

The Economic Lives of the Poor

In this essay by authors Abhijit V. Banerjee and Esther Duflo, the lives of the “extremely poor” throughout thirteen countries are observed and discussed through an analytical lens. A common theme amongst poverty discussions is, how does one live on \$1-a-day? In the past a large discrepancy regarding the purchasing power parity exchange rates, a uniform way to calculate the poverty line. Is that it is inadequate, infrequently updated, and inapplicable to the consumption of the extremely poor. However, new data sets and bodies of research have illuminated a great deal about the lives of the poor, and with this information a clearer image of the way they live is being created from it.

The World Bank in 1990 determined the “extremely poor” of the world to be those living on no more than \$1 per day, with that number currently being \$1.08. Poverty lines have always existed but this study found that the quality of life differed greatly in the areas studied. Cote d’Ivoire, Guatemala, India, Indonesia, Mexico, Nicaragua, Pakistan, Panama, Papua New Guinea, Peru, South Africa, Tanzania, and Timor Leste (East Timor) were the thirteen countries studied. These particular countries were chosen because they represented a detailed source of information on extremely poor households around the world. These ranges also accurately represented developing regions of the world, and included other vital information like consumption, employment, and saving/borrowing per household. These poor are also considered poor in the long-term because their overall income is very close to their observed consumption. Poor families typically tend to be larger than their more affluent counterparts, normally as large as 6 to 12 people. The overall population of the lower class was notably younger, potentially attributable to a lower life expectancy (infant mortality rates not included).

Food is a constant necessity amongst any family. Those studied needed to spend almost all of their money purchasing such necessities, making food purchasing one of the main focuses of the study. Among the countries surveyed by the authors, “food represents 56-78% of consumption among rural households, and 56-74% percent in urban areas (Banerjee and Duflo).” This statistic is interesting because if income increases in most households, only a small percentage of that will be put towards increasing caloric content. What studies have found is that a majority of poor household will spend that extra income on buying more expensive higher quality/processed foods versus cheaper more nutritious options. As well as on luxury goods like alcohol, tobacco, teas, and a significant amount on entertainment (festivals, weddings, etc.). Tobacco and alcohol in particular, account for anywhere from 4-8% of total income; however in Nicaragua and Peru no more than 1% is spent on these goods (suggesting other intoxicants instead). Suggesting that the value of getting a little happiness, was chosen over saving money almost every time.

Asset ownership in the form of radios and televisions is dependent on the country, with a majority of the urban poor owning them versus rural. Other such assets like land ownership also were dependent on the country, with most of it being almost exclusively owned (if any at all) by the rural poor. Land records in most countries are incomplete and titles often nonexistent, making it harder to sell or mortgage your property. Leading many poor households to spend a lot of time and money protecting their claims to land. Most “extremely poor” people show difficulty

in saving money in the long term, and to combat this in some areas, have formed savings “clubs” to encourage each other to save money and make loans to individual members out of the accumulated savings (sometimes even linked to banks). This was not the most common method however, credit from money lenders and other informal sources tends to be the predominate way the poor borrow money. This results in very expensive rates that often times come from the high cost of contract enforcement. Defaulting on loans is quite rare however, infrequent and delayed payments are a common occurrence. The poor earn their income in a variety of ways primarily doing agricultural and other labor intensive jobs. A majority of them having multiple occupations, for example, “households who report that they conduct more than one type of activity to earn a living is 50 percent in Indonesia, 72 percent in Cote d’Ivoire, 84 percent in Guatemala, and 94 percent in Udaipur” (Banejee and Duflo). In having multiple occupations, many attempt to avoid the risks associated with full time farming, yet still want to avoid being too dependent on their non-agricultural jobs.

The availability of infrastructure to the poor varied greatly by country, in general urban poor have better access to water, electricity, and sanitation infrastructure than the rural poor. The poor’s expenditure on education is on average less than 2% of household budget, with the reasoning behind this being many poor youth attend public schools or schools that do not charge a fee. An increasing amount of evidence is being reported, suggesting that most public schools are dysfunctional. Which could explain why households, if they can afford it, are pulling their children out of public school and paying the money to send them to private institutions. Poor households also bear the most health care risks in reference to expenditures and foregone earnings. Many poor individuals can barely afford to keep the roof over their head let alone pay a monthly premium. Therefore if an individual in a household gets sick, which happens quite frequently, a large portions of their income will go towards treatment and in the meantime they will be unable to work and make the money needed to cover their growing expenses. Government programs in these countries are often ineffective in providing coverage because there is too much need and not enough aid available, lack of access, or even corruption by healthcare providers.

After taking into account the many facts about the lives of the poor, the root of their problems seem to make more sense. The differences in their quality of life is not only dependent on each household but also the country they are in because of the various environmental and economic factors influencing them on a daily basis. Fear of risk, lack of skills, luxury consumption, low quality education, ineffective government aid, and a lack of savings are all factors addressed in this essay that influence the lives of the poor. This is all in all, a very complicated situation in which the world’s poor lives in today. By addressing these issues, hopefully governments and individuals within these communities will make steps to improve the overall lives of the “extremely poor” and elevate them to a working class status. Doing so not by trying to generalize all nations disadvantaged with the same metrics, but looking at how the people live and what really makes the poor different in each area.