

II DETERMINATION OF THE QUALITY OF LIFE

A fundamental premise of this book is that QOL is determined by a variety of interacting factors, both economic and noneconomic, whose effects on QOL are mediated by a society's institutional landscape. This chapter explores the difficulties of defining QOL, concluding that the concept is important despite (or even because of) its lack of precision.

A framework is developed that draws attention to the multiplicity of factors associated with QOL and highlights the importance of positive and negative interactions between different components. The importance of institutions is explored, as are the relations between rural QOL and a wider urban and global context, an issue brought alive by a case study of the Asian financial and economic crisis.

DEFINING THE QUALITY OF LIFE¹

Improving QOL is now a common aim of international development. However, identifying robust QOL indicators, or providing a coherent and robust definition of the concept, remains problematic.

The difficulty is not a new one. Amartya Sen refers frequently to Aristotle's comment in the *Nicomachean Ethics* that "wealth is evidently not the good we are seeking; for it is merely useful and for the sake of something else" (Sen, 1999).

¹ This section was written with David Steven of River Path Associates.

That ‘something else’ is happiness, produced by living well and doing well. But as Aristotle warned “with regard to what happiness is [people] differ, and the many do not give the same account as the wise.” Clearly, we are no nearer than Aristotle to deciding what constitutes human happiness or well-being—and may not agree with his strictures. QOL can inevitably be conceived in different ways according to viewpoint, and the term is likely to remain controversial.

This imprecision is compounded by the fact that QOL is more than a synonym for well-being, it is intended as a *measure* of it, allowing organizations to quantify how well-off people are and to track changes in levels of happiness over time. According to Land’s survey of social indicators, this effort was born when the US National Aeronautics and Space Administration (NASA) decided, in the mid-1960s, that it needed to measure the effects of its space program on American feelings of well-being (Land, 2000). Researchers from the American Academy of Arts and Sciences responded to the challenge by developing social indicators, and a new form of social reporting was born (Bauer, 1966). They, and all subsequent researchers, faced four distinct issues: first, the method by which QOL is measured; second, the domains of human existence that are included in the measurement (and who makes this decision); third, at what scale the measurement is carried out, whether for individuals or groups; and fourth, how to provide outcomes that have practical value for end-users, by allowing comparisons across individuals and groups, and over time.

The Measurement of QOL

Two distinct methods of measurement can be identified, based on either objective or subjective measures. Objective QOL measures are formed from one or more descriptive indicators that are felt to constitute reasonable proxies for what economists refer to as *utility*. They are well suited to describing the main features of social change and the development

process. They can also be refined to measure the interaction of various factors considered to be important components of QOL (Land, 2000).

The Physical Quality of Life Index (Morris, 1979), based on measures of health and education, was a major step in measuring QOL. It was followed by a number of widely promoted QOL indices produced by the UNDP. The Human Development Index (HDI), introduced in 1990 by Mahbub ul Haq and colleagues, reflects achievements in “the most basic human capabilities—leading a long life, being knowledgeable and enjoying a decent standard of living” (UNDP, 1999). These are measured through life expectancy at birth, educational attainment (adult literacy rate and combined primary and secondary enrollment ratio), and income per capita. The UNDP also produces the Gender-related Development Index (GDI) as well as a Gender Empowerment Measure (GEM). The GDI adjusts the HDI for gender inequality across each of its components, while the GEM measures gender inequality in terms of economic and political opportunities enjoyed by women. There are also a number of indicators that look separately at individual elements considered important to QOL, such as health, education, or political participation.

In theory, a simple objective index such as the HDI has two strengths: it is easy to compile regularly, providing longitudinal data; and includes a large number of countries (or other jurisdictions or demographic groups), providing comparative data. Achieving these strengths in practice, however, has not always proved possible. Accurate data are often not available, and methodological changes resulted in the 1999 HDI being calculated on a different basis from that in previous years. According to the UNDP, “if a country ranks higher or lower on the HDI ... that does not necessarily mean that its state of human development has deteriorated or improved.” Critics have also noted the arbitrary nature both of the components included in the different indices, and of the mathematical formulation used to combine them on a single scale.

Objective measures also beg the question of who decides which domains of human existence should appear in an index. This decision can be made by the researchers themselves, or by sampling the views of the individual or groups to be researched. Both methods are problematic, and researchers face a classic dilemma. If the researcher selects indicators, comparison across groups is possible, but it may be the researcher's value system that is being measured. If stakeholders select the indicators, however, comparisons between groups, and even between individuals, become impossible because today, as in Aristotle's time, people inevitably have different views of what constitutes happiness.

Quantitative and Qualitative Measures

Subjective measures try to circumvent this problem by measuring perceptions of well-being directly, rather than through proxies. This approach allows for the possibility that there may be a direct, indirect or even paradoxical link between people's objective conditions and their subjective well-being (Gleick, 1999). Again, different types of subjective measurement are possible. Indicators can be *quantitative*, and a number of surveys measure subjective perceptions in order to create life satisfaction, well-being, and happiness indicators (Campbell and Converse, 1972). The World Database of Human Happiness, for example, based at the Erasmus University in Rotterdam, provides a Bibliography of Happiness, a Catalogue of Happiness in Nations, a Catalogue of Happiness Correlates, and a Directory of Happiness Investigators². Another large-scale multinational undertaking, the World Values Study, is a longitudinal investigation in over 60 countries that examines, among other themes, life satisfaction and its correlates.

² www.eur.nl/fsw/research/happiness

Qualitative descriptions of QOL are also possible, formed by eliciting QOL perceptions via techniques such as focus groups and in-depth interviews. While these techniques do not deliver rigorously measurable results, they do offer richly detailed accounts. However, some argue that their very richness is a source of weakness, in that the resulting data are necessarily open to a variety of interpretations. Yet paradoxically, qualitative methods, despite their imprecision, are most used by those with immediate practical decisions to make, such as marketing professionals making commercial judgments, politicians judging public opinion, and development workers on the ground.

Large-scale qualitative studies are rarer, although the World Bank has recently undertaken a major qualitative research effort, *Consultations with the Poor*, examining poor people's perceptions of poverty. By pulling together the voices of 60,000 poor men and women from more than 60 countries, drawn from 95 participatory poverty studies, the World Bank believes that findings emerge that are compelling, sobering, and sufficiently rigorous. They also provide a context for the 'harder' measures to be used in the 2000/2001 World Development Report (World Bank, 1999).

Domains of QOL: Outcomes, Opportunities, and Agency

The domains of human existence included in a QOL measurement can be conceptualized in three main ways. First, and most simple, are QOL *outcomes*, such as those measured through the HDI. Second are QOL *opportunities*, which focus on the importance of human potential. The third is QOL *agency*, which asks not whether the playing field is level, but who is allowed on the field to play.

A focus on opportunities relies on the classic liberal view that equalizing outcomes actually diminishes QOL. As Milton Friedman put it, the "resultant inequality of income is surely required to permit the individuals in question to make the most of their initial equality." (quoted in Kanbur, 1987). In response

to this critique, many policymakers are shifting focus from policies that encourage social welfare, to action to combat social exclusion. Indicators are therefore needed that reflect likely future outcomes *and* an individual's perceptions of his or her prospects. An indicator of education, for example, measures something that may not have tangible effects for some years, but can have an immediate effect on perceptions of well-being. The flip side of opportunity is risk. Decreasing vulnerability to health shocks, for example, may make persons feel more secure, even though their QOL, as measured through outcomes, remains unchanged. Furthermore, the perception of freedom from a certain kind of risk may encourage people to take other risks, by seizing opportunities with greater enthusiasm. This could, in turn, have beneficial outcomes for them and for a wider group, adding to the sum QOL.

A focus on QOL *agency* is also possible. Justice, political participation, and freedom, as well as levels of trust and social capital, all reflect the individual's relationship to the wider community (Fukuyama, 1999), with some researchers attempting to prove a link between levels of democracy and well-being. Amartya Sen has argued strongly for the importance of democracy as a contributor to QOL opportunities and outcomes. In a democracy, he argues, people are more able to control the direction of their lives. They also benefit from an implicit social contract with the rulers they elect. As Sen points out, no functioning democracy has ever suffered a famine.

The importance of democracy and social participation to QOL is highlighted by several factors: the so-called third wave of democratization that has affected many countries, including some Asian countries, since the late 1970s (Huntington, 1991; Diamond et al., 1997)³; the globalization

³ Huntington (1991) has characterized the global political history of the past two centuries as consisting of waves of democratization. These occurred as many countries transformed themselves into democratic systems during the period. The first wave lasted from 1828 to 1922; the second followed

of democratic discourse (Sheth and Nandy, 1996); and the contemporary promotion of decentralization as a way to empower citizens.

As a result, investigators have developed measures such as the Freedom House's Index of Freedom, and Sen has used the concept of freedom to create a unified theory of QOL, defining it as "having more freedom to lead the kind of lives we have reason to value" (Sen, 1999). In many ways, however, this returns us to Aristotle. Sen's 'freedom' and Aristotle's 'happiness' are not single concepts, but must be determined according to people's different preferences and values.

Individual and Group Measures

Sen's view of freedom tends to focus on the individual and is consistent with the post-enlightenment belief that individuals are sovereign over their own preferences except when they impose on the preferences of others. Indeed, as Land argues, the social indicator movement has its roots in the powerful individualism of the 1960s. However, it is equally valid to measure QOL for a group or community—and by no means inevitable that the needs of individual and group will coincide.

Although a focus on the individual leads to a certain kind of relativism (each person makes his or her own choices), it also relies on absolute values: each person must have the freedom (and the capability) to make these choices. This allows for an external critique of standards prevalent in any society. In development, for example, it encourages outsiders—whether development agencies, human rights groups, or development NGOs—to argue for the rights of individuals or marginalized

World War II and lasted until 1962; and the most recent or third wave began with the Portuguese revolution of 1978 and has spread to previously authoritarian or totalitarian regimes in Asia, Southern and Eastern Europe, and Latin America (Kurzman, 1998).

groups within a sovereign state. The partial rejection of income as a proxy (and the once fashionable idea of a ‘trickle down’ effect of wealth) has been driven by the disaggregation of the interests of individuals within a group, and the argument that notions of community may hide complex differences in wealth, gender, age, or origin (DFID, 1999).

In particular, QOL has been used to improve understanding of how two groups—poor people and women—fare as income and a range of social indicators shift. Poverty may be most commonly defined according to income, but QOL-based indicators are increasingly used to measure more precisely the changing position of poor people, to raise awareness of their needs, and to target more effective assistance. Nussbaum and Sen (1993) argue that “a universal account of human functioning seems to have critical potential” when exploring the role of women.

There are criticisms of QOL’s focus on the individual, however. Richard N. Cooper has criticized Sen for failing to tackle how to balance the freedom of the individual against a society’s need for security and stability (Cooper, 2000). It is possible for an individual’s QOL to impinge on that of a wider group in quite subtle ways and not just when, say, one person appropriates another’s goods for his or her own enjoyment. Individualism, without a concomitant notion of responsibility, may be associated with declines in social capital, which some have associated with rising levels of crime, family break-up, and other signs of social breakdown (Fukuyama, 1999). It is no easy task to measure the freedom or capability of an individual. Measuring the freedom or capability of a group is far harder, when this measure may be different from the mean of the capabilities of all member individuals. Balancing the two—and reconciling the rights of an individual with his or her responsibilities—presents further difficulties.

The Uses of Indicators

Ultimately, the process of developing QOL measures must be driven by their purpose. A useful distinction can be made between *communicative indicators*, which help focus public attention on a set of issues, and *managerial indicators*, which help target inputs and measure outcomes. The former must aim for public resonance, while the latter must be robust (Grove-White, 1997). Sen quotes Mahbub ul Haq as demanding that the HDI should be “a measure of the same level of vulgarity as GNP—just one number—but a measure that is not as blind to social aspects of human lives as GNP is.” According to Sen, this makes the HDI “inescapably a crude index, [which] must not be seen as anything other than an introductory move in getting people interested in the rich collection of information that is present in the *Human Development Report*” (Sen, 2000). Some see the move to communicative indicators as part of a wider trend (Land, 1996), with Vogel (1997) arguing that the purpose of social indicators should be “to send signals to governments, business, other organizations and the general public”. The use of communicative indicators can damage perceptions of their objectivity, as the neologism ‘advocacy stats’ reveals.

Managerial indicators, by contrast, are often more complex and tend to avoid the production of easily understood summary values. In the UK, for example, the Department of the Environment, Transport, and the Regions is committed to measuring QOL and sustainable development through a new and complex set of some 200 indicators, some of which are currently “too complicated to collect” (DETR, 1999).

The field of medicine provides an interesting example of the use of QOL to make specific managerial decisions. Historically, mortality and morbidity indicators have tended to be reliable, and from an early point provided managerial indicators. More recently, the health sector has developed a range of more sophisticated QOL indicators related to health outcomes, often for specific diseases and conditions. Again, indicators have been developed both for individuals and for

aggregated populations. Indicators measuring individual QOL usually make a trade-off between length and quality of life, measuring an individual's happiness with life across domains he or she considers important. Such measures are seen as part of a trend toward medicine defined by patients' needs, rather than professional expectation (Epstein, 1997). This type of measure is considered especially important when treatment has unpleasant side effects, as well as when positive outcomes are uncertain or transitory.

Indicators that consider population aggregates are intended to allow for the more rational allocation of treatment resources, with treatments evaluated in terms not only of cost and objectives outcomes, but also in terms of a patient's subjective perception of the effect of a treatment (O'Connor, 1993). However, even when the required outcomes of QOL measures are tightly constrained in this way, there are still formidable obstacles to their use. Measurements are seen as "soft, cumbersome and lacking in credibility, with the adoption of measures hampered by conceptual vagueness, the use of tools of dubious quality, the inappropriateness of methods, and the weakness of statistical analysis of resulting data" (Fallowfield, 1996).

Making Compromises

Ultimately, the ambiguous nature of the concept of QOL may be one of its most important characteristics. Income is certainly only one of many instruments that may lead to well-being, but the suggestion, supported by intellectual rigor and common-sense intuition, that such states cannot be meaningfully observed directly, and therefore cannot be compared across individuals or aggregated into a measure of social happiness, is surely also correct.

An attempt to bridge this divide with 'good enough' measures that aggregate various proxies may never yield final results, but this does not remove its usefulness. Indeed, the ambiguity itself has advantages. It demands compromise

between different disciplines, bringing together the intellectual traditions of economics, sociology, and philosophy, and exposing them to the demands of those who will make real-world decisions based on their findings. The process of measurement demands ongoing debate about methods and priorities. This book joins that debate and attempts to bring to the discussion both a framework for considering QOL, and a wealth of information about current and future prospects for QOL in rural Asia.

Plato quotes Socrates as remarking that “the unexamined life is not worth living”. We believe that the pursuit of a ‘good life’ is as relevant and important for the thinking of policymakers as it is for individuals. Considering QOL thus confers validity on this pursuit and provides concepts and measures which, when interpreted with care by policymakers and citizens alike, provide revealing and informative content.

QOL FRAMEWORK

This study attempts to draw as broad a picture as possible of QOL, even though this raises some practical difficulties. We believe a broad perspective is especially important for policymakers, who must develop and implement new policies with an understanding of the rich network of links between different dimensions of QOL.

Some links are direct and easy to understand, but indirect links also have a huge effect. They are often neglected by policymakers, who need to be aware of both unanticipated consequences and positive feedback when they assess the true effects of changes in the components of QOL.

Negative Indirect Links

There are many examples of negative indirect links between different QOL components. The most obvious are

when the state makes choices between different QOL priorities. Increased spending on schools may leave less money for health, or vice versa. Quality versus quantity trade-offs often arise when access to a service is rapidly broadened. Developing countries have struggled to expand access to primary education in recent years, offering an education to many poor rural children for the first time. However, educational quality has often suffered initially from fewer resources per child and an insufficient supply of qualified teachers.

The environmental Kuznets curve⁴ shows a similar effect, with pollution rising as poor countries become richer. Only when a threshold is crossed do countries give priority to cleaner technologies and stricter regulations, leading to gradual environmental improvement. Rising national income due to industrialization raises QOL on the one hand, but on the other hand decreases it for those living in polluted areas. The latter may suffer further indirect effects if increased pollution raises the incidence of disease or chronic illness.

Significant improvements in QOL often result from major social changes, and these changes may have unwanted side effects. A shift to a cash economy, for example, is usually a positive gain in itself, but it may erode traditional family or community ties. It may also have different effects on men and women. In rural India, household food security can be compromised when payment for labor shifts from grain to cash, because the social designation of cash has traditionally been a male prerogative. Women often have less control over

⁴ The “Kuznets curve” is an inverted U-shaped relation between income inequality and average income. The relation suggests that inequality increases as average income rises, then declines with further rises in income. Over the years, modest empirical evidence has been assembled in support of this relation. It also has a plausible conceptual foundation related to the functional and spatial reallocation of labor during the process of economic growth (from traditional rural-centered economic activities such as agriculture and fishing to modern urban-centered industrial and commercial activities). For further discussion see Kuznets (1979).

cash incomes, and hence less ability to feed their families than when they received their earnings as grain.

Positive Indirect Effects

Investment in QOL does not always involve trade-offs, however. Upward movement in one variable may have an immediate impact on a person's QOL, but may also indirectly increase it by acting on other variables that in turn also have a beneficial effect. One of the most studied relationships is between health and income. Higher income leads to better health (Lee, 1982; Ettner, 1996; Pritchett and Summers, 1996), but better health also leads to higher income because of better productivity and labor force participation (Luft, 1975; Grossman and Benham, 1980; Lee, 1982; Bloom and Malaney, 1998; Bloom and Sachs, 1998; Bloom and Williamson, 1998; Bloom et al., 1998; Bloom and Canning, 1999).

An undisputed two-way interaction is also apparent between education and income, with higher income being both the result and the cause of obtaining more education. There is also a strong interaction between education and health. For example, iron-deficiency anemia leads to lower IQ and educational achievement among school children (Soewondo et al., 1989; Pollitt, 1993, 1997), while children who are often absent from school are likely to achieve less. Because of the links between education and income, good health can indirectly improve QOL through its influence on education and therefore income (Boissiere, Knight, and Sabot, 1992; Knight and Sabot, 1990).

Investigators have observed other, less obvious links. Gender is an especially important influence because of its policy implications. Increasing women's education not only raises their QOL, but also has a greater positive impact on health than increasing education for men, leading to decreases in both infant mortality and malnutrition. Similarly, investigators have shown that a mother's level of educational achievement has a greater impact than that of a father on children's school

performance (Riddell, 1989), which may eventually translate into higher wages if better performers stay in school longer.

Education also enhances social participation, a key ingredient in QOL. People who are more educated tend to feel less exploited and less powerless, and have a greater sense of being able to influence decisions that affect their communities (Putnam, 1993). Investigators think that income levels also affect political participation. They generally believe that higher income leads to greater participation because it means higher social status and greater political awareness (Pei, 1997). For this reason, the rural poor are often seen as having low participation and political efficacy, although this is not always the case.

In the other direction, social participation is believed to be beneficial for QOL, both directly and indirectly, through its effects on people's health and well-being. Kennedy et al. (1998) have linked very low levels of confidence in civic structures with falling life expectancies. Levels of trust in local government, for example, account for 14 percent of the variation on total male mortality among Russian regions, with disengagement from politics also correlating with male mortality. The researchers also found links between crime, conflict at work, and mortality, showing the importance of social cohesion. They comment: "those who have access to social capital get ahead; those who do not get sick and die."

Virtuous and Vicious Cycles

Figure II.1 lays out a framework for understanding QOL. It builds on earlier ideas about economics and human development by indicating the direct effects of income, education, and health on QOL. It also shows examples of other variables that have direct effects, such as infrastructure and the quality of the environment. In addition, it indicates the links between QOL indicators and shows possible indirect effects, represented by the dotted arrows.

These links and their effects on QOL represent important policy tools for decision makers. Standard cost-benefit analyses

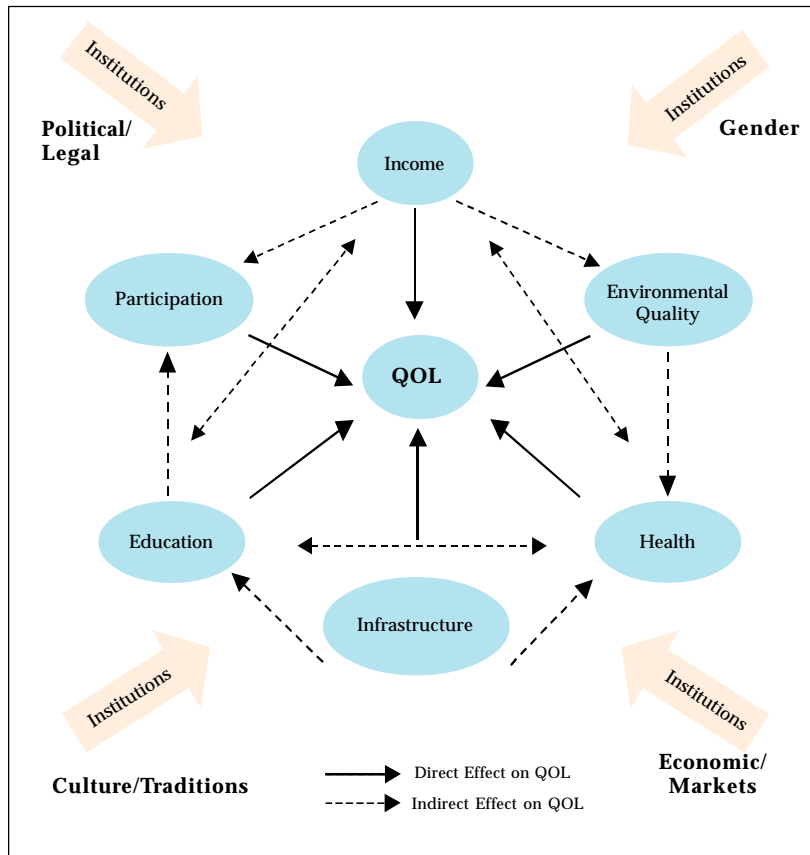


Figure II.1: Direct and Indirect Determinants of QOL

take only the direct impact of policy into account. Understanding indirect links may lead to different policy interventions, as policymakers attempt to take advantage of multiplier effects through relatively small, but targeted, investments in such areas as education and health⁵. These investments may produce

⁵ In a model that links demographic and economic growth, Bloom et al. (1998) show that such multiplier effects can be an important mechanism in the growth process.

virtuous cycles of increasing QOL: better-educated populations are healthier, more productive, and wealthier and will go on to acquire more education and better health, creating an upward spiral of improvement. The reverse is also true. Failure to make these investments may lead to a vicious cycle of stagnation within a poverty trap, where poor education, poor health, and poverty mutually exacerbate one another.

The Institutional Context

Many analyses of QOL encourage investment in human capital, such as education, health, and training, in order to realize returns in people's general standard of living. These human development policies are not likely to be sufficient, however, in the light of the importance of institutions. Institutions have a huge influence on the interaction between the factors that shape QOL, while also affecting the chance of successfully implementing new policies that aim to promote QOL. Figure II.1 illustrates a number of institutional influences that are especially important in determining QOL outcomes.

Many economists and political analysts have now written about the importance of institutions, demonstrating that the embedded pattern of a society's rules and beliefs has a major influence on the structure of markets, families, governance, education, and other organizations (Douglas, 1986; North, 1991; Powell and DiMaggio, 1991; Steinmo et al., 1992; Putnam, 1993). Institutions evolve over time and not always in socially optimal or rational ways. Corruption may become endemic within a bureaucracy, with bribery the only rational course of action for each individual, even though the end result is invisible taxation and an inefficient public sector. Institutions are also characterized by inertia (Putnam, 1993; Clark and Roy, 1997) and find it very difficult to reform their structure, practices, and behavior. In a rapidly changing environment, many institutions that once functioned well are poorly suited, at least in the short to medium term, to new conditions.

An awareness of the character and influence of institutions is essential to successful policy implementation. In Thailand, for example, the institution of rural property rights is weak. Farmers tend to use cultivation methods that maximize short-term productivity, but that damage the environment and adversely affect their long-term economic interests. In this situation, otherwise well-designed environmental and agricultural policies are unlikely to be successful without concurrent efforts to achieve institutional change (Feeny, 1988).

India, meanwhile, has successfully implemented land reform in some states, thereby helping to ameliorate rural poverty (Besley and Burgess, 1998). But by not reforming practices of how land is titled, many women have been shut out of the process with consequent negative outcomes for their QOL. In addition, enforcement institutions have failed to prevent landowners from transferring titles to family members, nominally reducing the size of their landholdings and winning exemption from the reforms. As Bryant (1998) points out: "In practice, legal, political and social changes proved to be just as important to getting land reform accepted as policy and crucial to successful implementation."

Institutions can also interact positively with policy. Countries with a strongly institutionalized culture of emphasis on education, for example nations with a Confucian tradition (Fukuyama, 1995a), are likely to achieve higher returns from a given investment in education. Likewise, the results of Viet Nam's *doi moi* reforms, which encouraged farmers to engage in nonagricultural pursuits, appear to be strongly influenced by the institutionalized knowledge of the communities themselves: those villages that once specialized in certain types of production, such as making iron pots, are more likely to engage successfully in such activity again than villages that never possessed such skills.

Policy versus Implementation

Many policy analysts claim that a central failure of policymakers is a lack of understanding and attention paid to implementation issues (Grindle and Thomas, 1991; Haggard and Webb, 1994; Reimers and McGinn, 1997).

Implementation is affected by institutional constraints, but also by the implementers' capacity to carry out the policy. The PRC, for example, has experienced rapid rural development since economic liberalization began in 1978. Reforms have promoted rural growth by encouraging both family-farm production and the development of rural enterprises. Inter- and intraregional disparities are growing, however, and as Lyons' (1998) study of Fujian Province shows, the capacity of local leaders to carry out development schemes is one reason why some places emerge better-off than others.

Decentralization offers serious challenges to rural areas. Locally based decision making is seen as more democratic and more efficient. However, in rural areas, which often suffer skills shortages, effective implementation of decentralized programs may be impossible without local skills building and training. A well-intentioned policy, therefore, will have limited chance of success without appropriate action during the implementation phase.

RURAL QOL AND URBAN AND GLOBAL ECONOMIES

Around the world rural life is changing fast, as rural economies restructure and people gain access to goods and services once only available in cities. An understanding of rural QOL therefore relies on a clear understanding of the relation of rural areas to urban and global economies.

Figure II.2 shows typical flows between rural, urban, and global or regional centers. As primarily agricultural producers, rural areas have supplied food to urban, and sometimes to global, markets. In addition, they have been a

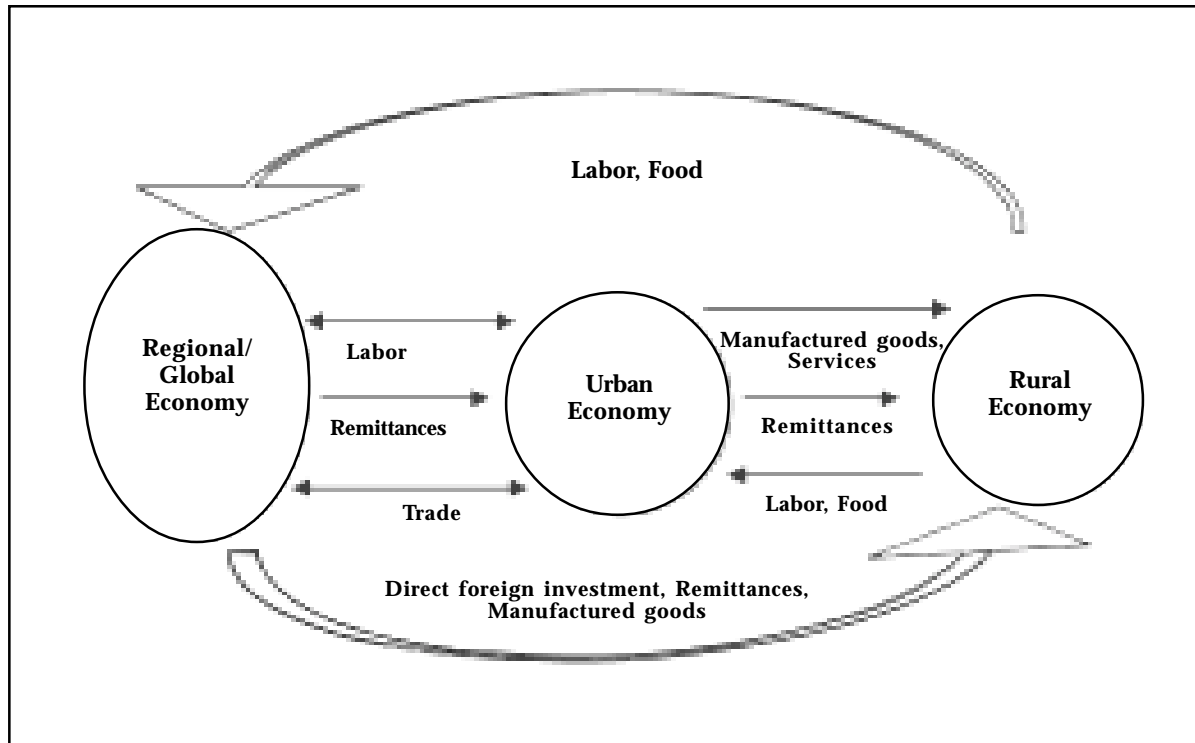


Figure II.2: Schematic Representation of a Dual Economy in a Globalized Setting

source of labor—either pulled out by an expanding urban manufacturing sector, and in some cases by overseas employment opportunities, or pushed out by landlessness and declining agricultural wages.

Flows to rural areas have included manufactured goods as well as some services. In addition, remittances from migrants who leave their families behind for urban or overseas jobs have contributed to the resources of some rural communities.

Rural and Urban Labor Markets

The theoretical literature on the nature of the relationship between rural and urban labor markets in developing countries focuses on the differences between agricultural and urban economies. In the agricultural sector the production unit, for instance a household, is characterized by self-employment and small-scale enterprise employment. By contrast, the chief characteristic of the production unit in the industrial sector is that it is based on labor hired on a contractual basis. While the extent of mobility between the sectors, and the causes of income differences between the sectors, are subject to considerable debate, their economic differences are fundamental to the relative development of rural areas⁶.

Lewis (1954, 1958) advanced the earliest of the popular two-sector models. According to his model, the main characteristic of the traditional sector's labor market is the presence of surplus labor. In the extreme version of this model, the marginal product of labor (the increase in output associated with an incremental worker) in the traditional sector is zero. In other words, all members of the household who are able to work do so, with output shared among all household members. Each household (or production unit) reaches the maximum

⁶ This section draws partly on material contained in Bloom and Freeman (1986).

level of output possible from its nonlabor resources, given its production technology. Adding more labor does not increase output, rather each member either works fewer hours (Sen, 1968) or expends less effort during the same number of hours (Liebenstein, 1978). A less extreme version of the model views the marginal product as being less than the average product, which is the wage received by the household's workers. The qualitative implications of the Lewis model are similar in both cases.

The industrial sector in the Lewis model closely resembles a neoclassical labor market. Employers have downward-sloping labor-demand curves, and they hire labor until the marginal product of labor equals the market wage. This wage will be determined by the nature of alternative job opportunities available to industrial-sector workers. Thus, in a closed and frictionless economy, the market wage in the industrial sector will equal the average product in the agricultural sector. However, because of the transaction costs associated with migration to the industrial sector, most models of developing-economy labor markets view urban-sector wages as being greater than the average product of labor in the agricultural sector. This feature of the theoretical models is consistent with empirical evidence that demonstrates the existence of a positive wage differential between the industrial and agricultural sectors in most developing countries, as well as uniformly higher output per worker in industry and services than in agriculture.

Rural-urban Migration

The dual nature of urban and rural labor markets forms the basis for migration from rural to urban areas. Yap (1977) found that in low-income countries, migration from rural areas accounted for 30 to 60 percent of urban population growth rates. An especially striking case of rural-urban flow is the case of the PRC's so-called floating population, the estimated 80 to 130 million people who have flocked to the cities. In large part, this situation is due to massive amounts of surplus

labor in the rural areas combined with the institutional changes brought about by the Deng Xiaoping reforms of 1978. As Roberts (1997) notes, the latter includes the household responsibility system, where the rural household unit is paid for what it produces, giving it an incentive to cut down on the use of farm labor so that family members can earn extra income from outside the farm. This pushing out of agricultural production is inducing much of the urban migration.

Large labor flows often continue despite high unemployment in urban areas. Harris and Todaro (1970) explained these flows in the face of employment risk by pointing out that the urban–rural wage differential must be large enough for the expected value of the urban wage to be at least as high as the average rural product, which can be enjoyed with certainty. This implies that the urban wage is high enough, even with a relatively low probability of finding employment, for individuals to believe they will be better-off than with the certainty of a low-paying rural job.

Other factors also influence decisions to migrate. For example, investigators have repeatedly shown that education is positively linked to rural–urban migration (Greenwood, 1975; Schwartz, 1976; Schultz, 1982; Stark and Bloom, 1985). There are often fewer opportunities for the better educated in rural areas, and the possibilities are likely to be better in the urban labor market. Social ties and networks may also be linked to migration. In Thailand, for example, those with stronger social networks are more likely to migrate because these networks cut down both the costs of migration and job searching once in the new destination (De Jong et al., 1996).

Rural areas supply large amounts of labor to the industrial sector, but this labor remits a large portion of the wages earned back to rural areas. Rempel and Lobdell (1978) found that urban migrants in South Asia returned 10 to 25 percent of their incomes to family members in their home villages. This can represent a significant source of income for rural inhabitants. However, whether remittances go to fund rural development depends on the nature of migration. When whole families or those with few or weak family ties migrate, the effect on development is

much less than when individuals who are responsible for family members depart in search of employment. This may have a gender dimension: Fuller et al. (1990) found that in Thailand, female migrants were more likely than male migrants to send remittances home.

An added dimension of rural–urban migration is that families can spread risk across markets and locations when only certain family members migrate to cities while others remain in agriculture. As pointed out earlier, high unemployment in the urban labor market implies risk for the urban migrant. By contrast, risk in the agricultural sector generally depends on natural factors such as rainfall, and this risk is largely uncorrelated with urban unemployment. Diversifying risk across these markets allows for a smoothing of consumption for both migrants and their family members in rural areas.

Migration plays a number of roles in the development of the rural sector, and potentially influences QOL. By absorbing excess population and agricultural labor, urban migration acts as a safety valve for rural areas. In addition, the possibility of remittances from migrants means that living standards may be raised in rural areas through urban–rural cash flows.

Global Links

Another potential urban–rural link that affects rural QOL involves flows of investment and capital from cities to rural areas. By the 15th century, for example, more than half of England's woolen cloth was being made in rural households as town-based merchants outsourced manufacturing functions (Landes, 1998).

A similar process is under way in the PRC, following the Deng Xiaoping reforms. Rural growth has been rapid and rural industrialization has become the most dynamic sector of the economy. Rural areas near coastal cities have seen the most dramatic increases in household income, mainly due to the growth of township/village enterprises. These enterprises

rely on cities to provide a market for their goods, but also for technical expertise from urban residents, who may even commute to a rural enterprise (Peng, 1999).

More remote rural areas do not receive this kind of investment, nor do they have access to higher-order services such as hospitals or secondary schools, which tend to be concentrated in areas with high population density. Where services do exist in rural areas, their quality is generally below that found in towns and cities. Unless governments implement creative policies such as distance education or electronic commerce that target remote areas (see, for example, Coeur de Roy, 1997), the gap between QOL in remote rural areas and the rest of society will widen.

THE ASIAN FINANCIAL AND ECONOMIC CRISIS: A CASE STUDY

The rural sector is less closely connected to the global and regional economy than is the urban sector. In Asia, this partly accounts for the faster growth of the urban economy during the 1980s through the mid-1990s. But correspondingly, rural areas have been somewhat insulated from the dual financial and economic crisis that struck parts of Asia in 1997.

The causes of the crisis have been traced in large part to the rapid integration of Asian economies into the global financial market. Rural economies are considerably less monetized, and less integrated with global financial markets. This has protected rural areas from banking and financial sector failures to some extent. However, links between rural and urban Asia have increased, as have direct links between rural and international markets in terms of both labor and production. As a result, rural Asia has felt some effects. This case study examines how the links between global, urban, and rural markets have mediated the impact on rural QOL.

The Extent and Impact of the Crisis

Many countries of East and Southeast Asia experienced phenomenal growth rates in the early 1990s, with Indonesia, Malaysia, Philippines, and Thailand achieving average annual growth rates of 6.8 percent between 1990 and 1997. So the financial crisis that hit Thailand in June 1997 and spread rapidly to other countries in the region came as an enormous shock. While almost all of these countries are now showing early signs of recovery, this recovery appears to be, for the most part, cyclical, and is still somewhat fragile and uneven. Republic of Korea and Thailand, for example, seem to be recovering more strongly than Indonesia, which has suffered much political uncertainty. Economic recovery does not immediately mitigate the social consequences: for children who missed normal schooling, or people whose illnesses were untreated, the scars from the crisis will be slow to fade.

The social impact of the crisis on the populations of East and Southeast Asia has been severe. The collapse in stock and asset prices has substantially diminished many people's savings. More importantly, the sharp rise in unemployment, accompanied by high inflation, has pushed large numbers of people into poverty.

In the decades prior to the crisis, the region had made impressive gains in poverty reduction, with a decline in the percentage of people living in poverty from 57.7 percent in 1975 to 37.3 percent in 1985, and 21.2 percent by 1995 (World Bank, 1998a)⁷. However, these gains have been threatened. Unemployment rates at the end of 1998 showed dramatic increases in most of the crisis countries, where unemployment was exceedingly low before the crisis. Simultaneously, currency devaluations have led to high inflation rates, with general price increases as high as 44 percent in Indonesia, and reaching

⁷ Poverty data are based on the international poverty line of US\$1 per person per day at 1985 prices.

about 11 percent in the Republic of Korea and Thailand. This has further reduced real wages in both the formal and informal sectors. According to International Monetary Fund estimates, in 1998 the combined effects of increased unemployment and inflation will have pushed as much as 20 percent more of the population below the dollar-a-day poverty line in Indonesia, and 12 percent in the Republic of Korea and Thailand (IMF, 1998).

This situation has been exacerbated by reduced social expenditures by governments unable to sustain previous expenditure levels. Amongst other things, the crisis has affected central governments' abilities to fund programs targeted at QOL improvements in rural areas. Indonesia, for example, put rural employment programs aside as the crisis hit (Bullard, Bello, and Malhotra, 1998).

The poor have borne a disproportionate impact from the crisis. Evidence from Indonesia shows that the lowest quintiles have been the most vulnerable to cost-of-living increases as a result of inflation (Levinsohn, Berry, and Friedman, 1999), and poverty has increased at almost 10 times the rate of decline in per capita consumption (World Bank, 2000). The social impact has been wide ranging. Evidence indicates that many parents have been taking their children out of schools, as they can no longer afford educational expenses or the opportunity costs of not having their children work. Recent evidence from Thailand indicated a sharp increase in the number of children between ages 13 and 17 looking for work. Not only are such actions costly in the short term, but they can also have long-term effects on economies as investment in human capital declines, limiting the future growth potential of these countries. To some extent, forward-looking policymakers are aware of the long-term threats and have responded by generating new policy priorities for social spending, such as Thailand's emergency loan program aimed at helping families keep children in school.

Falling incomes and rising prices have also made health care less accessible to many people. The high import content of many pharmaceuticals has meant a disproportionate rise in the cost of drugs, putting them out of the reach of poorer segments

of the population. Declining health-care expenditures by governments also reduce the affordability of health care and threaten essential public health programs, such as child immunization, with potential long-term consequences for the health of the population.

The social costs of the crisis are falling disproportionately on women. In rural areas, women generally eat after men do, and often get less food. As access to food declines, the nutritional well-being of women and girls declines disproportionately. As parents have less money to send their children to school, girls are the first to be taken out. In societies where men are viewed as the primary breadwinners, women tend to be targeted first when employers are forced to lay off workers. Reports from social organizations indicate an increase in both prostitution and domestic violence.

Many other indicators also reflect the increased economic hardships. Indonesia's political destabilization was directly linked to the collapse of the economy. Similarly, the Philippines and Thailand reported increased crime rates and substance abuse. Applications for divorce have been on the increase and the extent of child abandonment also increased. While many of these outcomes are not easily quantifiable, making their overall importance difficult to assess, the costs they place on a society certainly appear to loom large in the public psyche.

The Impact of the Crisis in Rural Areas

The effects of the crisis in rural areas have differed significantly from those in urban areas. Production links from rural areas to the outside proved, for the most part, to be highly beneficial. Rural Asia produces food for urban areas as well as for export to international markets. The rise in the general price level translated into a significant increase in food prices. For rural households that are net producers of food, this resulted in an increase in earnings. Furthermore, for goods exported to the world market, the currency devaluations meant an increase in demand, which often translated into higher

incomes for farmers. This increase was offset to some degree by increased prices for such inputs as fertilizers and insecticides, which are often imported. For many farmers, though, the net change was positive. In Indonesia, for example, spice growers, tropical oil producers, and shrimp farmers realized much higher profits than usual, and estimates indicate that spending by middle-class rural households actually increased by 10 percent between August 1997 and August 1998 (McBeth, 1998).

It should be noted, though, that these benefits were restricted to net producers of food products. For the landless, who generally represent the poorest segment of rural populations, incomes are determined primarily by real wages. Real wages declined significantly in rural areas, primarily as a result of labor market links with the urban sector. The high rates of unemployment in the urban sector stemmed the flow of rural to urban migration and in fact led to high rates of return migration. Thai labor studies document massive migration back to rural areas following the onset of the crisis. Focus-group discussions in Thailand supported this finding, as villagers discussed the return of their migrant children who could no longer support themselves in the cities. Not only did this reduce the flow of remittances to the rural economy, but also the resulting increase in the rural labor supply brought down real wages and increased both unemployment and underemployment in rural areas. In Indonesia, where this problem was the most severe, the real consumption wage in agriculture declined by 35 percent in 1998 (World Bank, 2000).

A mechanism that served to protect rural incomes from the shock to some extent was the differential composition of the typical market basket consumed in rural as compared to urban areas. Insofar as rural baskets include a relatively small share of goods and services that are tradable (or have tradable components), rural consumption tends to be less sensitive to inflation arising from exchange rate shocks. Levinsohn, Berry, and Friedman (1999) show that in Indonesia rural households in every province faced smaller increases in their cost of living index than did their urban counterparts. But in rural areas, as

in urban areas, it was the lowest quintile of the population that suffered the greatest increase in cost of living.

Rural communities have some inbuilt mechanisms for dealing with shocks, which are not available in urban areas. Social ties tend to be stronger in rural communities, providing, to some extent, for smoothing of risk within family networks. For instance, family-based agricultural employment facilitates the absorption of excess labor. While the result may be underemployment, workers generally earn their average product rather than their marginal product, as would be the case in a competitive labor market. This generally ensures that they earn at least a subsistence wage. These distribution mechanisms give rural inhabitants a better ability than their urban counterparts to deal with shocks.

To the extent that rural-urban migrants maintain social and family ties with their villages, they are able to diversify risk over urban and rural employment and income shocks. While return migration was the primary cause of a decline in real wages in the agricultural sector, it was also a valve that enabled the release of some of the pressure on the urban sector. While real wages fell drastically in Indonesia, it was found that total employment in fact increased by 2.6 percent in 1998, primarily as a result of a 13 percent increase in agricultural employment. In the Republic of Korea, which was the most urbanized of all the countries affected, this option was limited. As a result, the overall increase in unemployment was the greatest in that country, reaching almost 6 percent in 1998.

As discussed earlier, a major advantage of such labor market links is that employment risks across urban and rural markets are generally uncorrelated. By an unfortunate coincidence, a severe drought in Indonesia, the Philippines, and Thailand brought on by El Niño occurred at the same time, and has exacerbated the effects of the crisis. In the Philippines, for example, the major share of the increase in unemployment between April 1997 and April 1998 has been attributed to the fall in agricultural production caused by El Niño (Atinc and Walton, 1998). Focus-group participants in Thai villages also emphasized the effects of the drought.

Even so, evidence from Indonesia shows that increases in poverty will be somewhat larger in urban than rural areas. Thai focus-group participants emphasized the importance of this security, even when incomes are lower than are available in urban areas. Agricultural workers talked about how the land would always provide for their basic needs. While they appreciated the benefits urban areas offered in terms of earning opportunities, there was a strong sense of the security agriculture provides, at least in terms of subsistence.

Institutions and the Crisis

Other effects of the crisis in rural areas highlight the importance of institutions and their role in shaping QOL. In many instances, the crisis has rocked institutions, especially those of the State, and the resulting changes have implications for the quality of rural life.

In Thailand, demands by rural districts to have more say in how they cope with the crisis have led to a process of decentralization, which has the potential to bring about long-term change and, advocates hope, greater local participation in rural areas (Vatikiotis, 1998). In Indonesia, the International Monetary Fund insisted that the government should lift long-established subsidies on imported commodities such as fuel and kerosene. The Suharto regime was loath to do so because its power depended partly on its ability to buy the political support of important sectors through the use of such subsidies. Rural households in particular depended on these subsidies: 60 percent of their lighting and energy comes from kerosene (Rosenberger, 1997). While the discontinuation of subsidies does eliminate distortions, it implies an immediate decline in QOL for most rural inhabitants.

In summary, the case of the Asian financial and economic crisis demonstrates that the increased strength of the links between the rural sector and urban and rural markets has enhanced the vulnerability of this sector to global shocks. However, the impacts in rural areas were significantly different

from those in urban areas. While the general increase in price levels raised the cost of living in rural as well as in urban areas, the increase in food prices had a positive impact on the incomes of those who were net producers of food. The currency devaluations that led to this inflation also lowered international prices, thereby increasing demand for agricultural products. Large-scale reverse migration resulted in real wages declining more sharply than in most urban areas. However, the ability of the agricultural sector to absorb excess labor prevented unemployment rates from rising to the extent that they did in the urban sector.

The relatively muted impact of Asia's financial and economic crisis in rural areas, resulting from the position of rural areas in national and global markets, illustrates the importance of the rural sector to the national economy as a potential buffer against such global shocks. Basically, the rural-urban distinction offers a risk-return trade-off. Rural areas are slower to prosper when times are good, but are also slower to suffer at a time of global economic crisis.

CONCLUSION

The above QOL framework:

- conceptualizes QOL as a system of mutually interdependent factors;
- focuses on the important role that institutions play in mediating QOL outcomes;
- emphasizes the importance of capacity in ensuring adequate implementation; and
- explores the relationship between rural areas, and urban and global economies.

Policymakers need to pay close attention to the forces promoting QOL within rural societies, and to the opportunities presented by potential virtuous cycles. They must also be aware

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of wider forces that have an impact on rural areas. Above all, they need a detailed understanding of the current state of rural QOL and its likely evolution. As a step to achieving this understanding, the following chapter presents an up-to-date look at important patterns and trends of life in rural Asia.