The wealth of Thai villages

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Examining Thai villages as smaller versions of a national economy provides a new understanding of the dynamics of economic growth and yields fresh insights to the financial lives of villages and households.

This is the conclusion from a new study by the Consortium on Financial Systems and Poverty. In a paper that will be published in a forthcoming issue of the journal American Economic Review, economists Archawa Paweenawat and Robert M. Townsend, describe an analytical framework that generates financial and economic accounts for villages with data drawn from household surveys. The authors used the accounts, which they created with data from Thailand, to study relationships across villages in the same way that international economists analyze the economies of nations and the interactions among them.

"We believe that a village typically has its own importance as an economy," notes Townsend. "It's more than just a random cluster of households. Each village is a geo-political entity with its own formal and informal institutions. This study proposes viewing villages as nations in an economic sense in order get a richer understanding of the dynamics at play. We look at production and trade as well as the macro financials, and we examine their interaction."

Their early findings suggest that the capital markets across villages are highly integrated. That is, a village does not have to rely on its own savings when investment opportunities arise. When the researchers considered incoming gifts as part of a village's financial resources, they found that these gifts could be one of the main methods that village residents use to finance their opportunities, such as growing their household businesses.

Preliminary findings also show that within villages, households were more likely to rely on informal borrowing and outright gifts to smooth the gaps between the times when they needed to make purchases and when they received their income. But, across villages, their choices were more formal. When going outside of their villages, they were more likely to use credit from a bank rather than borrow from one another and more likely to use currency. This suggests that sharing within villages to weather hard times may be more far more pronounced than across-village sharing, but the authors caution that the sample size is not large enough to know for sure.

The findings are also an early indication of the potential of this new framework for unlocking the financial mysteries of developing economies. These varying methods of managing household and village finances reveal new insights that could help policymakers identify opportunities to facilitate growth, remove barriers to improved financial systems, and encourage innovation.

The authors followed a method to construct the financial accounts that was described by the U.S. Bureau of Economic Analysis, and extended by Townsend in previous work, for constructing national economic accounts.

Balance sheets, cash flow statements, and income statements were constructed for each household from monthly survey data, which was drawn from the Townsend Thai Data panel survey. Each household's finances were treated as if they were a corporate firm's, due to the similarities many self-employed households in developing countries share with firms. Consolidating the households' accounts allowed for the creation of financial accounts for the villages. Production, income, savings-investment, and balance of payment accounts were created for each village. Once combined, the village's finances were analyzed, as a nation's would be.

More information: The paper, "Village Economic Accounts: Real and Financial Intertwined," will appear in the May "Papers and Proceedings" edition of American Economic Review, which highlights notable papers from the annual American Economic Association meeting.

Provided by Consortium on Financial Systems & Poverty