Key Findings from the Paper:
Wealth Accumulation and Factors Accounting for Success

One of the central questions in development economics is how do poor people lift themselves out of poverty. In this paper, Anan Pawasutipaisit of Thammasat University and Robert M. Townsend of MIT begin to address this question by providing important insights into what kinds of households might be most effective at moving themselves out of poverty and how they are able to do it.

Their results, published in the Journal of Econometrics, suggest several characteristics that successful households share.

• First, poor people who skillfully manage their assets are especially successful in improving their net worth. Pawasutipaisit and Townsend discovered that the ability of poor families to increase their wealth was strongly related with their rate of saving.

• Also, households’ ability to create a high return on assets was important in wealth creation. Those households who used their existing assets most productively were more successful at pulling themselves out of poverty. Many of the successful households reinvested their money in their small businesses and farms, suggesting that they are well aware of the source of their success.

• The authors also identified traits that the most successful households tended to share in common: more highly-educated household members, a younger age of the head of household, a higher ratio of debt to assets, and a preference for formal financial markets over informal ones. Overall, the largest source of variation in the rate of return on assets was household-specific and uncorrelated with any of these variables which suggests there is great persistence among the most successful households.

Pawasutipaisit and Townsend identified these trends through an extensive survey that was taken from more than 500 Thai households across four provinces every month between 1999 and 2005. From these data, the authors created detailed income statements, balance sheets, and cash flow statements for each household. They discovered that, over the course of their 7-year study, poor households grew their net worth by an average of 22% per year while rich households grew by just 0.09%.
The authors discovered that upward mobility in the distribution of net worth is not a matter of luck, but that households’ savings behavior and the ability to achieve a high return on assets are important components of wealth creation. The next step, then, is to document the specific skills and attitudes that these households posses which help them to succeed.

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