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)

	Measure	1993	1998	2004
Expenditure	P-0	0.52	0.57	0.47
	P-1	0.20	0.26	0.22
	P-2	0.09	0.14	0.12

Chronic and Transitory Poverty

Poverty Status '93-'98-'04	Income-based	Expenditure-based
P-P-P (Chronically Poor)	22.8	26.6
P-P-N (Upwardly mobile?)	10.5	5.0
P-N-P (Transitorily Poor)	4.6	6.6
P-N-N (Upwardly mobile?)	8.4	10.3
N-P-P (Downwardly mobile?)	4.0	6.9
N-P-N (Transitorily Poor)	11.0	4.3
N-N-P (Downwardly mobile?)	3.7	12.5
N-N-N (Never Poor)	34.9	27.9

Structural Poverty (Carter & May)

- 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 *no*t predicted to be poor then consider them as "stochastically" poor

Poverty Transitions

		2004	
		Poor	**Non-Poor**
1993	**Poor**	***31.8%*** *Chronically Poor* of which only 5% were predicted to be non-poor in both periods	***19.1%*** *Got Ahead*
	Non Poor	***15.7%*** *Fell Behind*	***33.4%*** *Never Poor, of which:* • 9% were predicted to be poor in both periods

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) across the 3 waves are “structurally” poor

Income mobility

$$\Delta \ln\left(\frac{X_i}{hhsize_i}\right) = f(K_i, \Delta K_i; R_i; \Delta R_i)$$

Xi = real expenditure of household *i*

Ki = physical and human assets of household *i*

Ri = 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