

## **‘Poor Economics’ is guidance for winner Nobel Prize** ***How individual choices lead to poverty or middleclass***

*19 December 2015, by Robert van den Heuvel*



*Instruction on nutrition and health in northern Ghana*

Last week the British economist Angus Deaton was awarded with the Nobel Prize in Economics. Deaton received this for his research on the relation between consumption, poverty and prosperity. And in particular how individual choices by consumers have a big impact on their future, and contribute to poverty reduction.

This is a crucial topic from a development perspective. Every day consumers in Africa and Asia make choices with regard to food, hygiene, health and insurance. Essential choices, because the impact covers the whole range from deadly diseases and poverty, to success in middleclass. Companies and government can strongly influence these choices. And in this way they can play a role in reducing poverty on a business-wise and sustainable format.

### **Wrong choices**

We visited a family of 3 kids in Bandung, Indonesia. This was for a project of the company DSM, a producer of vitamins and minerals. The father of the family works in a food processing factory and is following a course on IT, and the mother makes ice cubes. With an income of \$150 a month, the family marches on, and improves its purchase power. But then their daughter develops an eye disease, because of a vitamin A deficiency. Having no insurance, the family has to spend a lot on health care costs. The father stops his study, and the sons quit school to earn money for the medical bills. The lack of safety nets has trapped this family. Good nutrition or a health insurance would have prevented this family from the fall back.

### **Poor Economics**

The described situation in Bandung is typical for many households (micro level) in developing countries. It goes well as long as it goes well. If something goes wrong, the family has a serious fall back. Last September the United Nations concluded the Sustainable Development Goals. These goals at macro-

and meso level deal with safe drinking water, nutritious food and better income. Essential in these cases are the understanding of decisions and spending of poor households, as well how to react with appropriate calculations and interventions. The book 'Poor Economics' of Abhijit Banerjee and Esther Duflo - professionals of MIT and Harvard - gives very useful and practical market tests and models for NGOs, companies and government. These are in line with the book 'The Great Escape' and the thoughts of Angus Deaton.

### **Deworming pill as a career step**

The book describes a long-term research on children and a deworming treatment. Deworming helps against diarrhea, and saves the nutrients for the children. One group used deworming pills during one year, another group during 2 years. The impact is tremendous. The 2<sup>nd</sup> group was healthier, was less absent from school, had more education and better jobs. They earned during their life \$3.269 more than the first group. While the extra costs for the pills during that additional year were only \$1,36. A fantastic multiplier! A good decision.

### **Nutritious food: 3 figures**

Investment, impact and multiplier are important criteria in determining government policy and company's strategy. Three figures illustrate that nutritious food has a good score on these criteria. A child must consume enough micro nutrients (vitamins, mineral, fatty acids) during the first 1000 days of his/her life. This means from conception (nine months before birth) until the age of two years. So pregnant, lactating mother and child must have a sufficient intake of micro nutrients. Otherwise the child has less body growth, up to 20% less brain development, a bigger chance of blindness and other eye diseases, and other health risks. The second figure: the cost of enough nutrition is less than \$ 2 per child per year. It is about small, but essential quantities. It means that it is more a policy-, distribution- and communication challenge, than a financial one. Third, the multiplier. Every dollar, which is invested in better nutrition, comes back 17 - 25 times. This because of lower health care costs and more contribution to the economy by healthy people.

### **Every day eggs and bananas**

Micro nutrients mean similar investments, impact and multipliers. For example adding extra vitamins to kids meals in Kenya, at home or at school. Indonesia and Kenya mandate companies to fortify flour, sugar and cooking oil - staple food products - with vitamins and minerals. An Indonesian man spent \$ 7 per year on fish sauce, which has been enriched with vitamins. He was less often sick and had more energy. Since he uses this fish sauce he earns \$47 more per year. Small contributions, essential choices. Another insight is 'how do people spend their money'. One observation is that people in India and Indonesia spend much of their money on cigarettes, alcohol and festivals. Nothing strange about this. But wise? A research in Philippines showed that you can get enough calories, proteins, and most of the micro nutrients for \$0,99 per day. The consequence is however, that you only eat eggs and bananas. And that's the crux. People also want to have taste, a treat or status-food. Research shows that people who have more money to spend, that they spend this NOT on more calories and nutrition, but on *more expensive and tastier calories*. And if people earn \$1 more, they spend a bigger percentage of the extra \$1 on other things than food (mobile phone, motor bike, travel). Raskin rice - the subsidized rice in Indonesia - remains far below the target, because it has been positioned as a poor-man's rice. That does not work.



*Prevention: 97% vaccination coverage in Uganda!*

### Keep the doctor away

People spend more money on curative care, than on preventive care. It would be better to do it the other way around. Why do people do this? Curative healthcare products and services are much better organized, and somehow more credible to people than preventive. But in many cases this money goes to poor quality doctors. In India doctors tend to under diagnose and overmedicate. It is mentioned as the 3-3-3 rule: 3 minutes interaction between doctor and patient, he asks 3 questions, and prescribes 3 medicines. Often from his own pharmacy, or he consults a pharmacist, who only thinks of business. The medicines create the peace-of-mind people are looking for. Poor households live by the day and are not aware of the needed safety nets of prevention. The family in the introduction would have prevented the eye disease of the daughter with proper nutrition. Prevention instead of cure. It is cheaper and you don't get sick. Important choices! A micro insurance of \$2 - \$3 premium per year would have kept them out of the poverty trap. Nutritious food and insurance are great opportunities for companies to connect business to health improvement and poverty reduction.

### Hybrid models

The book 'Poor Economics' and Deaton illustrate how to fight poverty. It makes the connection between nutrition, sanitation and health at one side; and self-reliance and participation in the economy at the other side. It shows what many top economists say: "These areas have big multipliers". It points out which type of partnerships is needed. Where does the market-approach fit, and where do public and civil partners have to play their role, or even take the lead. It results in hybrid models in which the assets of public- and private sector co-exist, and which lead to accepted and sustainable solutions. Either the public (healthcare) system, or commercial channels integrate the solution. Companies can contribute with the right portfolio of products and services, distribution and education. Or with the words of Nobel Prize winner Deaton: "Let people - consumers - make healthy choices". Because in the end, also for the 'poor consumers', 'economics' in the broadest sense (from costs to status as drivers), is the input for their decision making.

Insights of 'Poor Economics' and Angus Deaton help to make fighting poverty concrete and operational. Zooming in to the calculation at micro level, and at the same time scaling to the macro level.