

# Implementing the Capability Approach with Respect for Individual Valuations : An Illustration with Colombian Data

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# Summary

- Different people value different outcomes differently. Wellbeing measures should take this into account.
- Equivalent income measure: how much income would I need to be as well off with maximum values of every outcome as I am now (with my current and less than maximum outcomes).

- Derived from a happiness regression

$$s_i = \alpha + \beta_i \ln y_i + \gamma_i x_i + \delta z_i = \alpha + \beta_i \ln y_i^* + \gamma_i \tilde{x} + \delta z_i$$

- Solving for  $y_i^*$ :

$$y_i^* = y_i \times e^{\frac{\gamma_i}{\beta_i}(\tilde{x} - x_i)}$$

- Implemented with a large Colombian dataset, compared with other wellbeing measures used in Colombia.

# Comments: Technical

- Show how results are sensitive to
  1. Number (narrowness) of groups of individuals used
  2. Dimensions included in the happiness regression
  3. Reference values: e.g. max vs 90<sup>th</sup> percentile, etc
  4. Inclusion of objective vs subjective dimensions
  5. Whether you include or exclude individual characteristics ( $z_i$ ): including these will affect the estimates of  $\beta_i$  and  $\gamma_i$

# Comments: General

- Explain the terminology early on:
  - Capability approach
  - Functionings vs capabilities
- Moderate correlation between measures and little overlap with other measures when identifying who is poor: can you evaluate which measure is more useful or relevant?
- What is the likely use or policy relevance of this approach?