Is poverty really decreasing, and if not, why not?

Jose Ramon G. Albert and Arturo Martinez, Jr.

Introduction
During the visit of Pope Francis this year, the Vatican head of state remarked about the “scandalous social inequality” in the country and urged political leaders (and everyone) to shun corruption that harms the poor. In this Policy Note, we examine trends in official (monetary) poverty statistics. We also look into why poverty reduction has been historically lackluster in the Philippines using available panel data that provide information on dynamics of household welfare and living conditions in the country.

Trends in poverty statistics
In April 2014, the Philippine Statistics Authority (PSA) released official estimates of poverty for the first half of 2013. These were based on the 2013 Annual Poverty Indicators Survey (APIS). Using these official poverty rates and estimates of (income) poverty from the previous year, government officials¹ suggested that the welfare conditions in the country are improving, and even attributed the reduction in poverty to the impact of the Pantawid Pamilyang Pilipino Program, the conditional cash transfer program (CCT) being implemented by the Department of Social Welfare and Development. Even the World Bank, in the August 2014 edition of its Philippine Economic Update² similarly described the improving poverty situation in the country: “after many years of slow poverty reduction, poverty incidence among the population declined by 3 percentage points between 2012 and 2013.

to 24.9 %, lifting 2.5 million Filipinos out of poverty.”

Although these poverty assessments are based on the official statistics released by the PSA, official poverty incidence figures estimated for the first half of 2013 actually are not comparable to those sourced from the Family Income and Expenditure Survey (FIES), the typical source of per capita income data to generate poverty incidence (Table 1). While the APIS 2013 used a much longer questionnaire that was based on the FIES income module, the APIS 2013 income module was still a simplified version of the FIES income module, thus making the poverty estimates from APIS 2013 incomparable to those sourced from the 2012 FIES. Even if the 2013 APIS made use of the income module of the FIES, per capita income data from the two surveys may still not be technically comparable since the FIES uses a very detailed expenditure module that is asked before the income module. The FIES takes an average of five hours to accomplish, while the 2013 APIS only took an average of three hours. The PSA’s technical notes describe these different data sources and instruments.

In consequence, we actually do not have clear evidence to suggest a reduction in poverty from (the first half of) 2012 to (the first semester of) 2013. We have to await results of the 2014 APIS to get a definitive picture of recent poverty trends, assuming that the 2014 APIS used either the same instrument as the 2013 APIS or the FIES. Still, we can observe three very clear trends, albeit not very recent information, on poverty conditions in the country from official poverty statistics sourced from the FIES:

(a) Poverty rates have been unchanged in the first semester periods from 2006 to 2012, since minute differences in poverty estimates are within margins of error;
(b) Poverty rates during the full year periods from 2006 to 2012 also have been unchanged;
(c) Poverty rates are lower in the full year, compared to the first semester figures, on account of extra income received by income earners from their thirteenth month wages and bonuses, as well as their income received in the second semester.

Table 1. Official estimates of poverty incidence in the Philippines

<table>
<thead>
<tr>
<th>Year</th>
<th>First Semester</th>
<th>Full Calendar Year</th>
<th>Source</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>28.8%</td>
<td>26.3 %</td>
<td>2006 FIES</td>
<td>78 pages of questions (24 of which on income, 47 on expenditure); average interview time is 5 hours</td>
</tr>
<tr>
<td>2009</td>
<td>28.6%</td>
<td>26.1 %</td>
<td>2009 FIES</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>27.9%</td>
<td>25.3 %</td>
<td>2012 FIES</td>
<td>32 pages of questions (19 of which on income, 6 on expenditure); average interview time is 3 hours</td>
</tr>
<tr>
<td>2013</td>
<td>24.9%</td>
<td></td>
<td>2013 APIS</td>
<td></td>
</tr>
</tbody>
</table>

Source: Philippine Statistics Authority (PSA)
Notes:
It can be noted that since poverty incidence is unchanged, the number of poor Filipinos has been increasing on account of population growth.

Reasons for unchanged poverty rates
It may seem puzzling why despite growth in the country’s gross domestic product (GDP) per capita (of 3.3%) over the past decade, the poverty rates have been unchanged (WB 2014). Using recent national accounts data and official poverty figures from the FIES (Table 2), we find that a 1-percent increase in per capita incomes reduces the poverty rate by around 0.2–0.3 percent, which is far lower than the average of 2.5-percent elasticity of poverty reduction in the world.

Some might suggest that there are data quality problems with national accounts data or income poverty data. However, the Philippines follows standard practices in national accounting using the 2008 System of National Accounts framework suggested by the United Nations. Developing countries like the Philippines have statistical systems that pay attention to consistency in measurement, although there may be room for improvement in simplifying current survey instruments.

Some attribute the weak impact of economic growth on poverty reduction to the country’s high income inequality. In Table 3, we show some selected statistics on income distribution and income inequality in the Philippines from 2003 to 2009. Average nominal incomes of various segments of income distribution were rising across the years (by around 43% between 2003 and 2006, and by around 40% between 2006 and 2009), and even across various income classes. From 2003 to 2009, the poorest 20 percent though only had about 5 percent of the total national income. And as indicated by the Palma ratio, a measure of income inequality, the income of the top 10 percent has been steady at around three times that of the income of the bottom 40 percent. The Gini coefficient, another measure of income inequality, has been around 0.5 across the period 2003–2009. Thus income distribution has practically been unchanged. The poor have not gotten any poorer.

Examining economic mobility
It may be argued that increasing income inequality is not a distributional problem: as an economy expands, entrepreneurs with better command over assets and capital are in far better positions to benefit from economic growth. In other words, income inequality grows because these people’s incomes are growing faster than the income of the rest (Piketty 2014). However, the benefits of the economic growth should start to trickle down to the masses as entrepreneurs create more jobs for the working class. At this point, variations in economic outcomes will just be a reflection of differences in the levels of effort. In the latter case, we will

Table 2. Poverty elasticity estimates for 2006–2009 and 2009–2012

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Official poverty headcount</td>
<td>26.56</td>
<td>26.27</td>
<td>25.23</td>
<td></td>
</tr>
<tr>
<td>Per capita GDP (constant PHP)</td>
<td>48525.93</td>
<td>53982.09</td>
<td>57649.88</td>
<td>65266.08</td>
</tr>
<tr>
<td>in per capita GDP</td>
<td>11.2%</td>
<td>6.8%</td>
<td>13.2%</td>
<td></td>
</tr>
<tr>
<td>Growth elasticity of poverty</td>
<td>-0.16</td>
<td>-0.30</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Authors’ calculations based on national accounts and official poverty estimates.
experience inequality of outcomes (Roemer 1993). On the other hand, inequality of opportunities arises when socioeconomic advantages and disadvantages (of some over others) accumulate over time (Bowles and Gintis 2002).

Despite the seemingly simple conceptual difference between inequality of outcomes and inequality of opportunities, finding evidence from empirical data is not quite straightforward (Brunori et al. 2013). Recently, some researchers identified economic mobility as a good starting point to be able to differentiate these two types of inequalities (Martinez et al. 2014; Martinez et al. n.d.). Broadly speaking, economic mobility refers to the patterns in which people move from one socioeconomic status to another over time (Fields 2008). The level of economic mobility is low when people remain in the same socioeconomic status over time and it increases as more people move from one status to another.

Low economic mobility can be associated to inequality of opportunities since in such a case, there is not much incentive to work hard due to limited opportunities for economic movements (Brunori et al. 2013).

Consider a simple scenario where a new job opening in a certain company has been advertised. Suppose that out of 10 people who applied for the job, the company shortlisted the two most skilled applicants. In this case, being shortlisted or not represents inequality of outcomes. However, suppose that during the selection process, the committee systematically favored the applicant with a certain set of characteristics that are beyond a person’s control, such as sex, ethnicity, religion, parents’ economic status, among others. This represents inequality of opportunities.

More generally, inequality of opportunities refer to instances when the economic opportunities created by economic growth are disproportionately channelled to people that have a specific set of fixed characteristics while inequality of outcomes occur when skills or levels of effort are the main determinants of how economic opportunities are distributed (LeFranc et al. 2008).

So why do we say that low levels of economic mobility signal inequality of opportunities? If the society rewards people according to gender, race, or privilege inherited from parents, then there is less incentive to work hard. Consequently, people will remain in the same economic status. Furthermore, the disparities will widen as economic advantage and disadvantage accumulate over time. This is suspected to be the

---

Table 3. Selected statistics on income inequality and (per capita) income distribution in the Philippines: 2003, 2006, and 2009

<table>
<thead>
<tr>
<th>Statistics</th>
<th>2003</th>
<th>2006</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average per capita income (in nominal PHP)</td>
<td>0.495</td>
<td>0.516</td>
<td>0.506</td>
</tr>
<tr>
<td>Poorest 20 percent</td>
<td>4.48%</td>
<td>4.22%</td>
<td>4.45%</td>
</tr>
<tr>
<td>Lower middle 20 percent</td>
<td>0.29%</td>
<td>0.37%</td>
<td>0.32%</td>
</tr>
<tr>
<td>Middle 20 percent</td>
<td>0.57%</td>
<td>0.60%</td>
<td>0.59%</td>
</tr>
<tr>
<td>Upper middle 20 percent</td>
<td>0.80%</td>
<td>0.83%</td>
<td>0.83%</td>
</tr>
<tr>
<td>Richest 20 percent</td>
<td>0.98%</td>
<td>1.10%</td>
<td>1.09%</td>
</tr>
<tr>
<td>Total</td>
<td>4.48%</td>
<td>4.22%</td>
<td>4.45%</td>
</tr>
<tr>
<td>Share of bottom 20 percent in national income</td>
<td>0.39%</td>
<td>0.47%</td>
<td>0.32%</td>
</tr>
<tr>
<td>Palma ratio (i.e., income of the top 10% to bottom 40%)</td>
<td>0.39%</td>
<td>0.47%</td>
<td>0.32%</td>
</tr>
<tr>
<td>Gini</td>
<td>0.495</td>
<td>0.516</td>
<td>0.506</td>
</tr>
</tbody>
</table>

Note: Authors’ calculations from the Family Income Expenditure Survey (FIES) 2003, 2006, and 2009
driving force for the lack of changes in income distribution in the country.

Can we examine these concepts using empirical data? To answer this question, we firstly define economic status with income as a proxy measure, and consequently, equate economic mobility with income mobility. In the following section, we examine how much income mobility transpired in the Philippines over the past decade.

**How much income mobility there is in the Philippines?**

The discussion provided in this section is mainly drawn from the work of Martinez et al. (2014) which uses panel data from the FIES from 2003 to 2009. This period is interesting because it captures a period of global economic slowdown. In addition, during this period, while there was faster economic growth compared to periods before 2000, both poverty and income inequality barely changed during these years. These trends give an impression that the income distribution has been stagnant (Martinez et al. 2014).

To further examine the extent of stagnancy of income distribution, Martinez et al. (2014) measured the amount of income mobility. To do this, the authors divided the panel households from the FIES into extremely poor, moderately poor, lower middle income, middle income, upper middle income, and rich according to their household consumption expenditure per capita.6 Table 4 presents the transition matrix that summarizes how much economic movements occurred. The number provided in each row represents the proportion of households starting in a specific economic status and ending up in the same or another status. The diagonal elements represent households that remain in the same status. The numbers below the diagonal elements represent households that moved down the income ladder while the numbers above the diagonal elements represent households that experienced improvements in the income status.

Almost half of the households changed income status from 2003 to 2009. For instance, 51 percent of the households that started in extreme poverty in 2003 moved up while 77 percent of the households that started nonpoor moved down the income ladder. Although not shown in Table 1, Martinez et al. (2014) also noted that there is approximately the same number of households that experienced upward and downward income movements. The offsetting effects between upward and downward income mobility could partially explain why the country’s aggregate level of poverty and inequality are barely changing. Thus, overall, income distribution has actually been more dynamic than conventionally perceived, but there is also evidence of offsetting effects between upward and downward income mobility (Martinez et al. 2014), which leads to gross nil changes in the country’s aggregate level of poverty and inequality.

**Who are the income mobile?**

Martinez et al. (n.d.) classified the income trajectories into four types: households that experienced (i) slow income growth from 2003 to 2009; (ii) consistently upward income growth; (iii) consistently downward income growth; (iv) upward income growth followed by downward income movements; and (v) downward income

---

6 This has been adjusted to account for inflation and differences in household size.
movements followed by upward growth (Figure 1). Based on this classification, Martinez et al. (n.d.) found that approximately 11 percent of the household population fall in the slow growth cluster, 31 percent in the upward mobility cluster, 24 percent in the downward mobility cluster, 14 percent in the upward-downward mobility cluster, and 20 percent in the downward-upward mobility cluster. The authors also estimated multinomial logistic models to identify the statistically significant characteristics that distinguish one group from another. Their results suggest that households with initially lower income were more likely to be classified under upward mobility cluster while households with initially higher income were more likely to be classified under the fourth and fifth cluster. This result suggests that the economic growth process is somewhat pro-poor because on the average, the income of the poor grew faster than that of the nonpoor. However, this process of income convergence is slow because significant pockets of the population experience either slow growth spells or fluctuating incomes. Volatilities in income suggest the need for policies and programs to target not only the poor but especially the nearly poor.

On the other hand, the sex of the household head is not a statistically significant correlate of income mobility group membership but the head’s educational attainment is. In particular, households whose heads were better educated were more likely to be classified under the upward mobility cluster. This suggests that current efforts of government for investing in the CCT to improve educational attainments are likely to have profound empowering effects in the future.

**Summary and policy implications**
The Philippines has recently experienced economic growth despite the global economic
slowdown. While this economic growth has attracted more foreign investments which, in turn, are creating more economic opportunities, it will be important to regularly examine historical statistics on income poverty and income distribution. Government has suggested that poverty has substantially reduced from the first half of 2012 to the first half of 2013, but this assessment was based on incomparable poverty diagnostics. Poverty rates have been unchanged from 2003 to 2012. There are people who wonder why economic growth has not translated into poverty reduction. The levels of income inequality have also barely changed, a pattern that could mean that the new opportunities created by economic growth do not allow the income of the poor to catch up with the rest.

On the other hand, inequality is a natural outcome of economic growth since people with access to capital are more likely to reap the benefits of growth first. What is critical is to make economic growth truly inclusive.

In this Policy Note, we pointed out that in the period 2003–2009, poor Filipinos were more likely to experience higher income growth, but...
some nonpoor also have been vulnerable to slide into poverty. A significant fraction of Filipinos experience erratic income fluctuations. Almost half of the country’s population, whether they are poor, middle class, or upper income, experience either slow income growth or a combination of upward and downward mobility. For every household that experienced upward income mobility, there is approximately one household that experienced downward mobility as well. This suggests that government should not only be concerned with the poor, but should also have policy instruments to assist those who are nonpoor but plagued by economic risks. Policymakers need to develop policies for risk management, such as adequate insurance and social protection coverage (ADB 2007; Bird and Hill 2009; Reyes and Tabuga 2012). While some social protection mechanisms such as the CCT are promising to yield long-term effects on income distribution, it will be important to monitor and evaluate the effectiveness of existing social protection infrastructure in the Philippines because if left unaddressed, income shocks may hamper the thrust for inclusive growth and for sustained prospects of the country’s development.

References