

## Poorer but less poor: notes on the Philippine poverty trends 2000-2003

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### Abstract

This paper attempts to shed light on the debate sparked by the seemingly conflicting trend from 2000 to 2003 where we note a decrease in real incomes accompanied by a decrease in poverty incidence. A comparison of income and expenditure figures across space and over time gives us two important lessons: The first is that in order to have a radical impact on poverty reduction, we really need to bring the economy to a higher growth path. The second is that lapses in economic performance, even if only momentary, are costly in terms of poverty reduction efforts. We recommend that a comprehensive poverty alleviation program should include a macro growth strategy, efforts to improve linkages between the high-growth and broad-based sectors of the economy, and measures to address vulnerabilities among those who will graduate out of poverty.

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### 1. Introduction

The latest statistics on income and poverty incidence between 2000 and 2003 have attracted much debate, even in academic circles. The debate is sparked by the simultaneous occurrence of two seemingly conflicting trends, mainly a decrease in real income and a decrease in poverty incidence. In fact, the decrease is observed in the average real incomes of each decile. This has been explained away by the fact that the Gini coefficient decreased during the period. Still, there can be many interpretations of a lower Gini coupled with lower real incomes. Absent the empirical data on income distribution, the simplistic interpretation is that everybody's incomes decreased in real terms, but the reduction in income among the higher income groups is much greater than among the lower income groups. This begs the question, surely this means that there were more poor people in 2003 than in 2000?

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This paper attempts to shed light on the debate. This exercise is done independently of similar efforts done by government statistical agencies.<sup>1</sup> Briefly, we hope to answer the following questions: Did poverty incidence decrease or increase from 2000 to 2003? If in fact poverty incidence decreased, how do we reconcile this with the decrease in real incomes across income groups?

We begin by summarizing some of the issues involved in estimating poverty incidence. We then briefly describe the methodology adopted in this paper, followed by a discussion of the results. We conclude by highlighting some implications of the results.

## **2. Definition of poverty**

The Philippines is, perhaps, the only country where the definition of poverty is given as a matter of law. In particular, we are guided by RA 8425, which states that the poor are "individuals and families whose income fall below the poverty threshold as defined by the NEDA and/or cannot afford in a sustained manner to provide their minimum basic needs of food, health, education, housing and other amenities of life."

The fact that we have always debated among ourselves whether poverty incidence has actually been declining or not indicates that the interpretation of the definition of poverty is by no means straightforward. The points of contention can be broadly categorized into three: (1) definition of what constitutes the minimum level of welfare, i.e., the yardstick, (2) specific characterization and measurement of the yardstick, as defined, and (3) choice of the measure by which to compare the yardstick. What follows is a brief discussion of these issues.<sup>2</sup>

### *2.1. The yardstick*

The definition of the yardstick is the least of the worries among researchers of the economics of poverty in the Philippines. In the past, we have defined this to mean that the food budget should at least be able to meet 100 percent of the RDA in energy and protein and 80 percent of the RDA for essential micronutrients. The question is whether or not the second part appears essential in defining the poor.<sup>3</sup> Having characterized the food budget, we proceed to estimate the budget needed to meet the minimum essential non-food needs. This is even more difficult and there is yet no agreement as to what constitutes the minimum, basic nonfood needs.

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<sup>1</sup>A recent article by R. Virola, Secretary-General of the NSCB also clarified many of the questions that arose from the statistics released on income and poverty incidence.

<sup>2</sup>Readers interested in a lengthy discussion are advised to read the references annexed to this paper.

<sup>3</sup>The contention that it may not be necessary arises from a study by the Food and Nutrition Research Institute of the Department of Science and Technology that showed that in 2000, none of the households surveyed followed diet patterns that met at least 80 percent RDA for essential micronutrients.

However, there appears to be some agreement as to the methodology of estimating the cost of these basic nonfood needs.

### *2.2. Characterization of the yardstick*

There are many ways by which the required 100 percent RDA in energy and protein and 80 percent RDA in essential micronutrients can be met. Thus, additional parameters were included in characterizing the yardstick: The menu should be low-cost and commonly consumed.

In 2000, based on new survey data, MDN<sup>4</sup> menus were constructed per region. These were priced according to official practice after which followed the next step in poverty line estimation—estimating the cost of the basic nonfood needs. The estimated poverty lines resulted in a poverty incidence of 34 percent.<sup>5</sup>

### *2.3. Choice of yardstick comparator*

The next question is, against which welfare indicator should the yardstick be compared? Bearing in mind that the indicator should be objectively measurable and verifiable, the choice is reduced to either per capita income or per capita expenditure. The official methodology uses per capita income as comparator. Most other economists have advocated for the use of per capita expenditure.<sup>6</sup>

## **3. Methodology**

At the minimum, the yardstick measure, against which we will be examining welfare, should be consistent over time and space. Price indices regularly monitored by official statistical agencies can be used to ensure consistency over time of income or expenditure measures at a point in space. In particular, the consumer price index is used to inflate/deflate family incomes and expenditures to arrive at real incomes and real expenditures. Unfortunately, there are no official indices that can be used to ensure consistency of measures over space.

Balisacan [2001] estimated cost of living indices to make income and expenditure measures comparable across space—across provinces, to be exact. The index consisted of the weighted average of the prices of commodities that belong to the consumption basket of a reference group of households. For this short exercise, we utilize these figures and apply the corresponding inflation index (based on the regional CPI) to arrive at income and expenditure figures that can be compared across space and over time.<sup>7</sup>

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<sup>4</sup>MDN stands for minimum dietary needs; authors' acronyms.

<sup>5</sup>The result is still posted in the NSCB webpage as of the writing of this paper.

<sup>6</sup>See Balisacan et. al. [1998] for a more complete discussion of the issues surrounding the choice.

<sup>7</sup>The official methodology breaks down the CPI further to exclude the goods that do not enter the poverty basket.

The next step is to decide on the poverty line. One possible option is to adopt the poverty line estimates in 2000. The problem, however, is that these poverty lines differed by region, particularly in terms of menus constructed. Whether or not this was due to differences in living standards is very open to debate. Still, we would like to maximize the utility of information generated by the poverty line estimation done in 2000. We then invoke the poverty line implied by the national poverty incidence of 34 percent in 2000. At the very least, the resulting poverty line assures us that the minimum dietary needs as well as the basic non-food needs are met. This poverty line can be compared against per capita income and expenditure that have been properly indexed to ensure comparability across space and over time.<sup>8</sup>

#### 4. Results

Average per capita income slightly decreased in real terms. The space- and time-consistent figures are Php 27,948 in 2000 and Php 27,443 in 2003. Note that this difference is not readily apparent if we look at the graph of the entire income distribution. (See Figures 1a-c and Figures 2a-c on the succeeding pages for the expenditure.) However, if we zoom in only at segments of the income distribution, we see that incomes of the lower 15 percent have remained the same. The improvement in incomes can be seen among those in the lower-middle and middle income groups, specifically between the 15-45 and 55-65 percentiles.

Using the methodology described above, applied to per capita income figures, we arrive at a poverty line equal to Php 12,643.05.<sup>9</sup> As expected, poverty incidence in 2000 is 34.0. By 2003, we see the proportion of the poor being marginally lower at 32.77 percent.

If the incidence figure is disaggregated by region, following the classification of regions as of 2000, we note increases in the proportion of the poor in regions IV and NCR in Luzon, and most of the Mindanao regions 9, 10, 11 and CARAGA. The region wherein we find the highest proportion of the poor is ARMM (64 percent), followed by the Bicol Region (56 percent) and Western Mindanao (55 percent).

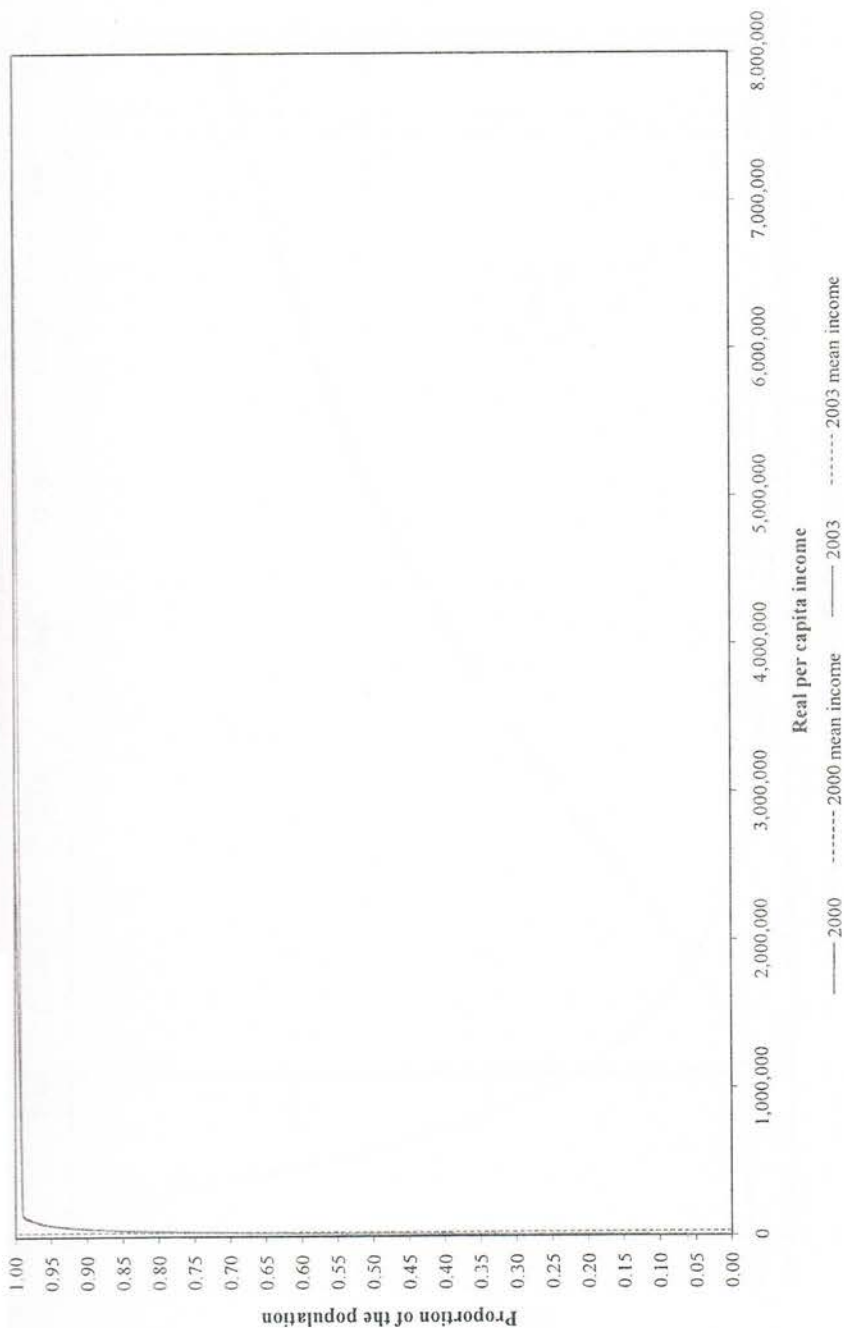
Meanwhile, improvements are more apparent when we consider per capita expenditures. Average per capita expenditures marginally increased in real terms. The consistent figures are Php 22,904 and 22,980 in 2000 and 2003, respectively. From Figure 2c, we see that the increase is felt beginning with the 10th percentile. Meanwhile, among those in the upper 5 percent, there does not seem to be any increase in real per capita spending. Note that the latter is a reasonable result even with economic growth. The other side of the story, of course, is that savings increase as one goes up the income ladder.

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<sup>8</sup>This approach was first suggested by Balisacan in order to resolve some of the consistency issues in poverty line estimation.

<sup>9</sup>Again, this figure is space- and time- consistent.

Figure 1a. Income distribution in 2000 and 2003



**Figure 1b. Income distribution in 2000 and 2003**

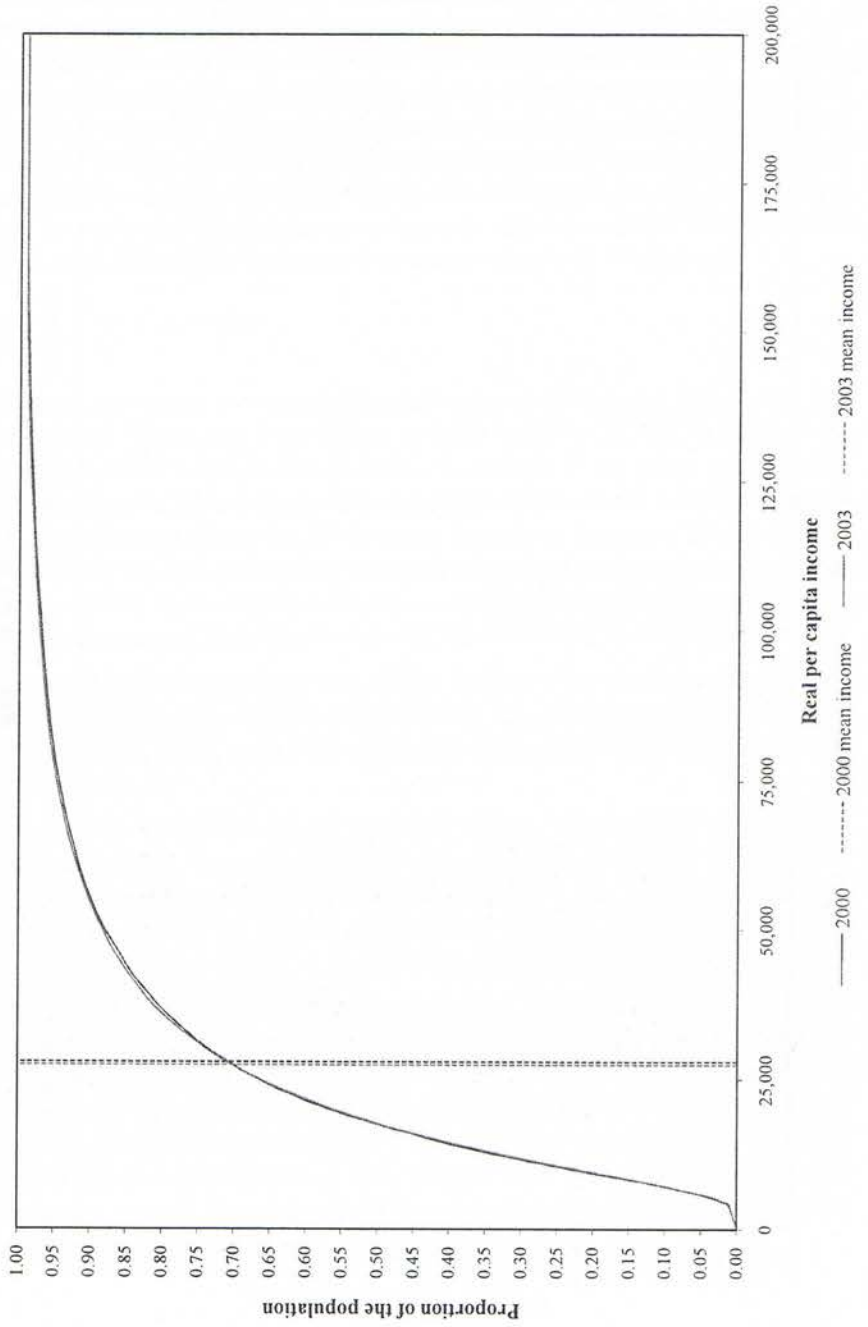
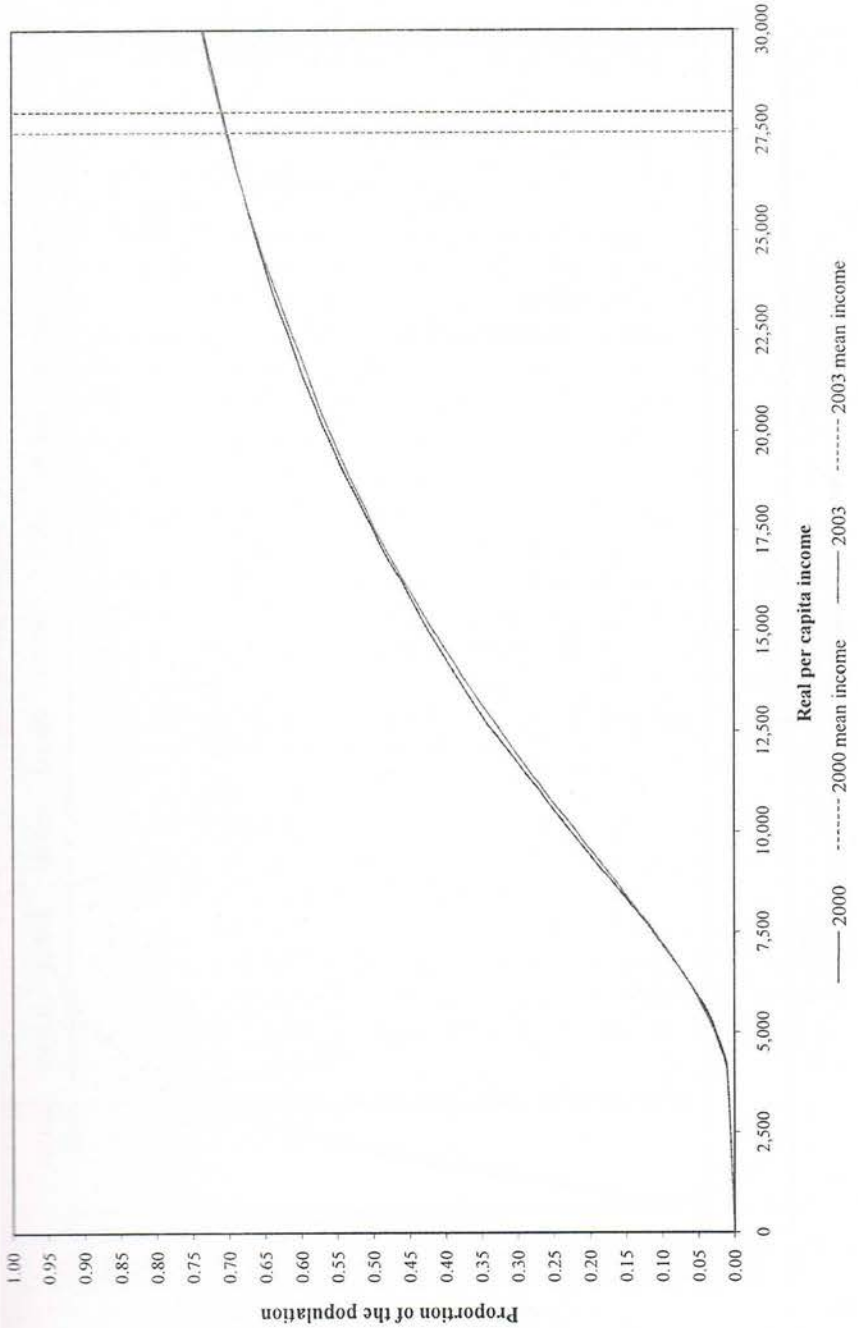


Figure 1c. Income distribution in 2000 and 2003



**Figure 2a. Expenditure distribution in 2000 and 2003**

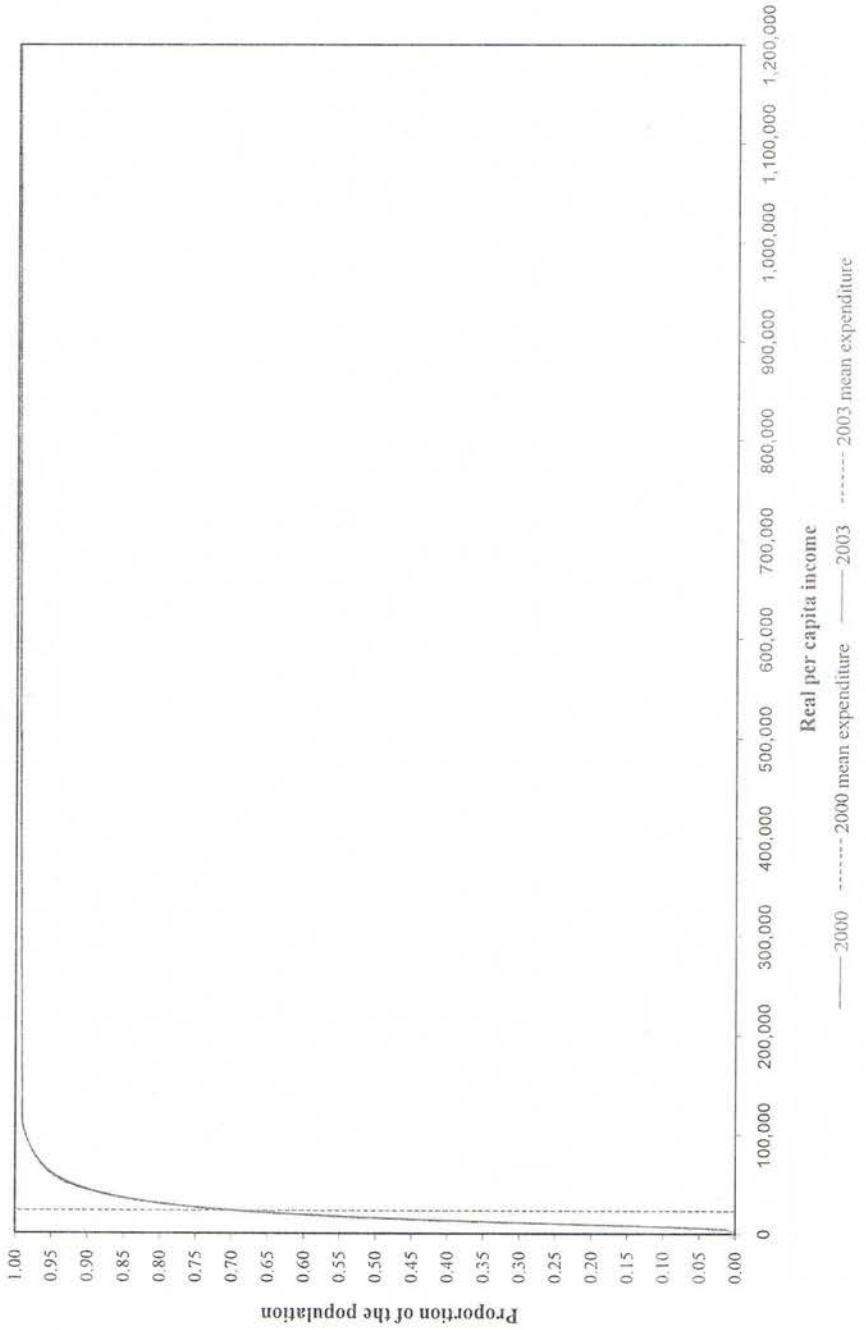




Figure 2b. Expenditure distribution in 2000 and 2003

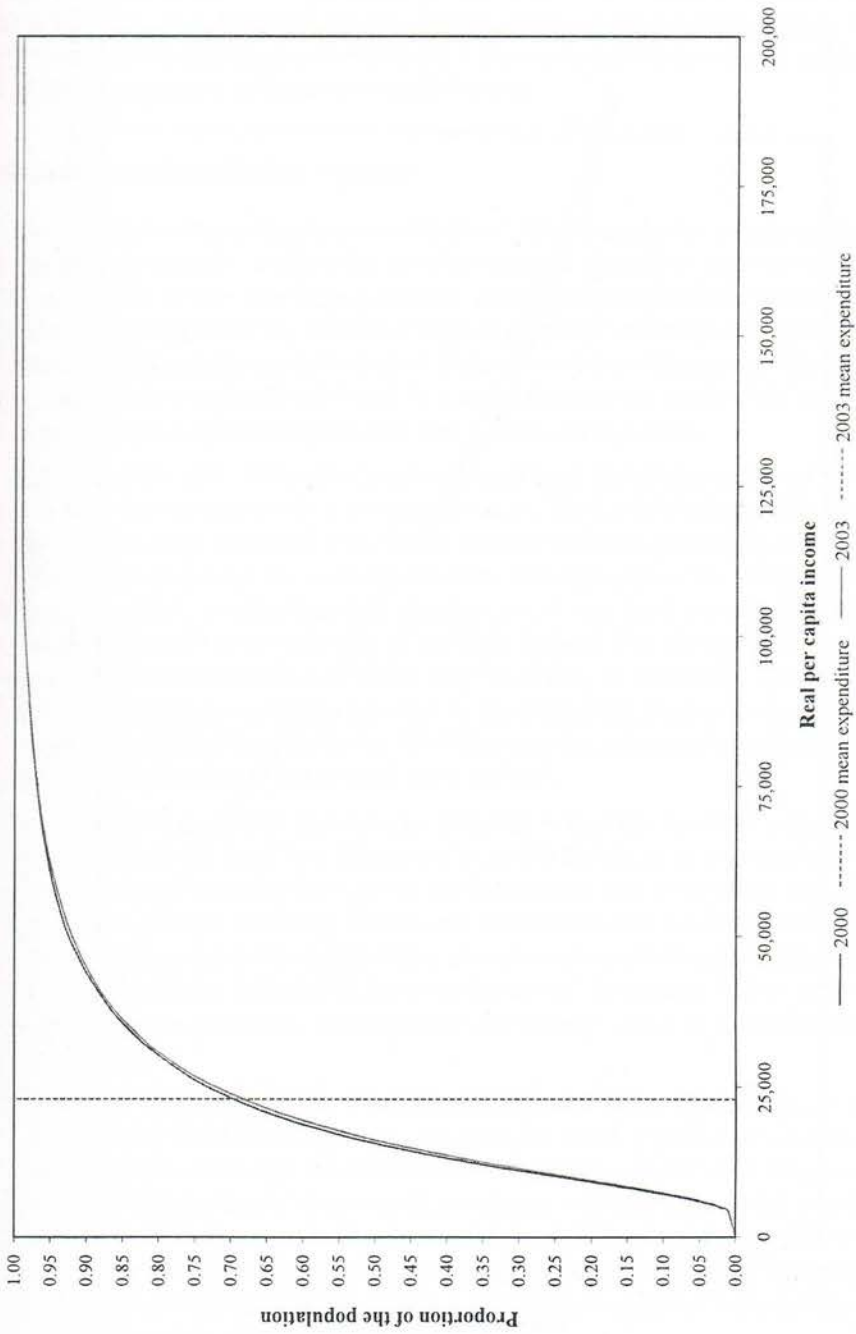
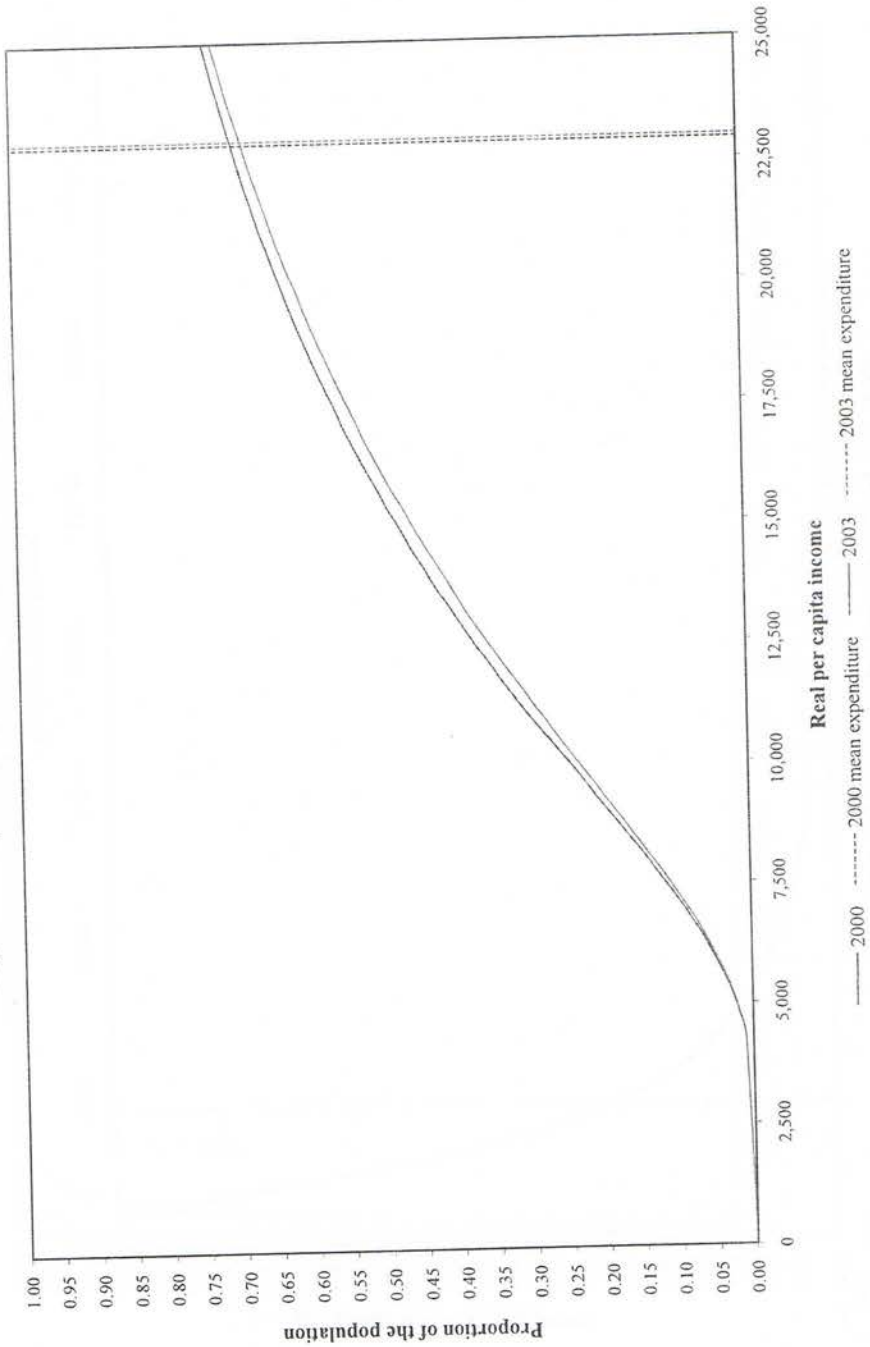


Figure 2c. Expenditure distribution in 2000 and 2003



Using the same methodology, but this time applied to per capita expenditure figures, we arrive at a poverty line equal to Php 11,803.45.<sup>10</sup> Poverty incidence in 2000 is likewise 34.0. By 2003, we see the proportion of the poor being lower at 32.03 percent. Note that the implied reduction in poverty incidence is much higher than if the comparator used were per capita incomes.

## 5. Discussion and concluding remarks

We have demonstrated that between 2000 and 2003, incomes have decreased in real terms on the average; on the other hand, poverty incidence has also decreased. We have seen the almost overlapping income distribution curves, especially at the bottom part of the distribution. What this implies is that the estimate of the poverty incidence depends greatly on the selection of the poverty line. A lower poverty line would have given a radically different picture of the poverty trend. This makes resolving the issues surrounding poverty line estimation imperative.

Between 1991 and 1994, official poverty and food thresholds behaved very much like the movements in the consumer price and food price indices. The food line estimated in 1997 increased much faster than the food price index. In contrast, the poverty line increased the slowest. In 2004, the changes in the poverty and food lines are much smaller than the changes in CPI and food price index. The more disturbing result is the behavior of the 2000 indices. The change in the food line is radical; it decreased relative to the 1997 food line. In contrast, we have not observed any deflation of prices as reported by the *Philippine Statistical Yearbook*. Of course, the obvious explanation is the difference in estimation methodology beginning 2000, which was not applied prior to 2000.

Between 2000 and 2003, the average behavior is that the food CPI increased at a faster rate than the food line. (Refer to Figure 3.) This is to be expected since the food items most probably included in the subsistence line have prices that are low and slow to change. Similarly, the poverty line increased at a much slower rate than the change in overall CPI. Again, this is an expected result since we expect the prices of nonfood items included in the computation of the poverty line to be low and slow-to-change. However, this expected and average result is not replicated in all the regions.

In Regions II and III, the food line increased much faster than the food CPI between 2000 and 2003. (See Figure 4). On the other hand, Figure 4 would show that the poverty line increased at a slower rate than the overall CPI. As a reference point, we note that the food CPI increased at a slower rate than the overall CPI. In Regions VIII and IX, the poverty line increased much faster than the overall CPI. In the latter, the food line also increased much faster than the food CPI. This only implies that the expected characteristic of a minimum-basic-needs food and nonfood basket is not present in all the regions.

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<sup>10</sup>Again, this figure is space- and time-consistent.

Figure 3. Changes in poverty lines and CPI

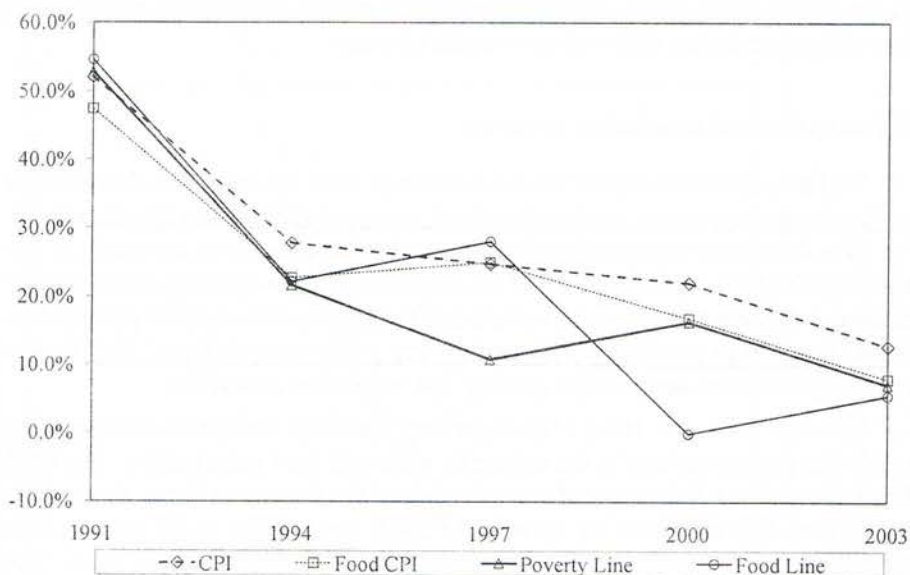


Figure 4. Rates of change of foodline vs. food CPI

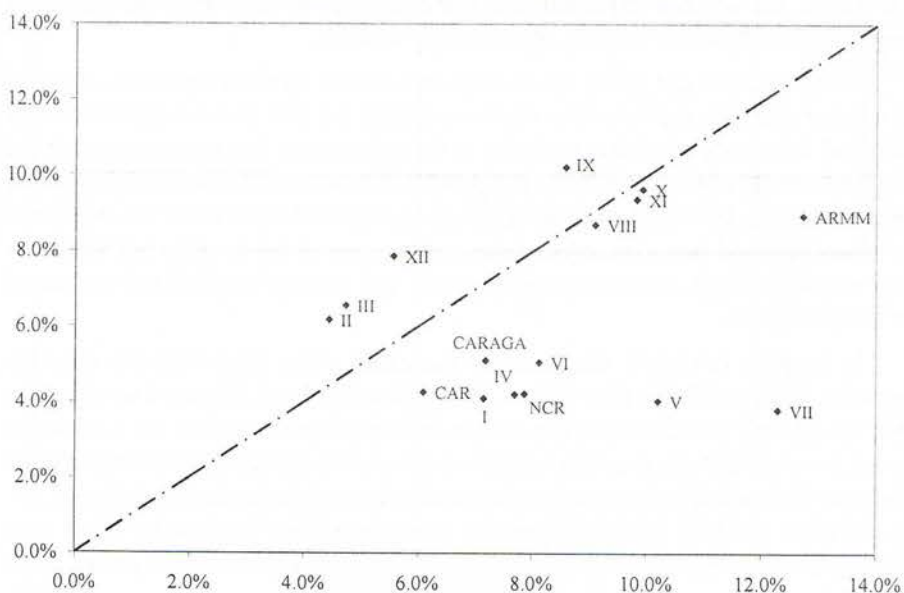
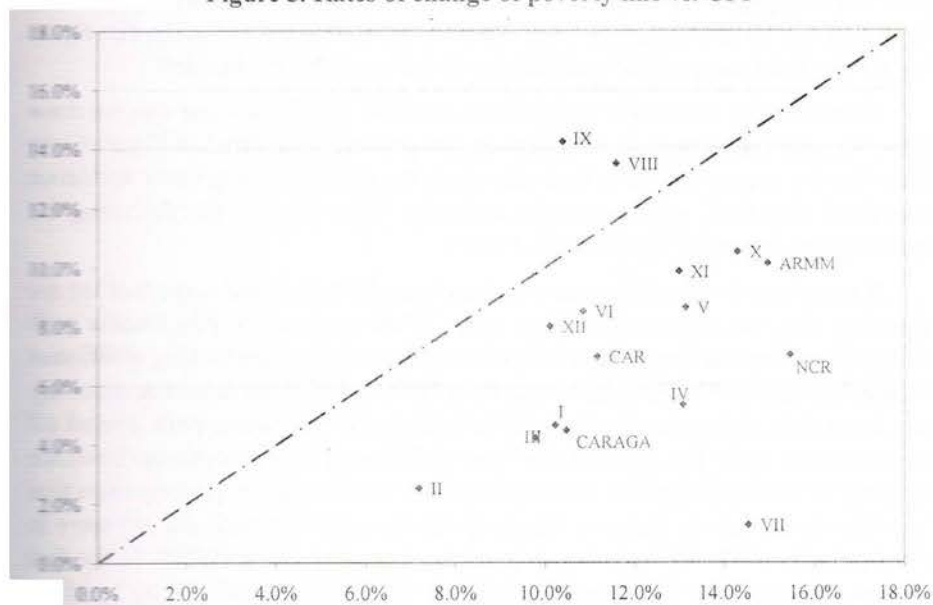


Figure 5. Rates of change of poverty line vs. CPI



Another question that comes to mind is, can we really fulfill our minimum commitment to the Millennium Development Goals, particularly MDG 1? To answer this, we can use the same straight-line extrapolation method being adopted so far in tracking trends and accomplishments towards MDG 1. The results are given in Table 1. Note that the conflicting conclusions derived using different indicators again lend urgency to the task of resolving the poverty line estimation problem in the Philippines.

Using per capita income as indicator, the baseline figure for the Philippines is 38.75 percent. Compare this to the target figure of 19.38 percent by 2015. Clearly, our accomplishment so far amounts to a measly 0.5 percentage point reduction in poverty every year. Between 2003 and 2015, this should more than double to about 1.12 percentage point reduction every year. Using the convention of the draft Second Philippine Progress Report, we conclude that we have low probability of attaining MDG 1. Note, however, that if we can replicate our accomplishment between 1994 and 1997, then our chances of attaining MDG 1 vastly improve.

On the other hand, using per capita expenditure as indicator, we foresee a high probability of attaining MDG 1, even if only the 2000-2003 profile is followed through. The major reason for this more optimistic prediction is that the poverty incidence figure at base is a high 42.8 percent, making the target figure also rather high, at 21.4 percent. The intent of MDG 1 is to eradicate extreme poverty and the target set, that is, half the poverty incidence in 1990 by 2015, is only an indicative figure. We need to set more ambitious targets for ourselves. Otherwise, given our

most recent population growth rate and a poverty incidence of more than 21 percent, there will still be more than 20 million poor Filipinos by 2015. Surely, this figure is a far cry from the goal of “eradicating extreme poverty and hunger”.

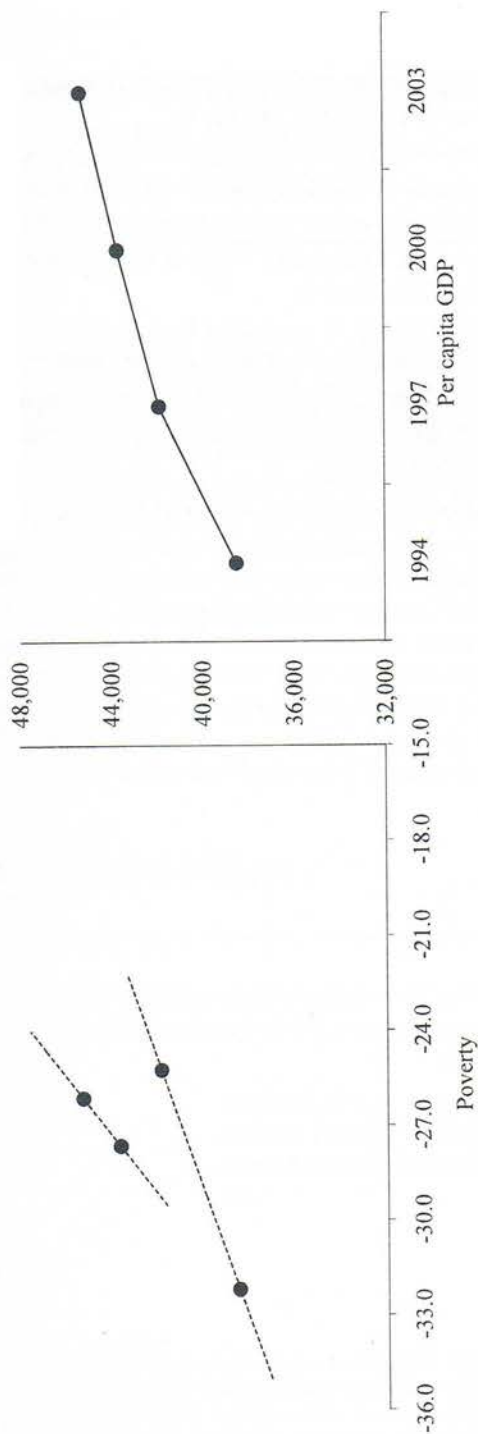
Given that we subscribe to the intent of MDG 1, what lessons can we draw from our previous experiences on growth and poverty reduction? In Figure 6, we draw the per capita GDP over time alongside the estimates of poverty incidence over time. This time, we use our own estimates of the poverty line following the methodology espoused by Balisacan [2001].

If we plot only the per capita GDP over time, then it would seem that we are working with one economic regime only. When we analyze this income path alongside poverty incidence, then it becomes obvious that we are looking at different economic regimes. We first observe that from 1994 to 1997, both income and poverty incidence time paths are very steep<sup>11</sup>. Unfortunately, the income path leveled off too soon after 1997. The fact that this “accomplishment” in economic performance resulted in the shaving off of accomplishments with respect to poverty reduction can only mean that we were no longer on the same growth path that we were in 1994 through 1997. We have begun to regain lost ground since 2000. In the first section, we have seen that growth in 2000 to 2003 can be described as “quality” growth in terms of its redistributive effects. Looking at the chart again, we derive at least two lessons: The first is that we really need to bring the economy into a fast growth path in order to have a radical impact on poverty reduction. The second is that lapses in economic performance, even if only momentary, are costly in terms of poverty reduction efforts. Note, however, that the recommendations for policy are nothing new: A comprehensive poverty alleviation program should include a macro growth strategy, efforts to improve linkages between the high-growth and broad-based sectors of the economy, and measures to address vulnerabilities among those who will graduate out of poverty.

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<sup>11</sup>Since the chart on poverty incidence and time are on different axes, a faster reduction in poverty would be reflected as a “flatter” line.

Figure 6. Growth and poverty



Source: Philippine Statistical Yearbook and FIES surveys

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