POVERTY REDUCTION IN LATIN AMERICA

There is an ongoing debate regarding the roles of the labor market and social policies in the evolution of poverty experienced in Latin American countries in recent years.

A team of Argentinean researchers have explored this issue in four Latin American countries: Argentina, Brazil, Costa Rica, Ecuador and Peru. They found that although many poor households 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. This would indicate that the possibility of exiting poverty is not only associated with access to new sources of income – such as recent employment – but also to the relative importance of these incomes and their stability.

The study evaluates, in a dynamic and comparative framework, the relative impact of factors such as labor market performance, social policies and demographics, on poverty entry and exit rates. The analysis focused on the impacts of various events in these areas across households with different characteristics and across countries.

RESEARCH FINDINGS

Labor markets

Events exclusively linked to the labor market are the most important in producing income movements. The nature of such events varies between countries from changes in employment rates to variations in worker earnings. In the first case, most new jobs were in the informal sector, which typically implies low earnings and a limited impact on poverty exit rates.

Job precariousness also appears to be highly relevant in all four countries. Informal workers are more likely to lose their job, which in turn leads to higher unemployment, generating cycles between “low income” and “unemployment”.

Other factors

Public policy and events associated to demographic changes, on the other hand, did not prove influential in poverty entries or exits.

The results however show that households with children are among the most vulnerable. These households not only have a higher probability of falling into poverty when exposed to negative shocks, but also lack the necessary means to adapt rapidly in order to exit from poverty.

Another main finding of the study is that public transfers had almost no relevance in explaining exits from poverty during the analyzed period due to both the low coverage and small size of these transfers.

CONCLUSIONS

The main conclusion is that poverty dynamics in the region are strongly linked to changes in labor income. Poor households undergo important changes in welfare throughout macroeconomic and labor market cycles because of the lack of public policies that can effectively mitigate their negative impacts and/or strengthen potential positive effects.

RECOMMENDATIONS FOR SOCIAL & LABOR POLICIES

Two main policy recommendations arise from this study:

1) the need for systematic improvements of labor conditions and a significant movement from informality and unemployment to formal employment.

2) the construction and/or extension of a social protection system based on contributive and non-contributive components that include, at least, an extended unemployment insurance scheme, cash transfers for households with children and pensions for the elderly.

Although there has been progress in these areas, much more effort is required in order to significantly reduce poverty.