Abstract

The important factors that determine the living standards of adults are labor force participation, living arrangements, and health status. For the elderly, lifetime asset accumulation is another key determinant of living standards in old age. In a majority of less developed countries (LDCs), especially in the rural areas, asset accumulation levels of the elderly are very low. Employer-based or public pension income is accessible to only a tiny percentage of the elderly. Consequently, a majority of elderly individuals in rural LDCs continue to work in old age, supplying labor in the market, working in family-owned enterprises, or participating in domestic duties. A large proportion of the elderly, especially in South Asia, live in extended households, which typically include their adult children, the children’s spouses, and grandchildren.

Thus, in assessing elderly living standards in LDCs, a key issue of interest is whether the elderly engage in productive activities within the extended household in order to ensure their own economic security. Some relevant questions are as follows. How is elderly labor supply influenced by the characteristics of the extended household? Is the effect of own health status on elderly labor supply influenced by living arrangements? How does labor supply as a means for economic well-being interact with other sources of income, such as public and private transfers? Few existing studies have addressed these questions for rural LDCs. To address these questions, we need to
understand the nature, motivation and extent of elderly labor supply behavior in the context of the extended household, which is the goal of my proposed dissertation research.

To that end, I first define an analytical framework to describe the decision-making by the members of an extended household. This framework extends the analytical methods in the development economics literature that are suitable for observing the decision-making by rural households of widely varying sizes and structure, with members engaged in multiple labor activities. The framework allows an individual to supply labor either in market activities, which implies that the marginal valuation of time is readily available in monetary units, or non-market activities, for which no direct wage data are available. Furthermore, the framework accounts for the non-separability of the production and consumption decisions by the subsistence or semi-subsistence agricultural household, and for non-participation corners in individual labor supply.

The above framework will serve as the basis for the empirical exercise, which will be conducted in three stages. The first two stages involve obtaining the estimates of the marginal valuation of time for individuals engaged in market and non-market activities. This will yield wage and shadow wage estimates, which will be used in the third stage, for the estimation of labor supply specifications. Rural data from the World Bank’s Living Standards Measurement Study of two north Indian states will be used to carry out the empirical study. Additionally, simulations for welfare analysis will be performed using the results from the three-stage estimation.