

Abstract for “Entry and Exit Poverty Rates in Latin America: The Role of Labor Market and Social Policies”

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From 2003, Latin America experienced a period of high and sustained economic growth which had a positive impact on social and labor market indicators through the creation of jobs, the reduction of unemployment and a slight recovery of average wages. All of this resulted in significant reductions of both poverty and extreme poverty rates.

The analysis of the factors associated with the level and evolution of poverty in individual countries has been the subject of an extended literature. There are also several studies that compare employment, inequality and poverty levels as well as their evolution in different Latin American countries. However, there is scarce research focused on poverty dynamics in individual countries of the region, especially on the factors related to poverty transitions. Furthermore, it was not possible to identify any study that compares poverty entries and exits across Latin American countries.

Perhaps, the lack of adequate dynamic data in the region has been one of the reasons explaining the still small number of studies on poverty transitions. However, the supply of information that can be used to construct panel data has increased, even if it is not strictly longitudinal, and can thus be used to analyze income mobility and the factors associated with it.

This knowledge gap on poverty dynamics in the region is particularly worrisome given the high level of income mobility in Latin American countries. This is largely a result of precarious employment – that generally leads to high job instability– representing a large share of the labor market and of low coverage for occupational risk, such as unemployment assistance or other kinds of public cash transfers. Labor instability is also high in these economies due to their relatively unstable macroeconomic situation.

The general objective of this paper is to study poverty dynamics in five Latin American countries, emphasizing a comparative point of view. In particular, the study aims at:

- Analyzing to what extent countries with different or similar poverty incidences may show poverty exit and entry rates of different intensities.
- Identifying the importance of different events associated with poverty transitions focusing on those related to the labor market, changes in household composition and to public policies.
- Tackling the question of whether households stay poor (or stay out of poverty) because they do not experience any positive (or negative) event, or because the impacts of the event is not large enough to result in a transition into or out of poverty.
- Evaluating the relative effectiveness of different positive or negative events in taking households out of or into poverty derived from their intensity and from their conditional probability of changing the poverty status of households.
- Analyzing the effect of these events across households with different structures and characteristics. Presence or absence of children is one of the most important dimensions to be analyzed. This will help evaluate, for example, whether households with children have a greater

or lesser chance of experiencing a positive event relative to other households, and/or whether those episodes are as effective at providing the household with the means to exit poverty. This is particularly relevant given the high prevalence of child poverty in Latin America.

- Suggesting general policy recommendations which either aim to reduce the incidence and impact of events which lead households into poverty or which aim to increase poverty exits, in both cases to reduce high poverty levels prevailing in the region.

To attain these objectives, we perform a dynamic analysis of panel data from regular household surveys. The countries under study are Argentina and Costa Rica with a relatively low poverty incidence; Brazil as an intermediate case; and Ecuador and Peru with relatively high poverty rates. Taking into account the differences in poverty incidence exhibited by these countries, this selection provides a broad and complete overview of the poverty situation in the region. The periods to be analyzed are not necessarily the same for each country, but always are included in the last decade.

The analysis of the characteristics of poverty dynamics is of great importance for policy design, for even when the level of aggregate incidence is relatively low and/or does not change, the flows of households exiting and entering poverty may still be large. Furthermore, the study of poverty transitions may offer significant evidence on the factors directly related to them. Specifically, such analyses allow identifying whether the events that trigger poverty entries and exits involve the labor market, are of a demographic character or respond to specific public policies. In order to do so, we design an exhaustive typology of the events experienced by individuals that might take their households into or out of poverty.

Sizeable entry and exit poverty rates were observed in all five countries and it was found that a large proportion of household experienced positive events, mainly related to the labor market; however, only a small fraction of them actually exited poverty. Demographic events and public cash transfers proved to be of little relevance; in particular, the latter did not contribute much either to intensify poverty exits or to prevent poverty entries. Households with children experienced more (less) negative (positive) events than those without children. It appeared therefore that even when the economy behaved reasonably well at the aggregate level, high rates of labor turnover and income mobility still prevail, mainly associated to the high level of precariousness and the undeveloped system of social protection that characterize the studied countries.