Transient, Chronic, and Intergenerational Poverty: Evidence from the Cebu Longitudinal Health and Nutrition Survey

by

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Abstract

This paper examines poverty dynamics in the Philippines by decomposing poverty into its transient and chronic components using censored fluctuation approaches. Findings reveal that aggregate squared poverty gap is mostly transient. Using censored quantile regression, the paper then identifies the following as significant correlates of transient poverty: location of residence, household dependency burden, mother’s age, and work in the farming sector. Transient poverty is also linked with single-person headed households. Meanwhile, significant correlates of chronic poverty include work in the farming sector and number of years of mother’s education. Households with heads who are regular wage earners and who are contractual workers experience more chronic poverty than households with heads who are self-employed. Once we extend our model to account for intergenerational poverty, we find that estimated elasticity between parent and child’s income ranges from 0.165 to 0.197 suggesting that moderate income rigidity exists between two generations.
Honor Statement

I attest that this master's thesis I have submitted is my own. I have not cheated, plagiarized or received unauthorized assistance in the completion of this paper.

I understand that the University of the Philippines may impose the commensurate sanctions and penalties for instances of academic dishonesty committed in the completion of this paper.

Waiver

Relevant portions of this work may be quoted and used for research and other scholarly purposes provided the proper citation be made.

Marian Angelica K. Panganiban
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1 Introduction

The Philippines' poverty reduction record the past twenty years can be described as lackluster at best, especially when compared to its Southeast Asian neighbors. Vietnam, for example, started with higher levels of poverty incidence than did the Philippines during the early 1980s, but their absolute poverty soon dwindled and became much lower than the Philippines' during the early 2000s. Malaysia and Thailand also had virtually eliminated absolute poverty in the past twenty years. While the average per capita income in the Philippines in the mid-2000s (PPP $4,381) was much higher than in Vietnam (PPP $2,683) and Indonesia (PPP $3,402), its absolute poverty was actually much higher than in either of the latter countries.¹

Indeed, the country's poor poverty reduction performance motivates various proposals to address what Balisacan [2007:1] describes as "the single most important policy challenge of the Philippines." Most of the earlier studies of poverty focused on the static aspects - incidence, gap and severity at a point in time. Whereas they give an effective snapshot of the country's poverty situation and distribution, they do not necessarily provide a systematic narrative of welfare stability over time.

A serious shortcoming of static poverty analysis is that it tends to give the impression that the poor is a temporally-homogeneous group - those who were identified poor before are the same poor in current measurements. An initial attempt to introduce a dynamic element in Philippine poverty research by Reyes [2002] shows that the poor consists of people who are 1) chronic poor, 2) the transient poor who are vulnerable to external shocks and cannot recover², and 3) the transient poor who are able to recover from external shocks but only temporarily. Thus, persistence in aggregate poverty statistics such as incidence may be concealing shifts in welfare status among households and individuals, and hiding significant changes in the composition of poor people over time and in the kind of poverty they

¹ Statistics are in 2000 prices, from Balisacan [2007]. The paper provides a thorough picture of the country's poverty situation vis-à-vis other Southeast Asian countries.

Introducing a dynamic component to our analysis provides us with a sharper understanding of the country's poverty situation as well as a better grasp of the appropriate interventions that can be implemented.

Chronic and transient poverty differ not only in their manifestation, they also call for distinct policy responses – something that has been acknowledged as early as the eighteenth century:

“[O]fficials and social commentators in eighteenth century France distinguished between the pauvre and the indigent. The former experienced seasonal poverty when crops failed or demand for casual agricultural labour was low. The latter were permanently poor because of ill health (physical and mental), accident, age, alcoholism or other forms of ‘vice’. The central aim of policy was to support the pauvre in ways that would stop them from becoming indigent” [Hulme and McKay 2005:3].

While the role of policy in this passage consists of preventing seasonal poverty from becoming permanent poverty, Jalan and Ravallion [1998:2] refine the policy responses that can be made for both the chronic and transient poor:

“Longer term investments in the poor, like increasing their human and physical assets, or the returns to those assets, are likely to be more appropriate for chronic poverty. On the other hand, insurance and income-stabilization schemes which protect households against idiosyncratic economic shocks would appear to be more important when poverty is transient.”

Decomposing poverty into its transient and chronic components is a useful exercise in helping us determine the design and effectiveness of poverty reduction strategies. Haddad and Ahmed [2003], for example, note that chronic poverty is a more serious situation than transient poverty. Hence, well-founded anti-poverty programs entail knowledge of the relative share of chronic as opposed to transient poverty.

This study contributes to the literature by strengthening existing Philippine evidence on household poverty dynamics by applying the components approach in decomposing poverty into its chronic and transient parts. It utilizes a longer panel data set than what was previously used in Reyes [2002] which allows us to measure poverty persistence across two generations. It also aims to facilitate discussion on poverty reduction initiatives by identifying significant determinants of chronic and transient poverty using quantile regression.
The rest of the paper is organized as follows. Section 2 reviews the literature on transient, chronic, and intergenerational poverty and their correlates. Section 3 maps out the theory that will guide the investigation on poverty dynamics while Section 4 describes the data that will be used. Section 5 discusses the empirical results and Section 6 concludes.