Abstract for "The Role of Household and Intra-household Arrangements in Income Comparisons: A happiness approach"

Mariano Rojas (FLACSO-México and UPAEP, Mexico)

The family is a central institution in most societies and its predominance in Latin American societies is widely accepted; however, substantial modifications have taken place during the last decades. The institution of the family may play many roles in fostering the well-being of its members: child rearing and nurturing, correspondence of sentiments, care, satisfaction of psychological needs, and many others. The family also plays an important economic role: most people live in families where economic resources are pooled-up for the benefit of all members and where specific within-household resource-allocation norms are followed.

Cross-country and cross-household well-being comparisons based on household income face the challenge of defining how the economic role of the family ought to be incorporated. People do live under different household arrangements. Households differ in size (number of income dependents) and in demographic composition (age and gender of members, general structure). In addition, households may implement different norms for the intra-household distribution of the benefits from household resources. It is usually recognized that household and intra-household arrangements matter for people's well-being. However, the common practice in the economic literature has been to disregard their role. As a matter of fact, cross-country comparisons based on GDP per capita and cross-household comparisons based on household per capita income completely neglect the economic role of the family. If the family plays a significant economic role in fostering well-being then these cross-country and cross-household comparisons based on per capita computations may be misleading, with important consequences for our correct assessment and interpretation of such relevant economic indicators as the rate of economic growth, the distribution of income, and the computation of poverty and economic-mobility figures.

The vast household-arrangements literature has addressed the issue of which is the appropriate methodology to make well-being assessments on the basis of household income comparisons across households with different arrangements (Blackorby and Donaldson 1994; Blundell 1988; Blundell, Preston, and Walker 1994; Bourguignon and Chiappori 1994; Browning 1992; Cowell and Mercader-Pratts 1999; Deaton and Muellbauer 1980; Deaton 1999; Lewbel 1997; Pollak and Wales 1992; and Slesnick 1998). Different approaches are followed to propose adult-equivalence scales (political, micro-modelling, and demand-systems); however, many authors recognize that these approaches face problems when making well-being assessments. For example, Székely *et al* (2004: 531) state that "*There is little theoretical guidance on what the values of α (the degree of scale economies) should be*"; the authors show that this arbitrariness in the definition of the degree of scale economies has large consequences for our estimation of poverty rates in Latin America. Ebert and Moyes (2000: 2) remark that "*The arbitrariness would not be too much a problem if the choice of the adjustment procedure were shown to have little impact on the normative conclusions to be drawn. However, this is far from being the case and a number of examples in the literature have made clear that the way incomes are transformed and weighted affects dramatically the results.*" Pollack and Wales

(1979: 216) state that *"the equivalence scales required for welfare comparisons are logically distinct from those which arise in demand analysis."* As it is stated by Cowell and Mercader-Pratts (1997: 3) *"The economic approach to the study of inequality might be caricatured as the comparison of unlike incomes among otherwise similar people. But in practice it is also about the comparison of incomes of unlike persons with unlike circumstances."*

The literature on intra-household arrangements aims to address the issue of how the benefits from those household resources which are relevant for well-being are allocated across household members. Different theories have been proposed, such as communitarian, altruistic and cooperative-bargaining models of intra-household arrangements (Becker 1973, 1974, 1981; Binmore 1987; Lundberg and Pollak 1993, 1996; Manser and Brown 1980; McElroy 1985, 1990; Pollak 1994, 2002; Rojas 2005; Vogel 2003). However, there is no clear methodology to empirically address this crucial issue and poverty and income-distribution studies usually end up neglecting its relevance.

This paper uses a happiness approach to address two crucial issues in well-being assessments based on income comparisons: the nature of household arrangements and intra-household arrangements in Mexico. The using of the happiness approach in addressing these relevant issues is relatively new but very promising (van Praag and Ferrer-i-Carbonell 2004; Rojas 2007, 2010) The happiness approach provides an equivalence scale founded on satisfaction measures which can be used to make well-being comparisons for persons living under different household arrangements. In addition, the happiness approach allows for testing different theories of the family in order to find out the nature of the intra-household distribution of the benefits from household resources which are relevant for well-being.

The empirical research takes advantage of three recently applied surveys in Mexico which inquire about the subjective well-being situation of Mexicans. The BIARE (*bienestar auto-reportado*) survey was applied by INEGI (Mexico's national statistical office) in 2012 and with more than 10650 observations it is representative at the country level. The IMAGINAMÉXICO survey was also applied in 2012 in 100 municipalities of Mexico, and with more than 27500 observations it is representative at the municipality level. The CONACYT survey was applied in 2010 in 17 Mexican cities and it is stratified by income groups, which allows for a good representation of high-income groups. These surveys provide information about people's subjective well-being (happiness), socio-demographic situation and composition of the household, income or expenditure measures, and many other relevant variables.

The information from these surveys is used to estimate happiness-based adult equivalence scales as well as to test different intra-household arrangements theories. The implications for the computation of poverty rates, income-inequality indicators, and rates of economic growth are presented.