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Ideas for

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Development

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in the Americas

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Beyond Facts: Understanding Quality of Life



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Research Department

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Statistics tell only part of the story. Per capita income, literacy, mortality, life expectancy, and unemployment are among the objective social and economic indicators that have traditionally been used to assess the quality of life. But there is another perspective from which to view the quality of life: the eyes of the people themselves.

The Inter-American Development Bank took on the task of consulting with the people of the region about their lives and came up with some startling results. Using data from Gallup polls of 40,000 people in 24 countries conducted between November, 2005 and December, 2007 supplemented by in-depth interviews carried out by other institutions in five countries, the IDB discovered that people's perceptions are often in stark contrast to reality.

Among the surprises uncovered by the study was the relative satisfaction of countries throughout the region. Costa Ricans might be expected to be the most satisfied people in the region given their generalized access to health care, education and basic public services while Haitians would surely be the least satisfied given their widespread poverty and lack of services. Survey results confirmed these suspicions. However, if this same reasoning is applied to the rest of the

People's perceptions are often in stark contrast to reality; compared to objective indicators, opinions in some countries are too optimistic and in others too pessimistic.

region, it is indeed surprising that Guatemalans declare themselves to be nearly as satisfied with their lives as Costa Ricans, or that Chile has one of the most dissatisfied populations in the region. Similarly, Panamanians, Mexicans and Venezuelans are at the top of the list in terms of satisfaction while citizens of the Dominican Republic, Nicaragua and Trinidad and Tobago bring up the rear. In all countries there is a marked tendency to be more critical of society than of one's own situation. When assessing the different dimensions of the quality of life, individuals tend to

have a rosier view of their own lives than of their country, city or community.

What these results show is that opinions are influenced by reality, but they do not necessarily reflect it. If a Human Development Index (HDI) is constructed based not on the objective indicators of a country's income, health and education (which form the traditional HDI of the UNDP) but on people's opinions of their own income, health and education, they are found to be closely correlated (55%). However, opinions in some countries are too optimistic and in others too pessimistic. In Latin America and the Caribbean, Guatemala and Venezuela have inflated opinions considering their objective

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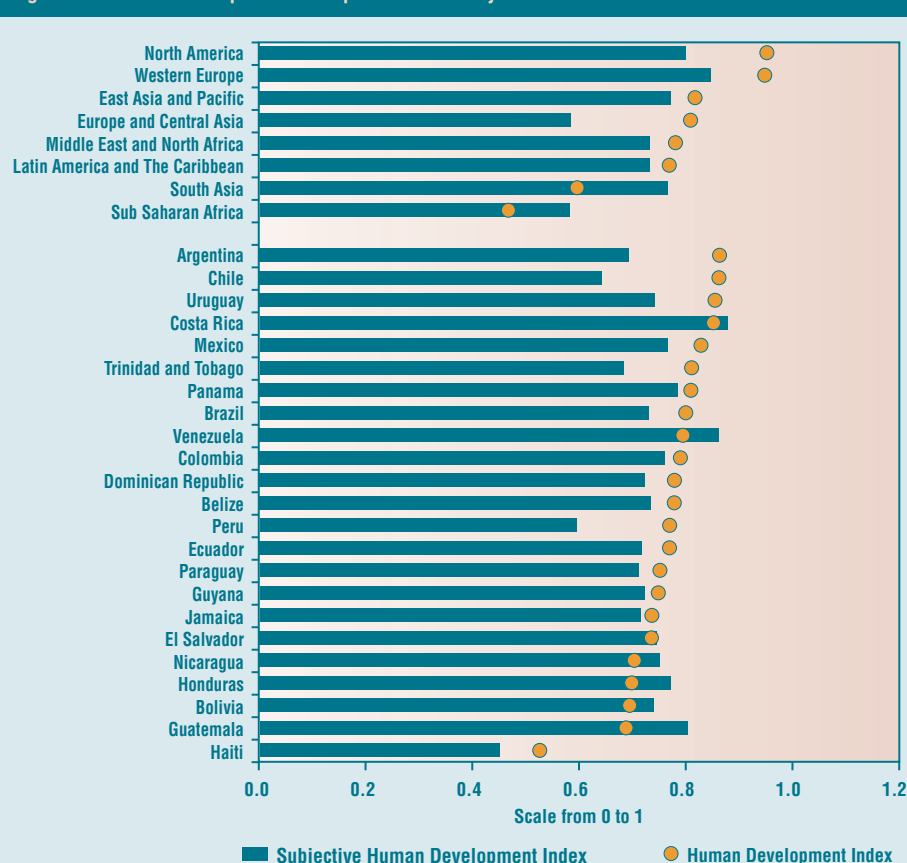
conditions of human development while people in Argentina, Chile, Peru and Trinidad and Tobago sell their own achievements short. (See Figure 1)

To a certain extent, culture accounts for this divergence. Individuals from different cultures appraise their own lives and the conditions of their countries in different ways. The tendency to value personal satisfaction, for instance, is stronger in Western cultures than in Asian cultures. Within Latin America, Costa Rica, Guatemala, Mexico and Venezuela stand out as optimistic cultures, with a tendency for individuals to see the glass half-full while those who live in Chile, Paraguay, Peru and Trinidad and Tobago are culturally more cautious in their judgments and tend to see the glass half-empty instead.

Socioeconomic level makes a difference too, but not in the way one would expect. Not surprisingly, the higher socioeconomic groups see all aspects of their lives in a better light than the lower socioeconomic

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Figure 1. Human Development Perception and Reality



Sources: UN Human Development Report and author's calculations based on Gallup Poll 2006–2007

This issue of IDEA was prepared by Rita Funaro and is based on this year's edition of the IDB's flagship series, *Development in the Americas*, entitled: *Beyond Facts: Understanding Quality of Life*.

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Keeping up with the Jones': The Friction between Satisfaction and Income

Why do governments follow policies that inhibit growth and limit the income of most of the population? Powerful sectors may be blocking better policies to further their own self-interest. Ideology or simple ignorance may be to blame. Or, judging from the results of opinion polls, the answer may be that growth policies are largely unpopular among the electorate.

Research suggests that, contrary to popular belief, money *can* buy happiness, but economic growth can't. Surveys show that people with higher incomes are more satisfied with their lives than those with lower incomes, but as economic growth accelerates, satisfaction actually declines. In fast growing economies, a larger proportion of the population is dissatisfied with their material consumption as well as with their home and job. (See figure 2)

This loss of satisfaction appears to stem from an increase in personal expectations and aspirations when the incomes of others increase. If a person's friend buys a new car, he is less satisfied with his old car. If his colleagues now earn more than he does, then his job no longer seems very good. Apparently, keeping up with the Jones' takes a real toll on personal satisfaction. The damaging effect of comparisons tends to be strongest in wealthier more urban societies, where there are more consumption possibilities and greater competition for economic and social status.

There is another anomaly in the relationship between income and satisfaction. Throughout Latin America, people at the higher end of the income

scale feel less satisfied with the results of health, education, job creation and housing policies than their less fortunate counterparts.

In light of these findings, a government strategy focused on efficiency and economic growth has poor political prospects. The neoliberal reforms of the 1990s were vulnerable to the attacks of the middle and upper classes where they were most successful because they raised expectations of higher consumption and increased awareness of inequality. The situation was even worse in countries where the promoters of reform exaggerated the potential benefits since they raised expectations even higher.

However, pursuing a growth strategy need not lead to political suicide. Political support can be rallied by combining growth policies with strategies to increase economic and social inclusion and with reforms in the provision of services such as health, education,

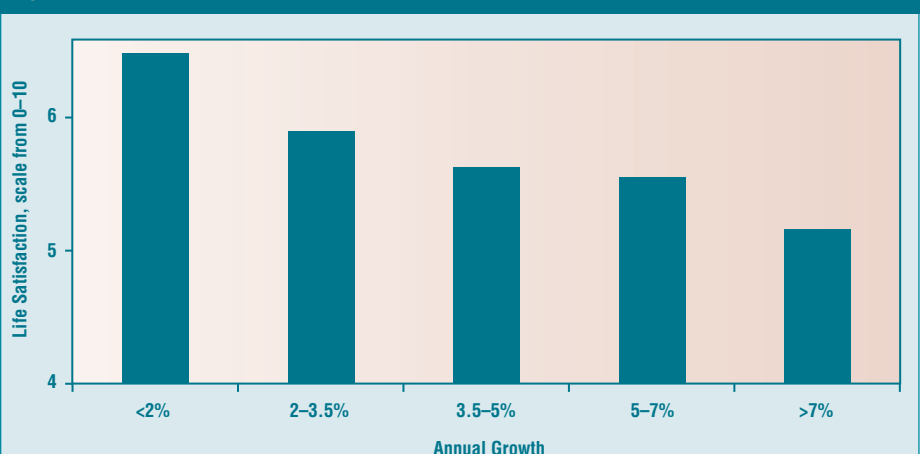
employment and housing. Most governments in Latin America learned this lesson well in the 1990s—to wit the surge in social spending throughout the region.

Chile is perhaps the best example of this phenomenon. Until recently, a combination of free-market economic policies and redistributive social policies was politically sustainable. But since the beginning of the Bachelet government, Chile has been living the effect that decades of income growth have had on people's opinions of social policies. As happens everywhere, as people's income rises they become more demanding of government. Indeed, Chileans no longer tolerate the deficiencies of their public education system or other public services such as transportation.

The most successful social policies are not necessarily those that produce the greatest improvement in

► *Continued on page 5*

Figure 2. Satisfaction with Life and Growth



Sources: Author's calculations based on Gallup Poll 2006–2007.

The Education Paradox: High Opinions, Low Scores

Latin American and Caribbean policymakers and analysts have long lamented the sorry state of education in the region. Access to schooling has expanded dramatically and more students are staying in school longer. But the quality of that education is sadly lacking and has been identified as a constraint to the growth and competitiveness of the region. So, why are a majority of Latin Americans satisfied with their public education systems, and what does that mean for the future of the region?

Latin America and the Caribbean have made important advances in education over the past century. Literacy rates in the region have doubled since the 1930s to 86%. The average years of schooling for the population 15 years and older in the region has doubled to 7 in 2000 from 3.5 years in 1960. Today in the region, most children representing all socioeconomic and ethnic backgrounds are able to attend school. Preschool education coverage currently rivals levels of developed nations, while secondary education has undergone an accelerated expansion in the past two decades. In several countries, higher education has become a massive enterprise, allowing low-income students to earn a college degree. Education is more equally distributed in the region, helping mitigate the effects of income inequality.

Still, such advances have not been able to compensate for the substandard quality of education in the region. Students in Latin America perform far worse in international student assessments than their peers in Asia, one of the region's main competitors in international trade, and in Europe. The average score of 15-year-old students

in seven Latin American countries (Argentina, Brazil, Chile, Colombia, Mexico, Peru and Uruguay) that took the test from the Programme for International Assessment (PISA), run by the Organization of Economic Cooperation and Development, is about one grade level below the average score of the 25% worst performing OECD students tested. Moreover, between 20% and 40% of the students in the seven Latin American countries scored less than the lowest skill level in the test, which means they lack basic literacy skills.

Despite these disappointing facts, results of the Gallup survey show that most Latin Americans are satisfied with public education. Several countries in the region reported levels of satisfaction similar to developed nations. Venezuela, Uruguay, Paraguay, Bolivia, Honduras and Dominican Republic, for example,

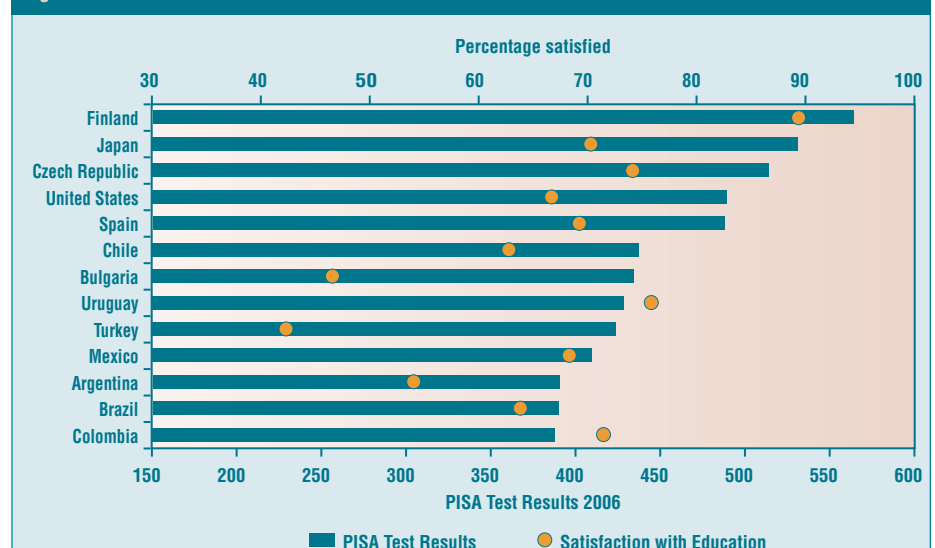
showed levels of satisfaction with education higher than Japan although the test scores of students from those countries were 35% lower on average than those of Japanese students. The gap between the levels of satisfaction with education and what would be expected given test scores is shown for several countries in Figure 3.

Costa Rica, Venezuela and Nicaragua are the countries with the highest level of satisfaction in the region, with more than 80% of the people polled saying they are satisfied with the education system. Haiti, Peru and Argentina are the least satisfied, with approval ratings below 55%.

People with lower levels of education tend to have a better opinion of the quality of educational services than those with more years of schooling.

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Figure 3. Satisfaction with Education and PISA Test Results



Sources: PISA Report and author's calculations based on Gallup Poll 2006–2007.

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Parents, when rating quality, seem to be valuing other attributes other than learning achievement—as measured by test scores—such as the appearance of the school, teachers' punctuality, whether discipline is fair among all students and the security of the area where the school is located.

The implications of this favorable perception of education systems in the region are disturbing indeed. If people are generally pleased with educational services, they are unlikely to demand improvements and governments will be less motivated to institute reforms. Yet the educational system constitutes a brake on competitiveness and growth in the region.

Remedying this misconception demands more than just information. Chile, for example, has made an enormous effort to implement national tests and publish the results. However, the academic performance indicators have practically no bearing on parental decisions about where to send their children.

As countries in the region improve the educational achievement of their populations, criticism is bound to increase because more attention is paid to the services being offered, as shown in the cases of Chile and Brazil. Both countries showed lower-than expected satisfaction levels even though their students are among the top performers

in the region. Dissatisfaction will create an opportunity for governments to implement reforms.

At the same time, governments should start preparing the programs and institutions that will allow them to handle a rising wave of criticism directed at schools and authorities, as parents become more educated and more disgruntled. They should also design more complete indicators of the quality of education that factor in the many non-academic concerns of parents. Closing the gap between perception and reality will require that both policymakers and the public become better educated on the issue.

Keeping up with the Jones... ► *from page 3*

the living conditions of the poor. An effective policy for avoiding losses in satisfaction could actually reduce the income of those families or individuals that are visible reference points for the social groups that are most susceptible to changes in expectations (the rising urban middle classes, especially). As the governments of Argentina and Venezuela well know, certain expropriations, price controls or extraordinary taxes on successful sectors can be very effective for their own purposes, albeit very damaging to growth.

Similarly, a politically-effective social policy may focus on improving the coverage or quality of services for the rising middle and upper classes whose demands tend to increase in tandem with their incomes, while the poorer sectors of society whose aspirations are more modest remain

uninformed and unprotected. Mexico under PRI rule or Guatemala today are good examples of this strategy.

These inconsistencies between what is politically effective on the one hand and what is economically and socially effective on the other are the bread and butter of governments and policymakers in Latin America's fragmented and unequal democracies. And technical arguments do little to resolve the dilemma. The public debate would be far more fruitful if opinion leaders and economic advisors of governments and political organizations would forget their simplistic theory that income growth necessarily increases satisfaction and, in turn, political support.

The relation between income and satisfaction is inherently conflictive and in the hands of some politicians can be a Machiavellian instrument.

WELCOME TO RES

The Research Department is pleased to welcome the following staff members who have joined the department over the past year either as new or returning personnel.

Economists

- César Bouillon
- Matias Busso
- Julian Cristia
- Eduardo Fernández-Arias
- Arturo Galindo
- Florencia López-Boo
- Carlos Ludeña
- Alessandro Rebucci

Administrative Staff

- Myriam Escobar
- Antonio Oliveira

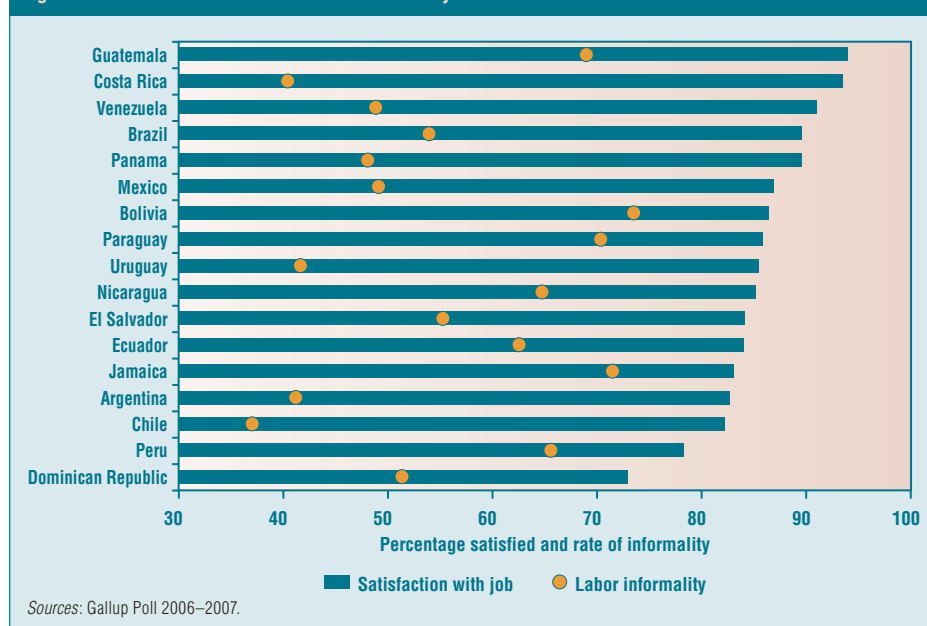
What is a Good Job?

A good job is in the eyes of the beholder. That's the conclusion after analyzing the results of surveys on job quality in Latin America. Objective measures paint a dismal picture of the employment situation in the region. Yet a vast majority of employed workers are happy with their jobs. Clearly, there is a gap between perceptions and objective indicators when it comes to jobs.

In terms of employment growth, countries in Latin America have outperformed most comparator countries, with the region creating an average of 12 jobs per year for every thousand people of working age between 1990 and 2004. However, according to most objective measures, the quality of these new jobs has been disappointing. With low productivity growth, wages and other nonwage benefits have also remained low. The share of informal jobs, commonly associated with poorer quality employment, has increased in most countries. Thus, the number of workers without social security through their jobs has grown as well. Workers in Latin America work longer hours than workers in industrialized countries and their job security is far less. A large share of salaried workers is employed in temporary jobs.

Despite this gloomy picture, the 2006 Gallup World Poll showed that on average 81% of the workers in the region are satisfied with their jobs. The country with the highest job satisfaction is Venezuela, followed by Costa Rica and Guatemala, while the countries with the lowest job satisfaction are the Dominican Republic, Cuba, and Haiti. Interestingly, the average for the region is higher than that found in other countries with higher income per capita, such as Japan or South Korea (78% in both countries), although below the

Figure 4. Job Satisfaction and Labor Informality



average for OECD countries (89%). Worldwide, workers in richer countries tend to display higher levels of job satisfaction than those in poorer countries, yet data indicate that workers in the region are happier with their jobs than workers from other parts of the world with similar incomes per capita.

What explains this divergence between the low quality of jobs in the region—as measured by the level and evolution of wages, informal employment, or working hours—and the seemingly high levels of job satisfaction in the region? One possibility is to dismiss the data on job satisfaction as misleading; after all, workers may have distorted views of their reality, perhaps due to low expectations (the aspirations paradox). Another possibility is to turn to the cultural explanation: Latin Americans may have an optimism bias.

While it is easy to say that workers simply don't know what a good

job is or are culturally predisposed to be happy, the explanation may be far more complex and challenge some basic assumptions. The results of surveys provide great insight into what workers really look for in a job, which is not necessarily what economists or policymakers may think.

One tenet of development economics is that informal employment is a marginal, less-advantaged sector in a segmented labor market that deprives workers of an array of benefits that are offered by formal employment. However, a look at the attitudes and preferences of workers reveals that self-employment may be a surprisingly attractive option for many workers, particularly in some low-income countries and may help explain how high job satisfaction and high informality can coexist. (See Figure 4). For many, self-employment is perceived

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Happiness vs. Welfare as a Policy Goal

The use of surveys to gather public opinion data and the expanding role that some analysts are assigning to the study of happiness raises an interesting question: should maximizing the public's happiness be the government's policy goal? While it may be nice to think of a place where everyone is more satisfied with their life and happier, guiding government policy by aiming to increase a subjective happiness indicator has a number of drawbacks and may even conspire against the collective welfare of society.

To begin with, subjective opinions may be swayed by short-run events making it difficult to determine from survey answers what truly makes people happy. Subjective appreciations of happiness may be easily influenced in the short run by issues that have nothing to do with long-term happiness such as the weather, a temporary health problem, or the outcome of a sports game. Deeper determinants of happiness such as long-term disabilities or the loss of a relative, also have a strong impact in the short run that tends to dissipate over time. Changes in income also have an impact on life satisfaction that tends to disappear rapidly. After a year, more than two thirds of the improvement in satisfaction related to increases in income tends to disappear. Consequently, if the objective of policymakers were to influence life satisfaction in the short run, they might have to endorse some policies that have no major impact on the long-term welfare of their citizens. By the same token, they would probably have to avoid policies that

imply short-term sacrifices, even if they have a long-term positive impact on welfare.

Because most people are loss averse, their satisfaction is more negatively affected by a loss than positively affected by a gain. Therefore, policies that seek to maximize happiness may have a strong bias towards the status quo as politicians

Guiding government policy by aiming to increase subjective happiness could conspire against the collective welfare of society.

avoid any policy that would reduce aggregate happiness, including redistributive policies. In this case, the search for subjective happiness could be at odds with other equally important objectives such as justice or equity.

Policies to maximize happiness could also conspire against individual rights. If maximizing happiness were the main objective, where should policy intervention stop? Some of the factors that most influence happiness are marriage, friendship and religion. Does the government have any place intervening in these areas? The case is still not closed on whether the government should be able to regulate other personal decisions

such as whether to consume alcohol or tobacco, even though the goal is to protect the long-term health and welfare of people and despite its widespread adoption.

Another problem with promoting happiness as a policy goal is that a person's satisfaction with his life is affected not only by the actual state of affairs but by the information available to him. Those without information may not know how bad or how good their situation really is. They may be content with their plight, simply because they do not know that they could be doing better. By the same token, individuals who are bombarded with information about how well everyone else is doing may become frustrated, not because their situation is so dire but because they feel they are lagging behind their peers.

Still, while life satisfaction polls may not be the best policy instrument and there are many arguments why the government should not pursue maximizing life satisfaction as the main policy objective, public opinion polls are useful. They can enrich the public debate, provide information to experts and policymakers on what matters to people (which sometimes may give more accurate information than what the experts had traditionally used), and help explain certain policy outcomes such as why certain reforms do not take place despite consensus among technocratic elites on their convenience. Whether or not they are well-founded and balanced, these opinions can help decipher the political attitudes, ideological preferences and beliefs that condition the political process.

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to provide better opportunities for advancement and higher earnings. Moreover, it offers greater flexibility, personal skill development, and recognition than a salaried job, all of which are qualities that workers highly value. On the other hand, while being affiliated with social security through work may be an essential benefit for some workers, others value it less, either because they rely on informal safety nets such as family and friends, have a lower ability to save money for health and old-age risks, or benefit from a growing supply of government programs that provide basic health and pensions to informal workers.

All told, in the region there are more formal employees who would like to be independent than self-employed workers who would prefer to be wage-earners. Discontent is much higher among employees of small firms than among the self-employed who manage their own working life. And only employees with higher levels of education recognize the value of having a retirement plan in the future.

Given these findings, policymakers must rethink labor policies because their current objectives run counter to the opinions and needs of many people. However, the policy objective should not necessarily be to maximize job satisfaction, as there are a number of instances in which individual perceptions and societal goals may conflict. In certain aspects of social protection, such as pensions or accident and health insurance, the state must induce individuals to take precautions that they would tend to ignore or postpone if left to themselves.

To rethink labor policies it is useful to replace the simple dichotomy between formality and informality with a simple but more complete sys-

tem of indicators of the quality of jobs that takes into account people's opinions and the various ways in which workers cover (or not) the risks of unemployment, income instability, illness, disability and retirement. Instead of aiming to ensure that jobs meet all the characteristics considered desirable, labor policies should aim to give workers diverse options to protect themselves from risks that do not depend on their staying in the same job and do not discourage large

and more productive companies from creating more stable employment, as is the case at present. It is also necessary to facilitate job seeking and the transition between jobs by means of labor intermediation services and training of displaced workers. The proliferation of programs that treat formal and informal workers differently need to be avoided; in the end such programs make stable employment in more productive companies more expensive and subsidize less productive employment.

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segments. However, when it comes to perceived living conditions and government policy in each country in the region, the poor tend to hold a similar opinion to—or even a more positive opinion than—the rich. This phenomenon is dubbed the aspirations paradox, as the perceptions of the less fortunate are colored by their lower expectations. The poorest and least educated sectors of the population have a better opinion of social policies than richer or better educated individuals in the same countries. Lack of aspirations weakens the demand of the poor for better education, health services and social protection compared with middle or high income groups that have more information and political influence.

The contrast between perception and reality is evident in many areas. Despite the proliferation of low-skill jobs and informal employment, most Latin Americans are content with their work. Perhaps even more startling is the generalized preference to work in

the informal economy over the formal, salaried sector because of the flexibility, autonomy, and opportunity for personal growth that informality seems to offer. In terms of social services, the majority of Latin Americans are satisfied with their education systems even though international test scores show that their children lag far behind their counterparts not only in OECD countries but in other developing nations as well. And even in countries with poor health profiles, people are largely satisfied with their own health and the health care services they receive.

This issue of *IDEA* draws from the latest edition of the IDB's flagship *Development in the Americas* series entitled *Beyond Facts: Understanding Quality of Life*. It reviews the results of surveys on education, health and employment and their implications for public policy. Public opinion surveys provide a wealth of information to complement traditional objective indicators and to enrich the public policy debate.



New Publications

Available in English only unless otherwise stated.

RESEARCH DEPARTMENT WORKING PAPERS

Public Investment in Developing Countries: A Blessing or a Curse? (WP-648)

Eduardo Cavallo and Christian Daude

This paper analyzes the impact of public investment on private investment in 116 developing countries between 1980 and 2006. It finds a strong crowding-out effect that seems to be the norm rather than the exception, both across regions and over time. This effect is dampened (or even reversed) in countries with better institutions that are more open to international trade and financial flows. These results confirm that while public infrastructure may complement private capital, distortions associated with the public investment process might crowd out private investment in the course of building public capital stocks. These distortions are more prevalent in countries with weak institutions or closed economies.

Do Credit Rating Agencies Add Value? Evidence from the Sovereign Rating Business Institutions (WP-647)

Eduardo Cavallo, Andrew Powell and Roberto Rigobon

If rating agencies add no new information to markets, their actions are not a public policy concern. But as rating changes may be anticipated, testing whether ratings add value is not straightforward. This paper argues that ratings and spreads are both noisy signals of fundamentals and suggests that ratings add value if, controlling for spreads, they help explain other variables. The paper additionally analyzes the different actions (ratings and outlooks) of the three leading agencies for sovereign debt, considering the differ-

ing effects of more or less anticipated events. The results are consistent across a wide range of tests. Ratings do matter and hence how the market for ratings functions may be a public policy concern.

Measuring Quality of Life in Latin America: What Happiness Research Can (and Cannot) Contribute (WP-652)

Carol Graham

This paper addresses the issues involved in taking a broader, quality of life-based approach rather than an income-based approach to assessing welfare. The paper shows how a quality of life approach can help to evaluate the welfare effects of factors ranging from health, education, and unemployment to institutional arrangements such as inequality and opportunity. Nonetheless, directly inferring policy implications is problematic because norms and expectations influence the way in which individuals respond to surveys and the definition of happiness is unclear. The latter allows for research comparisons across individuals and cultures but presents challenges as a basis for policymaking.

How Do Crises Affect Schooling Decisions? Evidence from Changing Labor Market Opportunities and a Policy Experiment (WP-653)

Florencia Lopez Boo

This paper examines the effect of labor market opportunities on schooling and employment decisions in 12 urban areas in Argentina over 12 years, emphasizing the recession/crisis years of 1998–2002. In “typical” years, deteriorating job rates boost the probability of attending school and decrease the probability of combining work and school, particularly for boys;

the probability of being in school for secondary school children was about 6% higher in 2002 than in 1998. These estimates reflect a new 1996 Federal Education Law (FEL) that extended mandatory education to 10 years.

Are Crises Good for Long-Term Growth? The Role of Political Institutions (WP-642)

Eduardo Lora, Juan Camilo Chaparro

Using the 2006 Gallup World Survey of life satisfaction in 130 countries, this paper finds a very solid relationship between satisfaction and income (both across and within countries) and uncovers the “unhappy growth paradox,” whereby faster growth rates are accompanied by lower levels of satisfaction. The losses of satisfaction associated with growth are more pronounced in the material domains of life and are greater in richer and more urban societies. At the individual level, although higher incomes tend to be reflected in greater satisfaction, an increase in the income of the social group to which an individual belongs has the opposite effect. The conflictive relationship between satisfaction and income has implications for political economy and may help explain various characteristics of economic and social populism.

Is Informality a Good Measure of Job Quality? Evidence from Job Satisfaction Data (WP-654)

Carmen Pagés-Serra and Lucia Madrigal

The formality status of a job is the most widely used indicator of job quality in developing countries. However, a number of studies argue that, at least for some workers, the informality status may be driven by choice rather than

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exclusion. This paper uses job satisfaction data from three low-income countries (Honduras, Guatemala and El Salvador) to assess whether informal jobs are less valued than formal jobs. The paper finds substantial differences in job satisfaction within different types of informal jobs. More importantly, according to self-reported measures of job satisfaction, informality is not necessarily associated with poor job quality. This correspondence varies across countries, and seems to be lower for less-skilled workers.

Veto Players, Intertemporal Interactions and Policy Adaptability: How Do Political Institutions Work? (WP-645)

Carlos Scartascini, Ernesto H. Stein and Mariano Tommasi

Veto player theory argues that a higher number of veto players lowers the likelihood of change; in turn, policies that do not change help to sustain commitments but may prevent adaptation to changing circumstances. This paper challenges that claim by arguing that policy stability does not necessarily mean lower policy adaptability. If policymaking takes place over time with actors interacting repeatedly, more cooperative polities might be able to achieve both objectives at once, and a higher number of veto players might even favor intertemporal cooperation.

RESEARCH NETWORK WORKING PAPERS

Quality of Life in Urban Neighborhoods in Metropolitan Lima, Peru (R-560)

Lorena Alcazar and Raul Andrade

This paper presents the results of the estimations of a quality of life (QoL) index focusing on three dimensions:

individual factors, urban factors, and civil society. The study was mainly based on results of a survey applied in three districts of Lima: La Victoria, Los Olivos and Villa El Salvador. These districts are relatively similar in terms of income, although Villa El Salvador has a larger percentage of poor households. Two findings stand out. First, variables related to participation in civil society are statistically significant in all specifications used. Second, in La Victoria and Los Olivos, QoL is determined largely by indicators in the individual sphere, while the civil society sphere is more important in Villa El Salvador. These results are consistent with the collective action tradition of the Villa El Salvador district and with the market pattern of growth of Los Olivos.

Quality of Life in Buenos Aires Neighborhoods: Hedonic Price Regressions and the Life Satisfaction Approach (R-559)

Guillermo Cruces, Andres Ham and Martin Tetaz

This paper studies quality of life in urban neighborhoods in the Buenos Aires Metropolitan Area. First, hedonic price regressions for residential prices are augmented with neighborhood characteristics, based on a real estate database with indicators on each property's distance to public facilities and amenities, and on a smaller survey with greater detail. Second, following recent developments in the field of happiness research, the document assesses the importance of different neighborhood characteristics on quality of life by interacting objective and subjective indicators. The results indicate a strong but not perfect correlation between real estate prices, income levels and neighborhood characteristics, suggesting scope for welfare-improving policy interventions.

The Emergence of New and Successful Export Activities in Brazil: Four Case Studies from the Manufacturing and the Agricultural Sector (R-550)

Alexandre Darze, Angela Da Rocha, Beatriz Kury and Joana Monteiro

This paper investigates the emergence of new successful export activities in Brazil through the analysis of four industry case studies: furniture, swimwear, soybeans and grapes. Comparison of the four experiences shows different models of diffusion and demonstrates how barriers to discovery, spillovers and institutional responses varied dramatically among the cases. The paper extracts some general conclusions concerning the role of pioneer firms, external actors and public sector institutions.

Quality of Life in Montevideo (R-561)

Zuleika Ferre, Nestor Gandelman and Giorgina Piani

This paper analyzes various dimensions of the quality of life in Montevideo. The paper finds that satisfaction with various public goods and services at the neighborhood level play a minor role in the overall reported well-being of individuals and in the satisfaction of life domains, such as leisure, social life, family, health, housing, neighborhood economic situation and work. This is in spite of significant disparities in a wide range of indicators among those living in different areas of the city. The results further suggest that differences in overall happiness and in domain satisfaction are mostly due to differences in individual outcomes like education, health, labor situation and housing quality.

Quality of Life in Urban Neighborhoods in Costa Rica (R-563)

Luis J. Hall, Roger Madrigal and Juan Robalino

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This paper considers valuation of amenities in urban neighborhoods and satisfaction with those neighborhoods and life in general. First, rents are used to estimate the price of neighborhood amenities in San Jose, which explains 39% of the standardized variation of rents. Second, the paper explores differences in the valuation of amenities by calculating prices in different urban areas. In more sparsely populated urban areas, distance to national parks becomes less important, but distance to primary roads becomes more important. Housing and safety satisfaction represent the key components of life satisfaction.

OUTSIDE PUBLICATIONS

Labor Market Institutions and Income Inequality: An Empirical Exploration.

César Calderón and Alberto Chong.
Public Choice (2009) 138: 65–81
DOI 10.1007/s11127-008-9339-1.
Published online: August 1, 2008.

This paper presents evidence on the impact of labor regulations on income inequality. It finds that both *de jure* and *de facto* regulations improve the distribution of income although the former appear to be non-robustly associated with improving income inequality. This result partly reflects the fact that regulations are endogenous and, more interestingly, that different regulation yields distinct effects.

Informality and Productivity in the Labor Market in Peru.

Alberto Chong, José Galdo, and Jaime Saavedra. *Journal of Economic Policy Reform*, 11:4, 229 — 245. <http://dx.doi.org/10.1080/17487870802543480>

This article analyzes the evolution of informal employment in Peru from

1986 to 2001. Contrary to expected, informality rates increased steadily during the 1990s despite the introduction of flexible contracting mechanisms, a healthy macroeconomic recovery, and tighter tax codes and regulation. The paper explores factors that may explain this upward trend including the role of labor legislation and labor allocation between/within economic sectors. Finally, it illustrates the negative correlation between productivity and informality by evaluating the impact of the Youth Training PROJOVEN Program for disadvantaged youth. It finds that significant training impacts on the probability of formal employment for both males and females.

Access to Telephone Service and Household Income in Poor Rural Areas Using a Quasi-natural Experiment for Peru.

Alberto Chong, Virgilio Galdó and Máximo Torero
Economica (2008) 11:1–26. Doi:10.111/j.1468-0335.2008.00735. April 10, 2008.

This paper takes advantage of a quasi-natural experiment in Peru in which a privatized telecommunications company was required by the government to randomly install and operate public pay phones in small rural towns throughout the country. Using an especially designed household survey for a representative sample of rural towns, access to telephone services is linked with household income. The findings are that regardless of income measurement, most characteristics of public telephone use are positively linked with income. Remarkably, the benefits are given at both non-farm and farm income levels.

Social Capital, Crime and Welfare: The Cases of Colombia and

Honduras. José Cuesta. In *Social Capital and Peace-Building. Creating and Resolving Conflict with Trust and Social Networks*, Michaelene Cox Editor.

Routledge Studies in Peace and Conflict Resolution.
New York: Routledge. 2008.

The allegedly endogenous relationship between social capital and crime has rarely been modeled and, when so, it has been found to be not statistically significant. This paper comes to a different conclusion with data from Colombia and Honduras. Interpersonal trust is the single most important determinant to reduce victimization, while victimization levels cut back interpersonal trust and increasingly so only after a threshold is surpassed. Perceptions within the community of an effective public presence increase interpersonal trust, but only slightly. The estimates also spell out two traditional simplifications accruing from single-equation estimates: 'victims trust less' and 'the poor trust less' than non-victims and the rich, respectively.

Income Mobility in Latin America: A Pseudo-Panel Approach. Jose Cuesta, Hugo Nopo, Georgina Pizzolitto. In, *World Poverty Issues*. Marilyn M. Watkins Editor. 2008.

Nova Science Publishers: New York.

This paper presents a comparative overview of income mobility patterns in Latin America. Estimates of time-dependence unconditional income mobility show that this is rather limited, as previously found in the scarce existing literature. However, after introducing personal, socioeconomic, demographic and geographical controls, conditional income mobility rises substantially for the region. Both unconditional and conditional income mobility show large variations across countries.



Network News

www.iadb.org/res/researchnetwork

Latin American and Caribbean Research Network

The proposals from the following institutes were selected for two new Latin American and Caribbean Research Network projects.

Understanding Productivity, Dispersion and Growth in Latin American and Caribbean Industries:

- Argentina IERAL- Fundación Mediterránea
- Argentina UTDT – Universidad Torcuato di Tella
- Bolivia INESAD – Instituto Nacional de Estudios Avanzados del Desarrollo
- Brazil Universidade Federal do Rio de Janeiro- Fundação Universitária José Bonifácio
- Colombia Fedesarrollo – Fundación para la Educación y el Desarrollo
- Uruguay Universidad ORT and Universidad de la República

Innovation, R&D Investment and Productivity in Latin American and Caribbean Firms:

- Argentina Fundación CENIT
- Argentina FLACSO – Facultad Latinoamericana de Ciencias Sociales
- Chile Facultad de Economía y Negocios, Universidad de Chile
- Colombia Fedesarrollo – Fundación para la Educación y el Desarrollo
- Colombia Universidad de los Andes
- Costa Rica Fundación CAATEC
- Perú GRADE – Grupo de Análisis para el Desarrollo
- Uruguay GEOPS – Grupo de Estudios en Economía, Organización y Políticas Sociales

Country Studies Initiative

During 2008, the Country Studies Initiative financed four projects. The researchers and institutes selected for these studies are listed below.

Estimating the Causal Effect of Economic Policies on Productivity in Latin America and the Caribbean

- Brazil Eduardo Pontual Ribeiro and João Alberto DeNegri, UFRJ
- Chile Rodrigo Fuentes and Jose Miguel Benavente, PUC-Chile
- Colombia Marcela Eslava, John Haltiwanger, Adriana Kugler, Maurice Kugler and Camilo Morales
- Uruguay Carlos Casacuberta and Dayna Zaclicever, Universidad de la República

The Political Economy of Productivity: Actors, Arenas and Policymaking

- Argentina FIEL – Fundación de Investigaciones Económicas Latinoamericanas
- Bolivia INESAD – Instituto Nacional de Estudios Avanzados del Desarrollo
- Brazil FGV – Fundação Getúlio Vargas
- Chile Universidad de Chile
- Colombia Universidad de los Andes and Marcela Meléndez (Consultora)
- Costa Rica Ecoanálisis S.A.
- México Colegio de México
- Venezuela IESA – Instituto de Estudios Superiores de Administración

Industrial Policies in Latin America and the Caribbean

- Argentina IERAL-Fundación Mediterránea
- Barbados, Jamaica, Trinidad & Tobago, SALISES/UWI – University of West Indies and Fiel (Argentina)
- Chile Universidad de Chile
- Colombia Fedesarrollo – Fundación para la Educación y el Desarrollo
- Costa Rica Ecoanálisis S.A.
- Guatemala CIEN – Centro de Investigaciones Económicas Nacionales
- Mexico CIDAC – Centro de Investigaciones para el Desarrollo A.C.
- Paraguay Instituto Desarrollo
- Peru PUC – Pontificia Universidad Católica del Perú
- Rep. Dominicana – Consultoría Pareto
- Uruguay Universidad ORT

Political Economy of Fiscal Reform

- Argentina Alejandro Bonvecchi and Jesús Rodríguez
- Brazil Marcus Melo, Carlos Pereira, and Saulo Souza
- Colombia Mauricio Oliveira and Guillermo Perry
- México Vidal Romero, Erick Magar and Jeffrey Timmons