POVERTY TRAPS AND STRUCTURAL POVERTY

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Objective & findings

- Use 3rd wave of KwaZulu-Natal Income Dynamics Study (KIDS) to re-assess findings of 2 earlier papers that used the first two waves to investigate structural poverty & poverty traps.

- Paper confirms broad findings of Carter & May (2001) that about one-third of the sample is “structurally” poor and one-third are “never poor”
Objective & findings

Paper suggests that the findings of Woolard & Klasen (2005) do not hold for the period 1998-2004. Of the poverty traps that they identified (large initial household size, poor initial education, poor initial asset endowment and poor initial employment access) we only find initial education to be a clear correlate of low upward mobility.
The Data

Household panel data for the province of KwaZulu-Natal for 1993, 1998 and 2004
-fairly standard LSMS survey instrument
-not originally designed as a panel
## Poverty Measures (KIDS)

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>Measure</th>
<th>1993</th>
<th>1998</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>P-0</td>
<td>0.52</td>
<td>0.57</td>
<td>0.47</td>
</tr>
<tr>
<td></td>
<td>P-1</td>
<td>0.20</td>
<td>0.26</td>
<td>0.22</td>
</tr>
<tr>
<td></td>
<td>P-2</td>
<td>0.09</td>
<td>0.14</td>
<td>0.12</td>
</tr>
</tbody>
</table>
## Chronic and Transitory Poverty

<table>
<thead>
<tr>
<th>Poverty Status</th>
<th>Income-based</th>
<th>Expenditure-based</th>
</tr>
</thead>
<tbody>
<tr>
<td>P-P-P (Chronically Poor)</td>
<td>22.8</td>
<td>26.6</td>
</tr>
<tr>
<td>P-P-N (Upwardly mobile?)</td>
<td>10.5</td>
<td>5.0</td>
</tr>
<tr>
<td>P-N-P (Transitorily Poor)</td>
<td>4.6</td>
<td>6.6</td>
</tr>
<tr>
<td>P-N-N (Upwardly mobile?)</td>
<td>8.4</td>
<td>10.3</td>
</tr>
<tr>
<td>N-P-P (Downwardly mobile?)</td>
<td>4.0</td>
<td>6.9</td>
</tr>
<tr>
<td>N-P-N (Transitorily Poor)</td>
<td>11.0</td>
<td>4.3</td>
</tr>
<tr>
<td>N-N-P (Downwardly mobile?)</td>
<td>3.7</td>
<td>12.5</td>
</tr>
<tr>
<td>N-N-N (Never Poor)</td>
<td>34.9</td>
<td>27.9</td>
</tr>
</tbody>
</table>
Poor households can be divided between the “structurally” poor and the “stochastically” poor.

Estimate expected consumption based on the household’s underlying set of productive assets and human capital.

If “expected” to be poor then “structurally poor”

If not predicted to be poor then consider them as “stochastically” poor
## Poverty Transitions

<table>
<thead>
<tr>
<th></th>
<th>1993</th>
<th>1999</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor</td>
<td>31.8% Chronically Poor of which only 5% were predicted to be non-poor in both periods</td>
<td></td>
<td>19.1% Got Ahead</td>
</tr>
<tr>
<td>Non-Poor</td>
<td>15.7% Fell Behind</td>
<td></td>
<td>33.4% Never Poor, of which: 9% were predicted to be poor in both periods</td>
</tr>
</tbody>
</table>
Structural Poverty

Carter & May correctly predicted the structural poverty classes of 75% of the structurally poor & structurally non-poor

66% of the “chronically poor” (P-P-P-P) across the 3 waves are “structurally” poor
Income mobility

\[ \Delta \ln(\frac{X_i}{\text{hhsize}_i}) = f(K_i, \Delta K_i; R_i; \Delta R_i) \]

\( X_i = \) real expenditure of household \( i \)
\( K_i = \) physical and human assets of household \( i \)
\( R_i = \) a set of characteristics summarising the economic & demographic environment in which \( i \) operates
Regression results

- Larger household size in 1993 reduces PCE in 1998 but not in 1993
- Change in household size very important
- High initial education increases upward mobility in all periods
Regression results (cont.)

- Initial number of physical assets significant for change in PCE in period 1993 to 1998
- Grazing/farming rights significant in urban areas (-ve)
- Home ownership not significant
- Initial number of employed significant in rural areas
- In urban areas, neither initial state LM variables nor change variables significant (churn?)
Conclusion

- Evidence somewhat mixed...
- Likely that new grants have weakened the link between change in PCE & underlying household endowments
- Substantial structural poverty source of concern
- Increased human K (education) clearly important... but very long-term measure
Thank you