Socioeconomic Status and Health Outcomes in a Developing Country

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While the relationship between socioeconomic status (SES) and health is well documented for developed countries, less evidence has been presented for developing countries. The aim of this paper is to analyse this relationship at the household level for Fiji, a developing country in the South Pacific, using original household survey data. To allow for the endogeneity of SES status in the household health production function we utilize a simultaneous equation approach where estimates are achieved by full information maximum likelihood. By restricting our sample to one, relatively small island, and including area and district hospital effects, physical geography effects are unpacked from income effects. We measure SES, as permanent income which is constructed using principal components analysis. An alternative specification considers transitory household income. We find that a 1% increase in wealth (our measure of permanent income) would lead to a 15% decrease in the probability of an incapacitating illness occurring intra-household. While presence of a strong causal relationship indicates that relatively small improvements in SES status can significantly improve health at the household level, it is argued that the design of appropriate policy would also require an understanding of the various mechanisms through which the relationship operates.

Keywords: socioeconomic status, health, wealth, permanent income, health outcomes, developing country, Fiji
1. INTRODUCTION

The positive association between socioeconomic status (SES) and health is well documented in industrialized countries (Contoyannis and Forster, 1999; Epstein, et al. 2009; Frijters, et al., 2006; Kiuila and Mieszkowski, 2007; Mansyur, et al. 2008; Salas, 2002), however only a small number of studies have examined this relationship in developing countries including South Africa, (Case, 2004), Mexico, (Smith and Goldman, 2007), Cambodia (Zimmer, 2008), and China, (Anson and Sun, 2004). This study considers this association for Viti Levu, the main island of Fiji. Establishing a causal relationship between SES and health can be important from a policy perspective, pointing to the need for greater attention to effective poverty alleviation policies as a means to improving health outcomes for the poorest (Adler, et al., 1993; 1994; Marmot, et al., 1997).

In the standard human capital model of health developed by Grossman (1972; 2000) the health of an individual is modelled as the output of a production function with inputs including factors such as medical care received, health in the previous time period, behavioral and other personal and household level characteristics, including SES. $H_{t+1} - H_t = \beta_t - \delta_t H_t$. This framework also acknowledges that SES does not impact on health directly, but rather indirectly through the investments in the inputs and behaviours that affect the stock of health. Moreover, the health status of the individual can also impact on the individual’s SES, through, *inter alia* increased productivity, implying reverse causality, and the associated problem of endogeneity hindering empirical assessment of the effects of economic welfare on health (Smith, 1999; Ettner, 1996). Instrumental Variable (IV) techniques are therefore commonly used as a means to control for endogeneity but raise further questions as to the validity and strength of the chosen instruments.

Another challenge when considering the relationship between SES and health arises from the need to disentangle the effects of geography (Meer, et al., 2003). This analysis achieves this goal by utilizing a sample drawn from households living on one relatively
small island where distances to important health facilities do not vary considerably among households, and, by including variables that capture the household’s area of residence as well as their proximity to the nearest district hospital.

Given the particularly strong family and kinship ties among Pacific island communities including those in Fiji, we treat the household rather than the individual as the appropriate unit of analysis, applying Jacobson’s (2000) household level health production model, an extension of Grossman’s (1972) model, which uses the family as the production unit.

In terms of methodology, our study departs from previous analyses in one important respect. That is, in the absence of theoretically credible instruments we utilize an approach derived by Greene (2007) to handle an endogenous variable in a binary probit equation, where estimates are achieved by full information maximum likelihood (FIML). To our knowledge this is the first application of this approach in the literature.

2. DATA COLLECTION
Fiji, with a population of 836,000, comprises 322 islands, with the main island of Viti-Levu home to over 75% of the population (World Bank, 2008). The data used in this paper was compiled from a survey conducted on Viti Levu in the first half of 2005 (World Bank, 2006). The sample frame used by the Fiji Islands Bureau of Statistics for its most recent census was used to design the sample of 420 households. The sample design was aimed at providing a random sample of the population. It included the capital city, Suva, home to approximately 30% of the population; the five major towns (Nausori, Lautoka, Nadi, Ba and Sigatoka); nine villages and twelve settlements. Primary Sampling Units (enumeration areas) were randomly selected from the census listing and households within each enumeration area were randomly drawn at a fixed rate.

The survey itself was implemented by an independent team of 10 interviewers and one fieldwork supervisor. The survey respondent was the nominated household head and in
their absence, their spouses or partners. With the aim of minimizing survey error, each interviewer delivered the completed questionnaires to the respective supervisor on a daily basis and if inconsistencies or missing answers were identified households were re-interviewed. Of the 420 households interviewed, 414 provided usable data for this study.

The final sample was split almost evenly between urban (49.8%) and rural households. With the population of Fiji being divided almost equally between indigenous Fijians and Fijians of Indian origin (Indo-Fijians), this is reflected in the ethnic composition of the sample which comprised 54.3% Indo-Fijians. Indo-Fijians enjoy relatively higher levels of educational attainment and standards of living as evidenced by an estimated mean household income (2004) of US$8174 compared with US$4993 for indigenous Fijians (World Bank, 2006).

3. MEASURES

Although Fijian socio-cultural institutions encourage strong kinship and clan ties, the households are the basic social units with command over economic resources and responsibility for their members’ welfare. Therefore, the unit of analysis in this study is the household. The survey instrument gathered the usual socio-demographic information about household members (age, gender, ethnicity etc.). Considering health status, the survey collected information about those household members who were unable to perform their normal daily activities at any time during the previous 12 months, including working, studying or cooking, due to ill health. A self-reported measure of household health was developed following one of the core Healthy Days Measures (CDC, 2000). A household member was classified as afflicted by an incapacitating illness when unable to perform their daily activities for more than 30 days over the preceding year. While this is arguably an imperfect measure of health status, it does represent a certain threshold for a ‘healthy household’. Of the surveyed households 26.8% had at least one member incapacitated according to this definition. Of the 414 households included in the sample, only 18 reported having two or more incapacitated members making it necessary to transform the dependent variable into a binary variable.
Notwithstanding the fact that current or transitory income is the most commonly used measure of SES in this literature, it is recognized that permanent income, as measured by household wealth as a measure of economic status has several advantages (Braveman, *et al.*, 2005; Onwujeke *et al.* 2006; Pollack, *et al.* 2007; Rutstein and Johnson, 2004; Sahn and Stiefel, 2003; Wagstaff and Watanabe, 2003). Wealth represents a more permanent status than does either income or consumption. In the form that it is used in most studies, including this one, wealth is easier to measure from household survey data than either consumption expenditures or income. For purposes of sensitivity testing our analysis also uses current income as an alternative SES measure.

### 4. ANALYTICAL FRAMEWORK AND METHODS

Drawing on Grossman (1972) and Jacobson’s (2000) extended model of household health, in which each family member is not only the producer of their own health but also the health of other family members, we posit that:\(^1\)

\[ H = H(Y, X) \]  

(1)

where, the household’s stock of good health \( (H) \) is dependent on SES \( (Y) \) and additional variables \( X \) representing past investment in health-related physical assets, locational variables and household composition variables.

In our model the household’s health status is measured by a binary variable, \( H \) with a value of one if at least one household member was incapacitated for 30 days or more, and equal to zero otherwise. Therefore our health equation is,

\[ H^* = \beta X + \alpha S + e.H - I[H^* > 0] \]

(2)

In equation 2, \( H^* \) is our latent variable representing household health \( H \), \( S \) is household permanent income and \( X \) is a vector of additional explanatory variables. More specifically, these variables are:

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\(^1\) As Jacobson (2000) points out, the original Grossman (1972) model and extensions of it can only be used to analyse adult and not children’s health. He discusses a number of other advantages of a household level perspective including the important issue of joint decision-making in the allocation of the household’s combined resources.
i) Composition of the household defined as: i) total number of adults; ii) total number of children; iii) total number of elderly adults. This breakdown is chosen given that children and the elderly may have a higher propensity for an incapacitating illness in comparison to adults.

ii) Location: four fixed effects are used to capture latent heterogeneity across the respondent’s area of residence, including but not limited to economic conditions and variations in access to healthcare. The four types of locality are: capital city; town; village; and, settlement with the settlement being the omitted control category.

iii) Divisional Hospital Indicator defined equal to one if the household is located within 25 Km of one of the two better equipped divisional or main hospitals on the island. All other households’ nearest hospital is a smaller, and inferior, sub-divisional hospital.

Equation 3 is a binary probit which cannot produce consistent estimates of the parameter estimates because of the correlation between $\mathbf{y}$ and $\boldsymbol{e}$ induced by the correlation between $\boldsymbol{\mu}$ and $\boldsymbol{\epsilon}$. This arises because of the potentially endogenous relationship between income and health (Ettner, 1996). To account for this relationship we therefore estimate the following system simultaneously:

$$H^y = \beta' \mathbf{x} + \alpha \delta' \epsilon$$  \hspace{1cm} (3)

$$\mathbf{y} = \gamma' \mathbf{x} + \mu$$  \hspace{1cm} (4)

$$(\epsilon, \mu) \sim N\left[\begin{array}{c} 0 \\ \mathbf{0} \end{array}\right] \begin{bmatrix} 1 & \rho \alpha' \\ \rho \alpha & \gamma' \end{bmatrix}$$  \hspace{1cm} (5)

That is, equation 3 is estimated simultaneously with equation 4 allowing for correlation between $\boldsymbol{\mu}$ and $\boldsymbol{\epsilon}$ as described in equation 5. Estimation is by FIML and details on the estimation procedure can be found in Greene (2007). The associated marginal effects for the probit component of the model are computed using the univariate probit probabilities:
In equation 4 we estimate a standard household income equation where the dependent variable, permanent income, is measured by a wealth index constructed by principal components analysis (PCA) and where $\mathbf{z}$ is a vector of variables explaining variation in household income in Fiji.\(^2\)

Becker’s (1981) household production model, which allocates family resources in the production of non-market commodities, provides the framework for our household permanent income function.

$$u(X,t) = \max_{w,f} u(X,t;H,C) \quad w(T-1) + w^f \leq y$$

How a family chooses to allocate time and their opportunities for increased wages will determine their level of income. The income function for the household can be written as:

$$y_f = f(d_f, Z, \varepsilon_f)$$

Where $j$, $d$ is a vector of household characteristics that affect wage and the allocation of time, and $Z$ is a vector of dummies that control for unobserved effects on income and $\varepsilon$ is the household error term.

In our case the specific variables are:

i) Log of household size, with its square, as larger households can be expected to have a larger labour supply thus more time to allocate to work, but at a declining rate (expected negative sign on the quadratic term) (Houthakker, 1957).

ii) Adult Ratio: the ratio of adults to other household members capturing variations in household dependency ratios in terms of the potential number of income earners relative to other dependents (expected positive relationship) (Brück et al, 2010).

iii) Age of the head of the household, along with its square: we assume the usual positive, non-linear (quadratic) relationship to income. As individual’s age they

\(^2\) To construct the wealth index we follow the approach developed by Filmer and Pritchett (2001) and adopted by the Demographic and Health Survey (Rutstein and Johnson, 2004).
have more time to invest in human capital which has a positive effect on earning potential (Miles, 1997).

iv) Ethnicity: a dummy variable (=1) controlling for the higher income earning capacity of Indo-Fijian households.

v) Capital City Indicator: a dummy variable (=1) controlling for residence in Suva, the capital city of Fiji with better income earning opportunities than in the other towns and rural villages.

The descriptive statistics for the variables included in equations 3 and 4 are provided in Table 1.

*** Insert Table 1 about here ***

5. RESULTS
The results from our analysis are documented in Table 2. The Vuong Statistic, AIC and BIC criteria support the FIML model over the probit with no accommodation for endogeneity. In addition, the probit model with no accommodation for endogeneity yields a permanent income coefficient of -0.184 which is substantially higher than the FIML specification result documented in Table 2. Therefore, ignoring the endogenous nature of SES overestimates the effect of SES.  

As expected there is a significant negative relationship between SES status, as measured by permanent income and the probability of having an incapacitating illness intra-household. In particular a 1% increase in household permanent income measure leads to a 15% decrease in the probability of having an incapacitating illness intra household. In a separate specification we replace our SES measure of permanent income with a measure of transitory income – measured as household income in USD over the year preceding the survey (2004). As indicated in the table note to Table 2, the results from this specification

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3 Ignoring the endogenous nature of this SES measure and estimating a regular probit model result in a coefficient of -0.052, again overestimating the effect of SES.
imply that a 1% increase in transitory income would yield a 4% decrease in the probability of having an incapacitating illness intra household. In the alternative transitory income specification all other effects are stable up to two decimal places$^4$.

As expected, Rho is negative and significant implying a negative correlation between the health status and SES equations. This is intuitive and suggests that the disturbances in equations 3 and 4 are negatively correlated. Combining Rho’s significance with the differential marginal effect on income in the FIML specification in comparison to the specification that does not account for endogeneity, clearly points to an endogenous SES/health relationship in this scenario.

The area fixed effects are not significant with the exception of location 3 (village) indicating that residing in a village increases the probability of having an intra household illness by 1%. As expected, households who live within 25km of a divisional hospital are less like to have an incapacitating illness.

Considering household composition, a higher number of elderly household members implies a higher risk of an incapacitating illness intra-household. The marginal effects associated with total kids and total adults are not statistically significant.

**** Insert Table 2 about here ****

Regarding the covariates in the income equation there are only three significant marginal effects. Considering the Indo-Fijian dummy, there is a positive relationship between these households and income as expected. In addition, the relationship between the household adult ratio and income is negative and significant (-0.750, 0.000). Finally, households located in the capital city, Suva, have a higher income (0.235,0.000).

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$^4$ It should be noted that the size of the coefficients on the two SES definitions cannot be compared given their different measures. It should also be noted that aside from the marginal effect on the SES variable all other effects are stable in the starting values specification to at least two decimal places.
6. CONCLUDING DISCUSSION

Employing a unique dataset from a household survey in Fiji, this study uses a health production function approach, adapted to allow for analysis of health at the household level and defining SES in terms of permanent as opposed to transitory income, measured by a wealth index, to analyze the relationship between SES and household health. We find a strong relationship between a household's SES and the probability of having an incapacitating illness, with the results indicating that an increase by 1% in household permanent income can reduce the probability of an incapacitating illness by 15%. These results are important in terms of both analytical method and policy implications. First, although there have been a number of studies examining the relationship between SES and health, there are few studies from developing countries, with no such studies from the Pacific island region. Second, most previous studies have been unable to separate the effects of geography from SES. By restricting our sample to one, relatively small island in the South Pacific, and including area and district hospital effects, it is argued that physical geography effects have been unpacked from income effects. Third, this is the first such study to utilize the approach owed to Greene (2007) that allows for an endogenous variable in a binary probit equation.

That proximity to a one of the few divisional hospitals reduces the probability of a household suffering an incapacitating illness is to be expected given the superior range and quality health care services they offer. The finding that those living in villages should be more prone to poor health than those living in poorer settlements might appear somewhat surprising. However, the most likely explanation for this is that most settlements, while generally poorer than villages, are located mostly nearer to urban areas where access to hospitals, clinics and primary health care services is better. This requires further investigation.

Regarding the covariates in the income equation, the only two significant variables relate to the Indo-Fijian dummy and the ratio of adults in the household. The latter is credited to households with a higher ratio of adults to children also having a larger number of
retirees under the care of the household’s income earners. It was not uncommon in the surveyed population to have elders who did not work being part of the household. The significance of the Indo-Fijian dummy relates to the higher levels of education and other, unobservable characteristics such as entrepreneurial inclination.

From a policy perspective our findings are consistent with previous research indicating that effective poverty alleviation policies can improve health outcomes for the poorest (Adler, et al., 1993; 1994; Marmot, et al., 1997). However, as noted by Deaton (2002), establishing a causal relationship between SES and health does not in itself justify exclusive policy focus on reducing the inequality in health outcomes through targeting ‘upstream’ causes in the underlying socioeconomic structure. While it is obvious that when those at the lower end of the SES spectrum are also those with poorest health status, interventions aimed specifically at these disadvantaged groups, such as income support, would warrant policy attention.

Studies conducted over the last two decades have begun to identify the most common pathways that contribute to health disparities. Among these pathways are access to health care, exposure to environmental factors, health related behaviours, and psychosocial and biological processes associated with stress exposure (Adler and Stewart, 2010). However, without a deeper understanding of these mechanisms, and without further information on the strength of the SES/health relationship within different income groups across the spectrum, it does not necessarily follow that redistributive policies aimed at reducing the inequalities in SES and health would necessarily lead to a net overall improvement in health outcomes. As Adler and Newman (2002) have pointed out, a “broad-gauged approach” is what is needed to eradicate, or at least substantially reduce, SES disparities in health.
References


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Table 1: Descriptive Statistics

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<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>Min</th>
<th>Max</th>
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<tbody>
<tr>
<td>H [Health Indicator]</td>
<td>0.266</td>
<td>0.442</td>
<td>0.000</td>
<td>1.000</td>
</tr>
<tr>
<td>Area 1</td>
<td>0.208</td>
<td>0.407</td>
<td>0.000</td>
<td>1.000</td>
</tr>
<tr>
<td>Area 2</td>
<td>0.215</td>
<td>0.412</td>
<td>0.000</td>
<td>1.000</td>
</tr>
<tr>
<td>Area 3</td>
<td>0.244</td>
<td>0.430</td>
<td>0.000</td>
<td>1.000</td>
</tr>
<tr>
<td>District Hospital</td>
<td>0.390</td>
<td>0.488</td>
<td>0.000</td>
<td>1.000</td>
</tr>
<tr>
<td>Wealth</td>
<td>0.000</td>
<td>2.525</td>
<td>-4.607</td>
<td>4.527</td>
</tr>
<tr>
<td>Total adults</td>
<td>3.314</td>
<td>1.754</td>
<td>0.000</td>
<td>13.000</td>
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<tr>
<td>Total Elderly</td>
<td>0.220</td>
<td>0.499</td>
<td>0.000</td>
<td>2.000</td>
</tr>
<tr>
<td>Total Children</td>
<td>1.161</td>
<td>1.302</td>
<td>0.000</td>
<td>7.000</td>
</tr>
<tr>
<td>Dummy Indo Fijian</td>
<td>0.466</td>
<td>0.499</td>
<td>0.000</td>
<td>1.000</td>
</tr>
<tr>
<td>Head Male Age</td>
<td>52.134</td>
<td>10.345</td>
<td>41.324</td>
<td>77.121</td>
</tr>
<tr>
<td>City Dummy</td>
<td>0.489</td>
<td>0.501</td>
<td>0.000</td>
<td>1.000</td>
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<tr>
<td>Household Size</td>
<td>4.708</td>
<td>2.289</td>
<td>1.000</td>
<td>16.000</td>
</tr>
<tr>
<td>Adult Ratio</td>
<td>0.738</td>
<td>0.237</td>
<td>0.000</td>
<td>1.000</td>
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</tbody>
</table>

Table 2: Econometric Results

Probit Model with Endogenous Variable

Log Likelihood Function = -620.11
AIC= 3.42, BIC= 3.45
Probit Equation: Dependant Variable = H

<table>
<thead>
<tr>
<th>Variable</th>
<th>Partial Derivatives</th>
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<tr>
<td>Constant</td>
<td>-1.381 (0.000)</td>
</tr>
<tr>
<td>Area 1</td>
<td>-0.017 (0.721)</td>
</tr>
<tr>
<td>Area 2</td>
<td>0.006 (0.793)</td>
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<tr>
<td>Area 3</td>
<td>0.097 (0.030)</td>
</tr>
<tr>
<td>District Hospital</td>
<td>-0.041 (0.037)</td>
</tr>
<tr>
<td><strong>Permanent Income</strong></td>
<td>-0.153 (0.000)</td>
</tr>
<tr>
<td>Total adults</td>
<td>-0.119 (0.239)</td>
</tr>
<tr>
<td>Total Elderly</td>
<td>0.007 (0.000)</td>
</tr>
<tr>
<td>Total Children</td>
<td>0.056 (0.839)</td>
</tr>
</tbody>
</table>

Linear Regression: Dependant Variable = Permanent Income

<table>
<thead>
<tr>
<th>Variable</th>
<th>Partial Derivatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>12.638 (0.000)</td>
</tr>
<tr>
<td>Dummy Indo-Fijian</td>
<td>0.333 (0.000)</td>
</tr>
<tr>
<td>Head Male Age</td>
<td>-0.002 (0.219)</td>
</tr>
<tr>
<td>Head Male Age Squared</td>
<td>0.008 (0.224)</td>
</tr>
<tr>
<td>Capital City Dummy</td>
<td>0.235 (0.000)</td>
</tr>
<tr>
<td>Log House Hold Size</td>
<td>-0.117 (0.900)</td>
</tr>
<tr>
<td>Log House Hold Size Squared</td>
<td>0.040 (0.914)</td>
</tr>
</tbody>
</table>
Adult Ratio  -0.750 (0.000)
Rho (e,w)    -0.233 (0.000)

*** Replacing permanent income with transitory income leads to a coefficient of (-0.041, 0.000)