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Mobilizing critical research for  
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This Poverty Brief argues that:

- Although many poor households in Argentina, Brazil, Costa Rica, Ecuador and Peru have experienced events that would potentially allow them to exit poverty, very few have in fact exited. For most, income increases have not been sufficient to change their poverty status.
- Events linked to the labour market were the most important in producing income movements. These events include changes in employment rate, worked hours and hourly wages. However, most new jobs were informal, which implies low earnings and, in turn, a limited impact on poverty exit rates.
- Public cash transfers and events associated with demographic changes did not prove influential in poverty entries or exits.
- Households with children not only have a higher probability of falling into poverty when exposed to negative events, but also lack the necessary means in order to exit from poverty rapidly.
- Two main pillars arise as guide for policy design: systematic improvement of labour conditions and construction and/or extension of a social protection system based on contributory and non-contributory components.

## CURRENT TRENDS IN POVERTY REDUCTION LATIN AMERICA: THE ROLE OF LABOUR MARKET AND SOCIAL PROTECTION

**Roxana Maurizio**

Latin America experienced six years of sustained economic growth from 2003 to 2008, before the international crisis.<sup>1</sup> This performance was accompanied by a positive behaviour of social and labour market indicators as well as of income distribution. Less inequality and higher incomes resulted in lower rates of poverty<sup>2</sup> and extreme poverty and a decrease in the number of poor people.<sup>3</sup> These improvements are in stark contrast to the situation in the 1980's and 1990's. But the reduction in poverty and inequality is not a simple consequence of economic growth as this brief shows.

Therefore, it is worth analysing the factors associated with poverty reduction in Latin American countries during the last decade. In particular it is relevant to:

1. assess the role of the labour market, social policies and demographic changes in transitions into/out of poverty;
2. evaluate whether the observed differences in households' poverty flows can be mostly explained by differences in the probability of certain types of events (such as obtaining a job) occurring or by these events having differing impacts;
3. determine to what extent the composition of households affects poverty dynamics.

In what follows, an analysis of the events that trigger poverty exits and entries in Argentina, Brazil, Costa Rica, Ecuador and Peru is presented, based on Beccaria et al. (2011) and Maurizio (2012).

The table on page 4 shows the classification of the events that could trigger exits (entries) from (into) poverty and provides an example of each. As shown, an exhaustive list of mutually exclusive events is identified. In order to illustrate this classification, it is possible to consider the situation of a household leaving poverty. Such transition occurs if its total nominal income rises, if the households' size falls, or due



to a combination of both episodes. In turn, these changes are the consequence of different events experienced by the members of the households. The rise in a household's total nominal income can be the result of one member getting a job or facing a wage increase while, for example, the death of one of them leads to a smaller household size. Therefore, it is possible to distinguish between the latter type of events — of demographic character — and the others. Non-demographic events include those exclusively related to labour market events (e.g. changes in the number of employed members, changes in the number of working hours, changes in hourly earnings), those related to non-labour income events (e.g. changes in income from pensions or transfers) and a combination of both. Finally, category VII includes those combinations of two or more different episodes not classified before.

### **Factors associated with transitions out of poverty**

The evaluation of poverty dynamics in Argentina, Brazil, Costa Rica, Ecuador and Peru suggest that a very high proportion (around 80%) of the poor households experienced some positive event<sup>4</sup> that would potentially allow them to exit poverty. However, only a smaller part of those households actually exits poverty, while the others register increases in incomes that are not enough to change their poverty status. This indicates that the impossibility of exiting poverty in these countries does not seem to be mainly associated with the inability of obtaining new incomes (for example, through getting a job), but to the fact that those rises in income are insufficient for allowing them to escape poverty.

The events exclusively related to the labour market are the most important in producing income movements: in some countries this mainly occurs through changes in the number of the employed or, in other countries, by variations of employed person's earnings. In many cases, however, the new jobs obtained are of an informal nature (non-registered wage earning jobs), characterized by low earnings, reducing, consequently the impact of obtaining a job on the probability of leaving poverty. This, in turn, contributes to the phenomenon of the working poor. In fact, around 20%–30% of poor household heads in these countries are employed as informal workers. This means that unemployment is not the only problem of the Latin American labour market; low wages and precarious labour conditions also appear as important issues. Informal workers face, in turn, higher exit rates from their occupation leading to higher flows into unemployment, resulting in a low income-lack of income cycle.

The increase in incomes from pensions is the most important non-labour event triggering poverty exits in Argentina, Brazil and Costa Rica, while the growth of other non-labour incomes is the most frequent event in Ecuador and Peru. The second type mostly includes donations from one household to another. In particular, in Ecuador these are remittances from migrants working in foreign countries, an expected result considering the high international

emigration that this country experiences. Finally, public cash transfers and events associated with demographic changes, on the other hand did not prove important for poverty exits.

### **Factors associated with transitions into poverty**

Findings show that there is a non-negligible group of households moving into poverty even when poverty is in overall decline. It also stresses the importance of studying poverty flows that underlie static indicators of poverty incidence.

As was the case for exits from poverty, negative labour events (job loss or decrease in labour incomes or working hours) are the most common source of entry into poverty. Exclusively demographic events are relatively unimportant for poverty entries, but appear to play somewhat more of a role here than in the case of exits from poverty. Again, as expected, the reduction of incomes from cash transfers has no relevance to explain entries into poverty.

### **The relevance of the presence of children in households**

Households with children are among the most vulnerable, not only because they have more probabilities of transiting into poverty when exposed to negative events (such as loss of job), but also because they do not have the necessary means to exit from that situation rapidly. In particular, it is interesting to note that there is no substantial difference in the total frequency of events for household with or without children. However, the probability of entering poverty given the occurrence of a negative event in a household with children is significantly higher than for all other households. On the contrary, the probability of exiting poverty associated with any event is systematically higher for households without children.

### **Policy recommendations**

Two main pillars clearly arise as guide for policy design:

1. systematic improvement of labour conditions and a significant reduction of informality and unemployment;
2. construction and/or extension of a social protection system based on contributory and non-contributory components that should include, at least, an extended unemployment insurance scheme, cash transfers for households with children and pensions for the elderly.

Although the region has moved forward in both ways, the efforts and results are still insufficient.

In particular, these results support an expansion of antipoverty strategies, through labour market policies and other approaches of more universal character. On the one hand, priority should be given to efforts which aim to prevent low and medium-low income workers from facing income-reducing events. A central preoccupation of those strategies should be to reduce the proportion of highly

unstable informal and precarious employment within the labour market. This implies adopting both demand and supply side approaches to the issue by stimulating the creation of jobs that are suitable for these workers and increasing their chances of finding available jobs (through training and/or better employment services, for example).

Reducing the negative effects of labour episodes appears to be another possible component of an antipoverty policy. Precisely, when low-earning workers are covered by the social security system, the impact of job loss can be mitigated, at least in part, by employment-protection legislation and unemployment insurance. However, unlike developed countries, the scope and coverage of unemployment insurance in Latin America has been historically limited. Even in those few countries that do have policies of this kind, coverage rates among the unemployed population are very low (less than 20%). This is mainly a result of high labour precariousness, reduced registration rates, high occupational instability and — probably to a lesser extent than in Europe — long term unemployment. Therefore, it would be positive to extend some kind of unemployment benefits to those leaving non-covered jobs.

Wage levels should also be considered as an objective, since getting a job is no guarantee of leaving poverty in Latin America. In this regard, reinforcing the minimum wage, as it has been done in Brazil and Argentina, constitutes a valuable instrument.

Finally, these policies should be complemented by non-contributory cash transfers to vulnerable households. In this regard, it is worth mentioning that many countries in the region implemented conditional cash transfers, which are mostly directed to low income households with children. Although the results of these programs are generally satisfactory in terms of their success in reducing extreme poverty, the magnitude of their results is low. For this reason, these countries must increase both the coverage and amount of these transfers. However, it is important to note that a comprehensive public policy for children can definitely not be based on monetary transfers alone. Countries must move forward by effectively coordinating all programs which tackle the social risks faced by households

with children and adolescents. This means ensuring access to quality health and education services to support the human and economic capabilities of future generations.

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## References

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## Notes

- 1 After a deceleration in 2009, Latin American per capita GDP grew again at high levels in 2010 and 2011.
- 2 Poverty measurement is based on the "income approach"; households are identified as poor if their total income was below some poverty line. This line is the value of a normative basket of goods and services that allows the satisfaction of basic needs.
- 3 Changes in poverty levels can be decomposed into two effects: on the one hand, the changes occurred as a consequence of variations in the average of households' total real income maintaining the distribution of income constant; and, on the other hand, the changes occurred as a consequence of variations in the distribution of income, maintaining the average real income constant. The results of such decomposition show that the reduction of poverty was associated, to a large extent, with the real economic growth experienced by Latin American countries, whereas the effect of the improvement in income distribution, although positive, was less significant.
- 4 For instance, getting a job, increase in wages or pension rise.

## Classification of the events that could trigger exits (entries) from (into) poverty\*

Event	Description	Example
<b>Non-demographic events (the number of members in the household does not change).</b>		
<b>I</b>	<b>Exclusively labour income events.</b>	
1.	Growth (reduction) in the number of employed persons not linked to an entry (exit) of labour income earners to (from) the household, maintaining the total number of household members.	A member of the household that was unemployed or out of the labour force (employed) starts working (becomes unemployed or leaves the labour force).
1.1.	Growth (reduction) in the number of members who are registered wage earners.	A member of the household that was unemployed or out of the labour force (employed as a registered wage earner) finds a job as registered wage earner (becomes unemployed or leaves the labour force).
1.2.	Growth (reduction) in the number of members who are nonregistered wage earners.	A member of the household that was unemployed or out of the labour force (employed as a non-registered wage earner) finds a job as non-registered wage earner (becomes unemployed or leaves the labour force).

## Continuation

Event	Description	Example
1.3.	Growth (reduction) in the number of members who are nonwage earners.	A member of the household that was unemployed or out of the labour force (employed as independent worker) finds a job as independent worker (becomes unemployed or leaves the labour force).
2.	Growth (reduction) in total hourly wage of members employed in both observations, maintaining the total number of household members and worked hours.	A member of the household receives a wage increase (reduction): she/he earns more (less) working the same amount of hours.
3.	Growth (reduction) in the number of working hours of members employed in both observations, maintaining the total number of household members and hourly wage.	A member of the household earns more (less) because she/he works more (less) hours.
4.	Growth (reduction) in the number of working hours and in the total hourly wage of members employed in both observations, maintaining the total number of household members.	One or more employed members of the household receive an hourly wage increase (reduction) and work more (less) hours.
5.	Growth (reduction) in the total monthly wage of members employed in both observations and in the number of employed members, not linked to an entry (exit) of labour income earners to (from) the household, maintaining the total number of household members.	A member of the household that was unemployed or out of the labour force (employed) starts working (becomes unemployed or leaves the labour force) and one member who already worked received an increase (reduction) in her/his wage.
<b>II.</b>	<b>Exclusively non-labour income events</b>	
6.	Growth (reduction) in the income from pensions not linked to the entry (exit) of pension recipients to (from) the household. The total number of household members remains constant.	A member of the household receives an increase (reduction) in her/his pension.
7.	Growth (reduction) in public monetary transfers (social policy) not linked to the entry (exit) of recipients to (from) the household. The total number of household members remains constant.	A member of the household receives an increase (reduction) in her/his from a cash transfer program.
8.	Growth (reduction) in other non-labour incomes not linked to the entry (exit) of non-labour income earners to (from) the household. The total number of household members remains constant.	A member of the household receives more (less) money from remittances from abroad.
<b>III.</b>	<b>Labour and non-labour income events</b>	
9.	Growth (reduction) in labour and non-labour incomes not linked to an entry (exit) of labour or non-labour income earners to (from) the household, maintaining the total number of household members.	An employed member of the household receives a wage increase (reduction) and a retired member of the household receives an increase (reduction) in her/his pension.
<b>Demographic or combination events (the number of members in the household changes).</b>		
<b>IV.</b>	<b>Exclusively demographic events</b>	
10.	Reduction (growth) in the total number of household members; the total nominal income remains constant.	A member of the household who has no income marries and leaves. (A baby is born to the family.)
<b>V.</b>	<b>Demographic events leading to income changes</b>	
11.	Growth (reduction) in the number of labour or non-labour income earners due to the fact that some members enter (exit) the household.	A (new) member who works and has an income arrives to (leaves) the household.
<b>VI.</b>	<b>Combination of demographic and income events</b>	
12.	Growth (reduction) in total nominal income (irrespective of the source of income change) and reduction (growth) in the number of household members.	A member of the household receives a wage reduction (increase) and a baby is born to the household (a member of the household dies).
<b>VII.</b>	<b>Events not classified before</b>	

Source: Beccaria et al (2011)

\* I, II and III are non-demographic events because the number of household members remains constant and there are no entries (exits) of labour or non-labour income earners to (from) the household. The remaining event types are either exclusively demographic or a combination of demographic and nondemographic factors.

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