio	Television	Bicycle	Land
Living on less than \$1 a day					
Rural					
	Cote d'Ivoire	43.3%	14.3%	34.4%	62.7%
	Guatemala	58.5%	20.3%	23.1%	36.7%
	India - Hyderabad				98.9%
	India - Udaipur	11.4%	0.0%	13.5%	
	India - UP/Bihar	28.3%	7.3%	65.8%	
	Indonesia		26.5%		49.6%
	Mexico			41.3%	4.0%
	Nicaragua	59.3%	8.3%	11.1%	50.4%
	Pakistan	23.1%		27.0%	30.4%
	Panama	43.6%	3.3%	0.0%	85.1%
	Papua New Guinea	18.0%	0.0%	5.3%	
	Peru	73.3%	9.8%	9.8%	65.5%
	South Africa	72.2%	7.2%	20.0%	1.4%
	Tanzania		0.0%		92.3%
	Timor Leste	14.3%	0.6%	0.9%	95.2%
Urban					
	Cote d'Ivoire	44.1%	5.2%	58.5%	57.3%
	Guatemala				
	India - Hyderabad	16.2%	57.0%	39.4%	17.6%
	India - Udaipur				
	India - UP/Bihar				
	Indonesia		51.7%		10.7%
	Mexico			39.0%	37.1%
	Nicaragua	69.3%	21.1%	14.4%	15.0%
	Pakistan	36.1%		40.4%	1.5%
	Panama				
	Papua New Guinea	0.0%	0.0%	0.0%	
	Peru	78.8%	46.6%	9.8%	8.6%
	South Africa	71.4%	26.7%	1.3%	0.0%
	Tanzania		0.3%		71.9%
	Timor Leste	10.9%	0.6%	0.8%	89.8%

Assets of the poor (Duflo et al 2007)

Table 5: Economics environment of the poor: Basic infrastructure

		Percent of Households with:		
		In-House Tap Water	Toilet/ Latrine	Electricity
Living on less than \$1 a day Rural	Cote d'Ivoire	11.8%	27.1%	45.1%
	Guatemala	37.7%	50.5%	29.9%
	India - Udaipur	0.0%	0.0%	8.3%
	India - UP/Bihar	1.9%	3.4%	8.7%
	Indonesia	5.6%	30.5%	96.9%
	Mexico			99.0%
	Nicaragua	12.3%	59.0%	16.4%
	Pakistan	9.9%	28.5%	55.5%
	Panama		37.7%	0.0%
	Papua New Guinea	1.7%	95.2%	2.0%
	Peru	29.7%		12.2%
	South Africa	4.4%	58.9%	5.6%
	Tanzania	0.7%	91.6%	1.1%
	Timor Leste	2.3%	31.3%	8.8%
Urban	Cote d'Ivoire	1.6%	11.3%	9.1%
	Indonesia	15.7%	34.7%	100.0%
	Mexico			95.5%
	Nicaragua	29.3%	67.5%	30.2%
	Pakistan	50.4%	82.7%	95.2%
	Panama			
	Papua New Guinea	28.7%	53.6%	28.7%
	Peru	73.8%		59.5%
	South Africa	44.2%	60.5%	15.1%
	Tanzania	12.1%	96.7%	14.2%
	Timor Leste	9.1%	42.8%	46.9%

Human capital: health (Duflo et al 2007)

Table 7: Health in the Household

		In Last Month		Percent of Households that met		Infant Mortality
		Percent of HH Members Sick	A Household's Average # of Consultations	At Least Once with a Consultant	Private	
Living on less than \$1 a day						
Rural						
	Cote d'Ivoire	21.4%	1.28	49.7%	3.2%	6.2%
	Guatemala					6.2%
	India - Hyderabad					
	India - Udaipur	46.1%	0.11	20.1%	58.1%	10.0%
	India - UP/Bihar	12.5%	0.81	13.9%	47.3%	7.7%
	Indonesia	24.2%	0.77	20.7%	27.3%	3.4%
	Mexico	46.3%	1.11	47.7%	0.0%	6.9%
	Nicaragua	34.9%	0.15	46.0%	5.0%	
	Pakistan	28.0%	0.45	24.0%	48.8%	16.7%
	Panama	15.2%	0.10	23.8%	0.0%	
	Papua New Guinea					
	Peru	11.1%	0.10	20.9%	8.5%	
	South Africa	12.5%	0.12	16.4%	6.9%	8.6%
	Tanzania	13.2%	0.07	23.2%	14.0%	8.7%
	Timor Leste	11.7%	0.21	30.2%	0.5%	
Urban						
	Cote d'Ivoire	27.8%	0.68	32.6%	2.6%	9.5%
	Guatemala					
	India - Hyderabad					
	India - Udaipur					
	India - UP/Bihar					
	Indonesia	27.6%	0.88	23.5%	34.4%	2.8%
	Mexico	50.1%	0.95	46.1%	0.0%	2.5%
	Nicaragua	31.7%	0.14	50.7%	4.8%	
	Pakistan	24.4%	0.37	21.3%	43.3%	11.8%
	Panama					
	Papua New Guinea					
	Peru	13.5%	0.19	34.8%	16.5%	
	South Africa	11.3%	0.11	17.7%	2.2%	9.2%
	Tanzania	14.4%	0.10	26.5%	15.2%	7.3%
	Timor Leste	12.4%	0.26	38.1%	4.5%	

Human capital: education (Duflo et al 2007)

Table 9: Education

		Percent of Children in School			
		Female, Age:		Male, Age:	
		7-12	13-18	7-12	13-18
Living on less than \$1 a day					
Rural					
	Cote d'Ivoire	32.3%	22.8%	45.5%	21.1%
	India - Udaipur	60.7%	13.0%	82.6%	24.7%
	India - UP/Bihar	51.4%	20.2%	72.1%	51.2%
	Indonesia	93.4%	45.9%	82.4%	39.3%
	Mexico	94.5%	56.5%	93.5%	38.6%
	Nicaragua	67.5%	38.0%	65.4%	27.5%
	Pakistan	30.7%	9.2%	64.1%	41.3%
	Panama	79.0%	14.6%	85.1%	27.0%
	Papua New Guinea	53.0%	33.5%	71.4%	70.9%
	Peru	94.2%	64.7%	93.3%	73.7%
	South Africa	83.6%	87.5%	80.5%	76.9%
	Tanzania	51.2%	53.3%	47.2%	61.4%
	Timor Leste	76.6%	89.7%	80.0%	86.8%
Urban					
	Cote d'Ivoire	20.5%	10.7%	39.8%	27.7%
	India - Hyderabad	88.7%	42.6%	88.1%	47.3%
	Indonesia	85.3%	39.1%	100.0%	36.5%
	Mexico	97.1%	47.7%	95.9%	55.8%
	Nicaragua	80.0%	52.0%	60.8%	32.2%
	Pakistan	65.8%	29.2%	75.7%	40.7%
	Papua New Guinea	60.8%	56.7%	62.2%	60.2%
	Peru	93.0%	73.0%	95.1%	97.3%
	South Africa	91.2%	87.0%	89.1%	96.2%
	Tanzania	66.4%	51.8%	54.4%	65.3%
	Timor Leste	84.9%	90.2%	91.4%	97.1%

Credit and savings by the poor (Duflo et al 2007)

Table 8: Market for Credit and Savings and the poor

Table 8. Market for Credit and Savings and the poor													
		Percent of HH with at least one Loan	Proportion of Total Loans from:									% HH with a Savings Account	
			Bank	Moneylender	Microcredit Institution	Credit Union	Savings Group	Shopkeeper	Villager	Relative	Friend		Other
Living on less than \$1 a day													
Rural													
	Cote d'Ivoire	30.5%	5.7%			0.0%	0.0%		94.3%		0.0%	0.0%	79.5%
	India - Udaipur	66.3%	6.0%	15.9%	0.0%	6.0%	2.6%	36.4%	4.0%	21.6%	2.1%	2.8%	6.4%
	India - UP/Bihar	6.0%	2.2%	19.2%		0.0%	1.5%		60.9%		0.0%	1.3%	
	Indonesia	11.6%	25.3%	2.7%	2.9%	0.0%	17.8%	0.0%	0.0%		0.0%	51.3%	6.6%
	Mexico	18.5%	17.4%	2.5%		0.0%				53.5%	18.3%	8.3%	6.2%
	Nicaragua												
	Pakistan	93.2%	1.5%	0.8%		0.0%	0.0%	15.8%	11.2%	38.1%	29.0%	3.7%	11.7%
	Panama	2.8%											0.5%
	Papua New Guinea												
	Peru	12.3%	0.0%					9.2%		23.9%			0.5%
	South Africa	39.6%		1.0%		0.0%		71.3%			26.1%	16.7%	
	Timor Leste	10.9%	0.0%	0.0%	0.0%								13.4%
Urban													
	Cote d'Ivoire	40.4%	3.9%			0.0%	2.1%		92.6%		0.0%	1.5%	93.4%
	India - Hyderabad	70.5%	6.9%	61.6%	1.0%	0.0%	0.0%	0.0%	10.5%	6.2%	11.1%	2.7%	24.7%
	Indonesia	11.6%	32.3%	22.6%	2.4%	0.0%	3.8%	0.0%	0.0%		0.0%	38.8%	3.3%
	Mexico	19.1%	1.2%	12.7%		0.0%				31.4%	40.6%	14.1%	3.0%
	Nicaragua												
	Pakistan	95.1%	6.2%	0.4%		0.0%	0.0%	8.9%	4.7%	43.5%	23.2%	13.1%	26.2%
	Papua New Guinea												
	Peru	8.6%	0.0%					0.0%		79.1%			0.0%
	South Africa	26.0%		0.0%		0.0%		49.3%			25.5%	22.3%	
	Tanzania												17.7%
	Timor Leste	10.3%	0.0%	0.0%	0.0%								8.5%

3. Household level determinants of well-being

- How house well-being is determined?
 - Assets
 - Needs
 - Market conditions
 - Institutions

3.1 Assets

- What are household's assets?

Assets

"A household's assets are its permanent or long-lasting attributes and resources that raise its effectiveness in pursuing well-being."

- Type of assets:
 - Human assets: Time, energy, skills
 - Physical assets: land, livestock, plows, etc.
 - Communal assets: common land, lakes, rivers
- Policies that increase the quantity or quality of a household's assets raise its well-being in a long-lasting way

3.2 Needs

- Levels of household's well-being are also determined by the nature and magnitude of their needs:
 - Size of households
 - Incidence of illness, injury, and disability
 - Cultural norms

3.3 Market conditions

- Markets play a critical role in determining household's well-being:
 - Goods (as producer and consumer) and labor markets (supplying labor force)
 - Financial markets facilitates households' efforts to cope with shocks and build better futures via investment
- Understanding the role of markets in developing economies is a fundamental component of this class

3.4 Institutions

- Market transactions are not the only human interactions important in development:
 - **Market transactions:** buying, selling, lending, and borrowing
 - **Nonmarket interactions:** cooperate, give gifts, share information, trust, steal, cheat, punish, reward, approve and disapprove
- People's choices regarding market and nonmarket interactions are constrained by **institutions**:

Institutions

"Set of formal rules and informal norms, together with related enforcement mechanisms, that constraint peoples' choices regarding a particular set of actions."

- Institutions restrict peoples' choices but often expand opportunities by encouraging people to cooperate in mutually beneficial activities
- Unfortunately, healthy institutions do not always arise even when all groups in a society will be better-off with them