ECONOMICS, LABOR & BUSINESS

Living on $1 a Day

THE SOURCE: "The Economic Lives of the Poor" by Abhijit V. Banerjee and Esther Duflo, in ***The Journal of Economic Perspectives***, Winter 2007.

What is it like to live on less than $1 a day? More than one billion people in the developing world scraped by below this global line for the "extremely poor" in 2001, and their lives were hard—but not as devoid of choices as they might seem.

In Udaipur, India, according to a recent survey, only 10 percent of the poor own a chair and just five percent own a table. More than a third report that adults in their household went without food for a whole day at some point during the past year. Anemia and other illnesses are rife. Yet the same survey shows that the city's poor spend five percent of their money on alcohol and tobacco, 10 percent on religious festivals, and almost 10 percent on "sugar, salt, and other processed foods." In India as a whole, the share of income the poor spent on food declined between 1983 and 2000.

Researchers around the world have consistently found that "even the extremely poor do not seem to be as hungry for additional calories as one might expect," note Abhijit V. Banerjee and Esther Duflo, economists at the Massachusetts Institute of Technology and directors of its Abdul Latif Jameel Poverty Action Lab. Their review of surveys of the poor in 13 countries confirms that fact and turns up other insights.

There are wide country-to-country variations. Hardly any of Udaipur's poor own a radio or television, but in countries where festivals and other public entertainments are rare, ownership rates are much higher. More than 70 percent of poor households in South Africa and Peru own a radio. A quarter of Guatemala's poor households and nearly half of Nicaragua's own a television. It's not an absence of self-control that leads to such outcomes, the authors say. Poor people often skimp on food so that they will have enough money for things they consider valuable. Like everybody else, they let comparisons with what their neighbors have powerfully influence their sense of well-being.

Landownership among the very poor varies widely—four percent of Mexicans living on less than $1 a day own land, while 30 percent of Pakistanis and 65 percent of Peruvians in similar circumstances do—but farmers, like other poor people, are often engaged in multiple occupations. Why not settle on a single occupation, or improve the farm? Why spend time selling trinkets on the street when so many others are doing the same thing? People living on the edge are reluctant to put all their eggs in one basket, the authors explain. More important, they rarely have access to credit or safe places to save their money.

Poor people could earn "much more" by longer and more frequent migrations to find work elsewhere, but surprisingly few follow this path. In Udaipur, 60 percent of the households have a member who has traveled elsewhere for work, but usually not far (the majority stay in the state of Rajasthan, which is roughly the size of New Mexico) or for long (the median stay is one month). Permanent migration the world over is "rare." Only four percent of very poor households in Pakistan included someone who was born elsewhere and moved permanently for work; in Côte d'Ivoire and Peru, the numbers are six and 10 percent, respectively. Images of teeming cities may give the impression that the countryside has been drained of people, but a few million city dwellers added over the course of decades is a drop in the bucket in a country of many millions.

One explanation for the disinclination to migrate is that earning more money simply is not the highest priority of many poor people, the authors say. But there's more to it than that. A study in Kenya showed that while farmers who used fertilizer could vastly increase crop yields, few chose to do so, pleading poverty. Yet when aid workers offered to sell them a fertilizer voucher at harvest time (when they do have cash) good for later redemption, many took the deal. Then something even more curious happened. Most immediately redeemed their vouchers, and stored the fertilizer for later use—the very option they'd always declined in the past. They seemed to need a little push. "One senses a reluctance of poor people to commit themselves psychologically to a project of making more money," Banerjee and Duflo write. "Perhaps at some level this avoidance is emotionally wise: Thinking about the economic problems of life must make it harder to avoid confronting the sheer inadequacy of the standard of living faced by the extremely poor."

ECONOMICS, LABOR & BUSINESS

Outsmarting the Market

THE SOURCE: "What Are Stock Investors' Actual Historical Returns? Evidence From Dollar-Weighted Returns" by Ilia D. Dichev, in ***The American Economic Review***, March 2007.

"Buy and hold" is the mantra of many investment gurus. Rather than try to time the market or pick winners and losers, they say, individual investors should put their money into a representative basket of stocks and forget about it. Good advice, says Ilia D. Dichev, an economist at the University of Michigan's Stephen M. Ross School of Business. What a pity it's too simple for most people to follow.

The NASDAQ market, the main crash site of the Internet boom of the 1990s, would have produced handsome returns (9.6 percent annually) for a person who invested in 1973 and did nothing until 2002.

But even committed "passive" investors have a hard time sitting tight. People tend to put more money into stocks when the market soars and pull it out when it turns south. Most wind up buying high and selling low. In order to find out how investors actually fared, Dichev adjusted historical market returns to reflect the flows of money in and out of the market. That juicy 9.6 percent return on the NASDAQ? In fact, investors reaped only 4.3 percent on average. Results were better in other markets. A capitalization-weighted basket of stocks on the New York and American stock exchanges held from 1926 to 2002 returned an average of 9.9 percent annually. Investors who tried to outsmart the market saw an 8.6 percent annual increase.

Dichev's lesson: There can be a big difference between how *stocks* perform and how *investors* perform.

FOREIGN POLICY & DEFENSE

The Eisenhower Way

THE SOURCE: "Learning From Ike" by Jonathan Rauch, in ***National Journal***, April 13, 2007.

A new administration enters the White House, succeeding an unpopular president and inheriting a failing war in a volatile region, while being challenged on several fronts by the specter of nuclear confrontation. Such is the scenario that awaits the president who will take office in 2009, yet it bears many similarities to the situation when Dwight D. Eisenhower entered the White House in 1953. Though few presidents seem to look toward Ike as a foreign-policy model, his "brand of realism," says Jonathan Rauch, a *National Journal* senior writer, has "never been more relevant than it will be in the post-Bush cleanup that is about to begin."

In today's America, Rauch says, foreign policy is divided between hawks, who "think that peace comes from American strength," and doves, who "think that peace comes from international cooperation." Both camps, in his opinion,