

# THE ECONOMIC LIVES OF THE POOR

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# 13 Countries Surveyed

- Cote d'Ivoire
- Guatemala
- India
- Indonesia
- Mexico
- Nicaragua
- Pakistan
- Panama
- Papua New Guinea
- Peru
- South Africa
- Tanzania
- Timor Leste

# What is poor?

- According to the World Bank's 1990 World Development Report...
  - "extremely poor" = Less than \$1 per day (1993 PPP)
  - "poor" = Less than \$2 per day

# Family Size

- Tends to be rather large by today's standards
  - Varies between 6 and 12
  - Median value between 7 and 8
- Common for adults to live with extended family
  - Parents, siblings, uncles, cousins, etc.
- Population is relatively young
  - Higher mortality rates, older=richer?

# Food and...

- Food represents 56 to 78 percent for rural households, and 56 to 74 for urban households
- The rest?
  - Alcohol and tobacco (4.1% in PNG, 5% in India, 6% in Indonesia, 8.1% in Mexico)
  - Entertainment (50 to +99% spent on weddings, funerals, religious festivals)

# Food and...

- The poor see themselves as having a significant amount of choice and choose not to spend more on food
- Up to 30% more could be spent on food
- 1% increase in expenditure = .67% increase in food
- Nutritional value: opting for more expensive, less calorie-rich items

# Asset Ownership

- Land
  - Small plots of dry scrubland that cannot be cultivated for most of the year
- Few durable goods (ex. automobiles, appliances, manufacturing equipment)
- Self-owned businesses with no productive assets

# Health

- Average poor person consumes less than 1400 calories per day (half of what the Indian govt. recommends)
- 65% of men and 40% of women have a BMI below 18.5
- Anemia, diarrhea
- Self-reported happiness not particularly low
- Poor households bear most health care risks
- Low quality of free health care provided by government

# Education

- **Extremely poor spend very little on education**
  - Public school (93.4% in India)
  - Avg. absence rate of teachers is 19%, 35% for health care workers
- **Low quality**
  - 35% of kids 7-14 cannot read at 2nd-grade level
  - 41% cannot do subtraction, 65% cannot do division

# How the poor earn \$\$\$

- Entrepreneurship
- Multiple occupations
  - The median family had 3 working members and 7 occupations (W. Bengal)
- Lack of specialization
  - Some agriculture, short-term migrants
  - Trading off opportunities to have higher incomes

# Savings

- Few poor households have savings accounts
- Savings “clubs”

# Credit Markets

- Very few poor households get loans from formal source (ex. commercial bank, cooperative)
- Majority of the 2/3 of people who had loans received them from relatives, money lender or shopkeeper
- Informal lending more expensive (less from credit defaults than contract enforcement)
  - Less capitalized, less regulated, no government guarantees, higher cost of deposits

# Questions

- **Why so little specialization?**
  - Risk spreading
  - Occupy otherwise wasted time
  - Poor cannot raise the capital necessary to run full-time business; very little assets & limited working capital
- **Why so many entrepreneurs?**
  - W/ few skills and little capital, easier than finding a job

# Questions

- Why don't the poor eat more?
  - Eating more wouldn't help that much in preventing weakness to disease.
  - Save \$\$\$ on eating today in order to spend more on entertainment tomorrow.
- Why don't the poor invest more in education?
  - Poor parents may not recognize that children aren't learning.
  - Private school teacher are usually less qualified.

# Questions

- **Why don't the poor save more?**
  - Saving at home is hard, constantly resisting temptation to spend.
- **Why don't the poor migrate for longer? (given that they could easily make more money that way)**
  - Remaining close to social network
  - Making more \$\$\$ not a huge priority

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