

Economists reveal factors that help poor people lift themselves out of poverty

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What factors contribute to poor people in developing countries lifting themselves out of poverty?

A paper by [economists](#) Anan Pawasutipaisit of Thammasat University and Robert M. Townsend of MIT provides important insights into what kinds of households might be most effective at moving themselves out of poverty and how they are able to do it.

The paper, "Wealth Accumulation and Factors Accounting for Success" appears in the current issue of the *Journal of Econometrics*. It suggests that poor people who skillfully manage their assets are especially successful in improving their net worth. The authors discovered that the ability of [poor families](#) to increase their wealth was strongly related with their rate of saving and, even more so, with their ability to create a high return on assets.

This means that those households who used their existing assets most productively were more successful at pulling themselves out of poverty. Many of the successful households reinvested their money in their small businesses and farms, suggesting that they are well aware of the source of their success.

Pawasutipaisit and Townsend identified these trends through an extensive survey that was taken from more than 500 Thai households across four provinces every month between 1999 and 2005. From this data, the authors created detailed, financial accounts for each home.

They discovered that, over the course of their 7-year study, poor households grew their net worth by an average of 22% per year while rich households grew by just 0.09%.

The data also allowed the authors to identify traits that the most successful households tended to share in common: more highly-educated household members, a younger age of the head of household, a higher ratio of debt to assets, and a preference for formal financial markets over informal ones. But the largest source of variation in the rate of return on assets was household-specific and uncorrelated with any of these variables. This suggests there is great persistence among the most successful households.

"The data seem to show pretty conclusively that successful households are not just lucky," observes author Robert M. Townsend. "They are doing something systematic, month after month, year after year. The next step, of course, is to figure out what the associated skills and attitudes really are."

Provided by University of Chicago

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