Labor supply responses to adverse shocks under credit constraints: Evidence from Bukidnon, Philippines

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The Philippines’ fertile land and tropical climate is ideal for agricultural production and yet, based on the latest poverty statistics, nearly half of the country’s rural population still lives in poverty. PEP-funded researchers in the Philippines analyze how Filipino agricultural households use labor to cope when unexpected occurrences disrupts income. Indeed, the poor have limited or no access to credit, and thus their labor is their most important asset. But, in times of unforeseen crisis, how can these households use labor to sustain consumption?

Using data that tracks households over a 20-year period, the findings show that original households and split households (children of original households who have established their own household) respond differently to different shocks. Comparing these two groups show how labor supply responses to adverse shocks differ at earlier versus later stages of the life cycle. In particular, both men and women in the split households are more able to supply additional work when faced with unexpected crisis. However, in original households, only the men are able to do so. Environmental shocks, such as droughts, pests and other weather disturbances, are found to have the most adverse effects on both original and split households. However, split households show more vulnerability to other types of shocks, including civil war/theft, other negative economic shocks, death/illness of a household member and other welfare shocks.

Households with little education and with few or no able-bodied male members are more vulnerable at times of unexpected income disturbances. Thus, policy implications include counter-cyclical workfare programs that target households with high female-to-male ratios, high dependency ratios and little or no education, as well as universal education and health care programs to better equip disadvantaged households in improving their labor endowments, thus, improving their ability to cope with unpredictable difficulties in the future.

The research was carried out in Bukidnon province in the southern part of the Philippines, which is considered one of the country’s major food baskets. The research mirrors similar situations in other agricultural settings all over the Philippines, where every member of the household engages on farming for subsistence.