Poverty and employment
in Latin America: 1990-2005

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What factors led to the reduction of poverty in Latin America from 1990 onwards? This article looks into the key factors that have played a part in reducing poverty in the region, including, in particular, employment and remuneration for work. With data from household surveys, the authors discuss the ways in which changes in the working age population, in its participation in economic activity, in employment rates and in income from work and other sources affect the per capita incomes of families in the lowest deciles of income distribution and hence in poverty indicators.

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I

Introduction

The best – and most dignified – way for Latin American families to get out and stay out of poverty is for their active members to participate in the labour market and get well-paid jobs. Hence, if poverty is to be reduced, economic growth must be reflected in higher family incomes generated through productive jobs at adequate wages.

The significance of the role played by labour-related factors in poverty reduction was recognized by the United Nations in the new target for the Millennium Development Goals, namely, "Achieve full and productive employment and decent work for all, including women and young people" (Target 1.B). This new target, which was proposed by the Secretary-General of the United Nations in 2006 and was adopted in 2008, was added to the first Millennium Development Goal ("to eradicate extreme poverty and hunger") to emphasize the close relationship that exists between the labour market and the improvement of the material aspects of human wellbeing.

The magnitude of the problem of poverty in Latin America is evidenced in the most recent estimates developed by ECLAC, which show that in 2006, 37% of the region's population (194 million people) was living in poverty, and 13% of the population (71 million people) was living in extreme poverty. Although the number of Latin Americans living with limited resources is still too high, this poverty rate is significantly lower than it was in 1990, when 48% of the population was poor. The situation with regard to indigence is similar, as the current rate is more than nine percentage points below the 22.5% of 15 years ago (ECLAC, 2007d). Nevertheless, the regional results mask the fact that there are huge differences between countries, some of which have not managed to reduce poverty at all over the last 15 years.

The purpose of this article is to find out what factors have contributed to reducing poverty in Latin America from 1990 onwards.[1] In order to accomplish this, a methodology is proposed which entails breaking down the changes in per capita income of the most vulnerable households in order to determine how labour-related variables –as well as demographic variables and family structure and behaviour– have contributed towards reducing the incidence of poverty in the countries of the region by raising per capita family income above the poverty line. Given the growing importance of targeted State transfers to lower-income families, the analysis also includes a variable –non-labour income– to account for State transfer programmes targeting families, as well as other sources of income such as remittances, pensions or retirement funds.

The study described in this article covers the period 1990-2005, i.e., the first 15 of the 25 years that countries of the region have to meet the first target of the Millennium Development Goals– to halve, between 1990 and 2015, the proportion of people living in extreme poverty. Although the authors realize that poverty is a complex and multidimensional phenomenon that includes deprivation in many aspects of individual and collective wellbeing (ECLAC, 2003; Sen, 1985), this study uses indicators of monetary income, as was done in the follow-up to the first Millennium target. In particular, it follows ECLAC methodology and refers to poverty in terms of people's inability to meet their most basic needs.[2]

Considering that much of the discussion on social wellbeing in the region has centred on the concept of "total poverty"[3] and that ECLAC (2005a) has suggested

[1] This article reflects a renewed interest in assessing the impact of labour-related and demographic variables on poverty reduction. Recent studies on factors determining changes in poverty as measured by income include the following: Kakwani, Neri and Son (2006) in the case of Brazil, and Núñez, Ramírez and Cuesta (2006), on Colombia.

[2] Under the approach followed by ECLAC in estimating poverty, a person is classified as "poor" when the per capita income of that person's household is lower than the value of the "poverty line", i.e., minimum amount needed to satisfy his or her basic needs. Poverty lines, expressed in the currency of the country concerned, are determined by the value of a basket of goods and services according to the cost-of-basic-needs method. For further information, see ECLAC (2007d), box I.1.

[3] "Total poverty" simply refers to the sum of the percentage (or number) of indigent and non-indigent poor persons.

a more ambitious target for Latin America –halving the proportion of the population living in total poverty rather than just the population suffering the greatest deprivation– the focus of this study will be on all the poor and not just the extremely poor. Accordingly, it is recognized that people whose per capita income is above but very close to the indigence line are in a highly vulnerable situation, since they can easily fall into extreme poverty in the event of an economic crisis or of circumstances that would temporarily or permanently reduce the family's resources (sickness, disability of a breadwinner, birth of a child, death and others).

In section II, on factors that contribute to poverty reduction, a simple disaggregation methodology is proposed using microdata from household surveys conducted in 16 countries of the region. In section III, the data are analyzed to determine how changes in the per capita income of persons in different deciles of income distribution –and consequently, of poverty indicators– can be explained by changes in the number of employed persons in the population, in labour income per employed person and in non-labour income of the total population. Finally, in section IV, the findings of the study are summarized and some policy implications are discussed.

II

Factors associated with poverty reduction

1. The labour market

In Latin America, employment is the main source of household income, given that pay for work represents, on average, more than 80% of household income (ECLAC, 2007c). However, underemployment and unemployment, high dependency rates that limit the participation of working age women, low levels of human capital and the low productivity of many occupations account for the high poverty rates. In particular, ECLAC (2007c) argues that in the region, the deterioration of the quality of jobs has weakened the relationship between the growth of gross domestic product (GDP) and the reduction of poverty. Hence, job creation and improved labour productivity –especially among the poor– are the fundamental mechanisms whereby economic growth is reflected in poverty reduction and which make it possible to translate growth into better incomes for the poor (Islam, 2004; Osmani, 2002).

The sustained economic growth of recent years has had a favourable impact on results in Latin American labour markets. Since 2003, the regional unemployment rate has shown a downward trend, reaching 8% in 2007 –0.6 percentage points lower than it was in 2006– despite a significant increase in the number of employed persons and the rapid incorporation of women into the labour market. Real wages in the formal sector have also risen (ECLAC, 2007b; ILO, 2007).

The positive results of the period 2003-2007 should not mask the persistence of structural problems that have a bearing on poverty. The regional unemployment rate is still two percentage points higher than it was in 1990, partly as a result of increased participation in economic activity. Unemployment –especially among the poor– is still very high, totalling about 17 million persons in the urban areas of Latin America (ECLAC, 2007b). The informal sector[4] is still very large, as approximately 48.5% of all urban employed persons were engaged in informal work in 2005 (ILO, 2006), and coverage of health care and pension benefits for workers is very low in the region. In addition, participation rates are still very low and unemployment rates very high for women compared with men, and inequality is sharp in terms of labour income. In every country of the region, women's wages are lower than men's, even when women have the same level of schooling and experience as men (ECLAC, 2007a). The unemployment rate among young people is more than twice as high as that of adults: 16% compared with 7% at the beginning of the current decade (Weller, 2006).

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[4] The International Labour Organization (ILO) defines the informal sector as the sum of non-professional own-account workers, domestic servants, unpaid family workers and employees in firms with fewer than five employees (ILO, 2006).

2. Intergenerational reproduction of poverty

Two main factors cause poverty to be reproduced and perpetuated. One is the low income of workers in poor families, which is explained by their limited human capital and low productivity. The other is the high rate of demographic dependency among poor families, which means that their income must be distributed among more individuals. Thus, not only do the poor receive a lower labour income, but they also have to stretch that income to ensure the survival of a larger number of dependents. In both situations, especially in the second, the families' behaviour and decisions play a fundamental role.

The human capital of the active members of poor households is inadequate because of their limited educational options and the family's decision as to whether or not to keep their children in school. This explains, at least partially, why their opportunities for employment are limited and creates a vicious circle whereby poverty is reproduced: on the one hand, members of poor families have little education and do not get steady jobs; and on the other, children and young

people from such households have few opportunities to get a proper education and receive quality training (ECLAC, 2007d). Lacking the necessary social capital, they take low-productivity jobs when they enter the labour market. Unemployment is thus higher among the poor, and those who do get jobs are less likely to become wage-earners in formal jobs (figure 1).

A family's ability to generate a better income is enhanced when its decisions on size and composition –as well as on its members' participation in the labour market– increase the percentage of working age members with respect to those who are dependent. To some degree, the results of these decisions are inertial, as they are related to a particular stage in the family life cycle, as well as fertility-related demographic changes. There is also a more circumstantial effect that is the result of decisions regarding location and family composition and breakups, and new types of family living arrangements. Changes in family structure and family breakups can change the dependency ratio, as active members leave the household or younger couples care for inactive members or new family unions are formed to share expenses.

FIGURE 1

Latin America (18 countries, simple average): unemployment rate, employment rate and percentages of workers in the formal sector of the economy (with respect to total employed persons), by income deciles, national total, around 2005 [a, b]
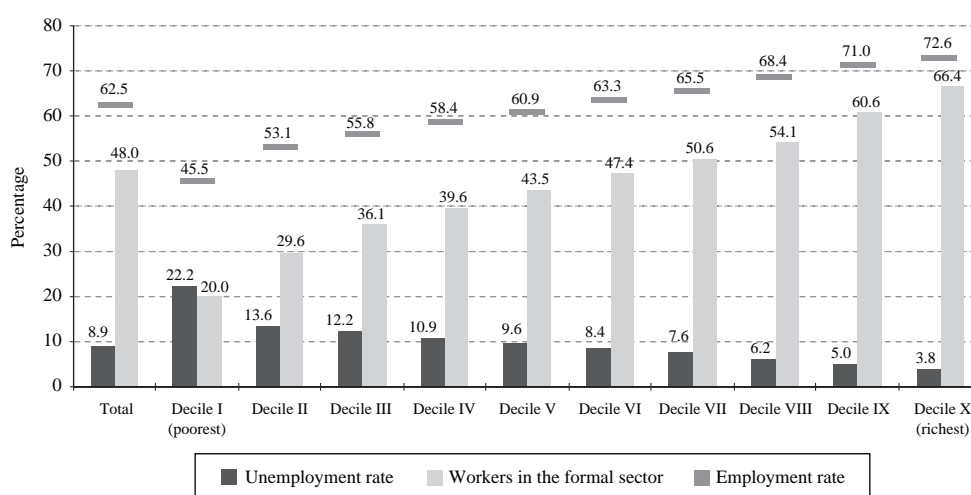
Source: Prepared by the authors on the basis of household surveys in the countries concerned.

[a]   Data on Argentina, Bolivia, Ecuador, Paraguay and Uruguay only refer to the urban population, not total population.
[b]   The employment rate refers to the number of employed persons divided by the working age population (E/WAP, gross employment rate).

Poor families have more members than non-poor families and most of those members are children, leading to high dependency rates. Although the dependency ratio is falling in every country of the region, giving rise to the so-call "demographic bonus",[5] it is still very high in the most vulnerable socioeconomic strata owing to their high fertility levels (ECLAC, 2005b). At present, the largest families may be found mainly in the 20% of poorest households, while smaller households are concentrated in the highest income quintile. In Latin America, urban families in the poorest quintile have on average between 4.2 and 6.2 members (Dominican Republic and Guatemala), while the average size of families in the wealthiest quintile is between 2.1 and 4 members (Uruguay and Nicaragua) (Sunkel, 2006).

It should be borne in mind that the size and the structure of Latin American families are determined by many factors, including the stage in a country's demographic transition, its economic development level and the crisis of the patriarchal family model. In countries where the demographic transition is well advanced, for example, the proportion of nuclear families made up of childless older couples is higher, as is the number of one-person households made up of older persons and economically independent young people. In countries undergoing a moderate or full demographic transition, there are more families with small children. At the same time, in countries with a lower level of development, there is a higher proportion of single-parent families and of extended and composite families[6] (Arriagada, 2004; ECLAC 2007a).

It is also important to consider the effect of cultural factors relating to the division of labour within the household, which sharply limits the participation of women in economic activity. Around 2005, 37% of Latin American women in the poorest decile and 61% in the wealthiest decile participated in economic activity. In the case of men, however, the difference was minimal: among the poorest, the participation rate was 76%, and among the wealthiest, it was 80% (figure 2). To this must be added the limited coverage of the care economy, which has prevented women from reconciling the care of children and the elderly and the performance of household duties with paid work.

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[5] See section IV.1 below.
[6] Extended families are made up of the father or mother or both, with or without children and other relatives; composite families are made up of the father or mother or both, with or without children, with or without other relatives or other non-related persons – not including domestic servants living with the family or their relatives.

In brief, low productivity, low participation rates, frequent episodes of unemployment and high demographic dependency rates all work together to multiply the links that make up the chain of scarcity within any given household living below the poverty line.

3. Breaking down per capita income

Trends in poverty indicators may be analyzed by identifying the relative importance of changes in labour markets, in demographic structure and in family structure and behaviour. The incidence of poverty may vary as a result of changes brought about by improvements in labour income per employed person –a proxy variable for labour productivity– and non-labour income, and of changes in the number of employed persons with respect to total population (or "global employment rate") –that result from the interaction between changes in family structure and decisions and the behaviour of household members in the labour market. All other things being equal, any increase in labour income per employed person, particularly in the lower deciles of income distribution, will help reduce monetary poverty. By the same token, any increase in the number of employed persons as a percentage of total population or in non-labour incomes will help reduce the percentage of persons living below the poverty line.

The per capita income of a population *(Y/N)* –an indicator used to classify families in terms of monetary poverty– measures the ability to generate income in the labour market as well as from other sources, such as State transfers, remittances or profits from ownership of financial capital. This indicator is analyzed by breaking down three main factors:

- Global employment rate (or number of employed persons *E* divided by total population *N*): this measurement covers the age composition of a given population and the rate of participation in the labour market, as well as the capacity of the economy to absorb the labour force. It was adopted in 2008 as a new official indicator for following up on the Millennium Development Goals, and is also known as the employment-population ratio.
- Labour income per employed person *(YL/E)*: a measurement that is a proxy of labour productivity.
- Per capita non-labour income *(YNL/N)*: this measurement refers to a variety of income sources, including State transfers and private transfers to

FIGURE 2

Latin America (18 countries, simple average): rate of participation in economic activity by income deciles, women and men, national total, around 2005[a]
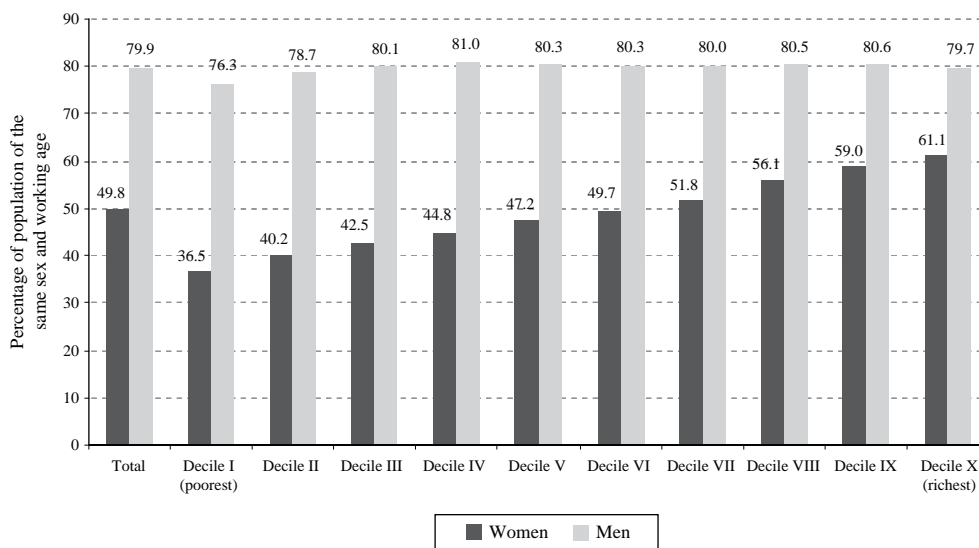
Source: Prepared by the authors on the basis of household surveys in the countries concerned.

[a]   The data on Argentina, Bolivia, Ecuador, Paraguay and Uruguay refer only to the urban population, not to the national total.

households, property rent and income available in the form of imputed rent.

$$\frac{Y}{N} = \left(\frac{E}{N} \times \frac{YL}{E} \right) + \frac{YNL}{N} \qquad (1)$$

The global employment rate may in turn be broken down into the following elements:

• Demographic dependency rate: ratio of the working age population *WAP* to total population *N*.

• Participation rate: economically active population *EAP* divided by working age population *WAP* and

• Net employment rate: number of employed persons *E* divided by the economically active population *EAP*; this is the complement to the unemployment rate (*E/EAP* = 1 - unemployment rate).

$$\frac{Y}{N} = \left[\left(\frac{WAP}{N} \times \frac{EAP}{WAP} \times \frac{E}{EAP} \right) \times \left(\frac{YL}{E} \right) \right] + \frac{YNL}{N} \quad (2)$$

To analyze trends in per capita income over time –between 1990 and 2005– the values of its three main components –global employment rate, labour income per employed person and per capita non-labour income– are calculated according to the following formula:

$$\frac{Y}{N}(2005) - \frac{Y}{N}(1990) = \left[\frac{YL}{E}(2005) \times \left(\frac{E}{N}(2005) - \frac{E}{N}(1990) \right) \right] + \qquad (3)$$
$$\left[\frac{E}{N}(1990) \times \left(\frac{YL}{E}(2005) - \frac{YL}{E}(1990) \right) \right] + \left(\frac{YNL}{N} \right)(2005) - \left(\frac{YNL}{N} \right)(1990)$$

Increases in the number of employed persons, in labour income per employed person and in income from other sources can help reduce monetary poverty among families that started out poor.

4. Effects of the economic cycle

Throughout the economic cycle, labour income per employed person is determined largely by labour productivity and therefore tends to be procyclical, i.e., to increase during periods of economic growth and decrease during recessions. The degree to which income is procyclical depends on the relative importance of adjustment mechanisms in a given labour market and whether they rely more on quantity (employment/ unemployment) or on price (wages). Other factors could also affect labour income, such as the level of protection afforded to and the bargaining power of the labour force (levels of unionization, existence of collective bargaining and other aspects).

Non-labour income, which includes transfers such as remittances, income in kind and income from rent, is not necessarily procyclical, and public transfers to poor families should in fact be countercyclical (in other words, they should increase in times of crisis).

The net employment rate has a strong procyclical component, since the number of employed persons is expected to rise in conjunction with GDP and to fall during periods of recession.[7] During periods of economic growth, however, the economically active population (the denominator of the indicator) may also increase, since more working age persons will probably want to enter the labour market. This may neutralize the procyclical effect.

The participation rate indicates the behaviour of the working age population in terms of deciding to participate in economic activity. Thus, it measures the supply of labour, establishing the relationship between the number of people who work or who wish to work (active population) and those who are in a position to do so (Navarrete, 2005).[8] People are affected by needs, incentives and limitations that hinder them from participating in the labour market. When they have no skills, are disabled or need to perform duties that prevent them from working outside the household, these or other limitations can easily discourage them from looking for work. In other cases, the incentives offered may be enough to encourage some people to consider the possibility of entering the labour market, since they will feel that their time is more highly valued in the labour market than elsewhere. Other people enter the labour market because their basic needs are such that they are forced to engage in any kind of economic activity that will enable them to earn a living. All these factors could cause the participation rate to rise, as long as broad sectors of society (especially women) who had previously been doing unpaid domestic work are able to start working for pay. However, since different groups of people have different needs, incentives and limitations throughout the economic cycle, the linkage between total participation and the economic cycle is not always clear.[9]

The relationship between the working age population and total population is a structural component that is determined by demographic trends and by changes in family structure. It should be noted that the working age population represents only a potential source of subsistence income for the family because this segment includes inactive persons and, among those who are active, some are employed and some are unemployed. Moreover, some of those who are employed are fully employed and others are underemployed (Uthoff, Vera and Ruedi, 2006).

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[7] Likewise, when GDP is falling, the proportion of jobs in the informal sector will probably rise along with the unemployment rate (ILO, 2006).

[8] "Inactive" persons are those who do not participate in economic activity; they are usually persons who perform unpaid domestic work and students, although the category of inactive persons also includes retired persons, persons with independent means and persons with disabilities.

[9] Kakwani, Neri and Son (2006) found that during the period 1995-2004, participation rates among the poor in Brazil were more procyclical than the corresponding rates for the total population.

III

Effect on poverty reduction of changes in global employment rates and in labour and non-labour income

The factors involved in poverty reduction may be studied by breaking down data on per capita income of households living below the poverty line; this disaggregation takes into account the proportion of employed persons, labour income per employed person and income from non-labour sources.[10] The effect of improvements in human capital and productivity will be evident in the component of labour income per employed person, while the influence of demographic and family changes will be reflected in the component identifying employed persons as a percentage of total population. Family decisions on the participation of members in the labour market are determined by the pull of new jobs created on the labour market and the restrictions inherent to the care economy in the different countries.

Table 1 shows, for each decile of income distribution, the values of per capita family income (expressed in multiples of the poverty line) and estimated variations in those values resulting from changes in labour income per employed person, global employment rates and per capita non-labour income (see formula 3 above).

On the basis of table 1, table 2 groups the Latin American countries according to the variations that occurred, during the period studied, in the three components of per capita income among the deciles that were living below the poverty line around 1990 and the variation in total incidence of poverty in each country during that period.

1. Relative importance of factors of change in poor households

Three considerations come to mind when one looks at trends among the deciles whose average income is at or below the poverty line. Firstly, countries have undertaken their commitment to the Millennium Development Goals at a time when poor families have a higher proportion of active members except, most notably, in the urban areas of Uruguay and, to a lesser degree, the Metropolitan Area of Asunción, Paraguay. The global employment rate has improved mainly as a result of the decline in the demographic dependency rate and the increase in female participation in the labour market, and in a few cases, as a result of a drop in the unemployment rate. Secondly, throughout this period, labour income per employed person has not risen enough to benefit the poorest families, except in Chile, Brazil and Ecuador (urban areas). Thirdly, non-labour income among the poor has risen in general terms, for reasons that go beyond the scope of this study. Without a more detailed breakdown of the sources of income that are included in this third component, it is impossible to draw any conclusions regarding the relative importance of State transfers to families, remittances and other sources (such as pensions and other retirement income).[11]

Only five of the 16 countries studied have achieved substantial reductions in poverty since the early 1990s: the three that achieved improvements in labour income per employed person (Chile, Brazil, urban areas of Ecuador), and Mexico and Panama, where the proportion of employed persons rose significantly. In both Mexico and Panama, the female participation rate rose considerably, and in Panama, it was also

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[10] In studying poverty trends, it is important to observe what happens –in terms of trends in labour income per employed person, as well as in total employment rates and non-labour per capita income– among households living below the poverty line. Increases in average incomes may mask situations that are not favourable to the poor, such as improvements among the wealthiest deciles and deterioration among the poorest deciles.

[11] In recent years, State transfers to low-income families have usually been conditional on changes in behaviour in order to help families improve productivity by increasing their investment in human capital, improving their use of time or increasing their access to productive assets (ECLAC, 2006). For a discussion of the impact of remittances on poverty and inequality, see ECLAC (2005b).

TABLE 1

Latin America (16 countries): per capita family income and breakdown of variation by changes in labour income per employed person, global employment rate and per capita non-labour income[a] (in multiples of the poverty line), by income-distribution deciles, 1989/1995 to 2001/2005

Country	Per capita income (Y/N)	Total	Decile I	Decile II	Decile III	Decile IV	Decile V	Decile VI	Decile VII	Decile VIII	Decile IX	Decile X
GROUP 1. **Sharp reduction of poverty** *(variation in the poverty headcount index under -1.5% per year)[b]*												
Chile	Y/N 1990	2.41	**0.3**	**0.5**	**0.7**	**0.9**	1.1	1.4	1.8	2.4	3.7	11.1
	Y/N 2003	3.71	**0.5**	**0.9**	1.2	1.5	1.8	2.2	2.8	3.7	5.5	17.2
	Δ Y/N (Δ YL/O)	0.85	0.06	0.15	0.21	0.23	0.40	0.48	0.64	0.83	1.23	4.21
	Δ Y/N (Δ O/N)	0.31	0.02	0.05	0.10	0.14	0.11	0.17	0.21	0.35	0.48	1.51
	Δ Y/N (Δ YNL/N)	0.14	0.10	0.11	0.12	0.15	0.14	0.14	0.14	0.09	0.10	0.37
Ecuador[c]	Y/N 1990	1.19	**0.2**	**0.4**	**0.5**	**0.6**	**0.7**	**0.9**	1.1	1.4	1.9	4.3
	Y/N 2005	1.83	**0.2**	**0.5**	**0.6**	**0.8**	1.0	1.3	1.6	2.1	2.9	7.4
	Δ Y/N (Δ YL/O)	0.27	-0.01	-0.02	0.01	0.04	0.06	0.12	0.16	0.30	0.48	1.86
	Δ Y/N (Δ O/N)	0.24	0.04	0.08	0.11	0.11	0.15	0.18	0.24	0.20	0.36	0.63
	Δ Y/N (Δ YNL/N)	0.13	0.03	0.02	0.04	0.05	0.04	0.08	0.11	0.19	0.22	0.64
Brazil	Y/N 1990	2.40	**0.2**	**0.3**	**0.5**	**0.7**	**0.9**	1.2	1.7	2.4	4.0	12.1
	Y/N 2005	2.95	**0.2**	**0.5**	**0.7**	1.0	1.3	1.6	2.1	2.8	4.4	15.0
	Δ Y/N (Δ YL/O)	-0.23	-0.01	0.04	0.05	0.04	0.04	-0.03	-0.11	-0.25	-0.45	-1.22
	Δ Y/N (Δ O/N)	0.22	0.04	0.04	0.07	0.09	0.09	0.17	0.09	0.35	0.36	0.53
	Δ Y/N (Δ YNL/N)	0.56	0.02	0.07	0.09	0.13	0.23	0.27	0.47	0.33	0.52	3.51
Panama	Y/N 1991	2.17	**0.2**	**0.4**	**0.6**	**0.8**	1.0	1.3	1.8	2.4	3.6	9.5
	Y/N 2005	2.68	**0.2**	**0.5**	**0.8**	1.0	1.4	1.8	2.3	3.2	4.7	11.0
	Δ Y/N (Δ YL/O)	0.02	-0.06	-0.05	0.01	0.02	0.08	0.10	0.08	0.04	0.01	0.24
	Δ Y/N (Δ O/N)	0.34	0.04	0.05	0.08	0.15	0.13	0.20	0.28	0.39	0.72	1.01
	Δ Y/N (Δ YNL/N)	0.16	0.02	0.06	0.07	0.08	0.13	0.13	0.22	0.30	0.32	0.25
Mexico	Y/N 1989	1.87	**0.3**	**0.5**	**0.6**	**0.8**	**0.9**	1.2	1.5	1.9	2.7	8.5
	Y/N 2005	2.27	**0.3**	**0.5**	**0.7**	1.0	1.2	1.5	1.9	2.4	3.4	9.8
	Δ Y/N (Δ YL/O)	0.03	-0.04	-0.04	-0.01	-0.03	0.01	-0.01	0.07	0.05	0.06	0.30
	Δ Y/N (Δ O/N)	0.36	0.04	0.08	0.10	0.16	0.19	0.30	0.24	0.44	0.58	1.39
	Δ Y/N (Δ YNL/N)	0.01	0.04	0.05	0.04	0.06	0.05	0.04	0.10	0.03	0.07	-0.31
GROUP 2. **Slight poverty reduction** *(variation in the poverty headcount index between -1.5% and - 0.5% per year)[b]*												
El Salvador	Y/N 1995	1.42	**0.1**	**0.3**	**0.5**	**0.7**	**0.8**	1.0	1.3	1.6	2.3	5.6
	Y/N 2004	1.55	**0.2**	**0.4**	**0.6**	**0.7**	**0.9**	1.1	1.4	1.9	2.6	5.7
	Δ Y/N (Δ YL/O)	0.00	-0.12	-0.03	0.01	0.02	0.03	0.04	0.09	0.11	0.09	-0.04
	Δ Y/N (Δ O/N)	0.06	0.01	0.04	0.02	0.05	0.06	0.01	0.03	0.09	0.05	0.00
	Δ Y/N (Δ YNL/N)	0.07	0.05	0.03	0.05	0.01	0.00	0.07	0.06	0.06	0.20	0.12
Costa Rica	Y/N 1990	2.17	**0.3**	**0.7**	**0.9**	1.2	1.5	1.8	2.2	2.8	3.6	7.0
	Y/N 2005	2.78	**0.4**	**0.8**	1.1	1.4	1.7	2.1	2.6	3.4	4.7	9.8
	Δ Y/N (Δ YL/O)	0.16	0.02	-0.02	-0.02	-0.02	0.00	-0.02	-0.02	0.09	0.45	1.21
	Δ Y/N (Δ O/N)	0.33	0.02	0.08	0.13	0.17	0.22	0.27	0.39	0.47	0.46	0.96
	Δ Y/N (Δ YNL/N)	0.13	0.07	0.05	0.04	0.07	0.03	0.05	0.04	0.05	0.21	0.62
Colombia	Y/N 1991	1.52	**0.2**	**0.4**	**0.5**	**0.6**	**0.8**	1.0	1.2	1.6	2.3	6.6
	Y/N 2005	2.08	**0.2**	**0.4**	**0.6**	**0.8**	**0.9**	1.2	1.5	2.0	3.1	10.2
	Δ Y/N (Δ YL/O)	0.10	0.01	-0.01	-0.01	0.01	0.03	0.06	0.06	0.12	0.26	0.55
	Δ Y/N (Δ O/N)	0.06	-0.02	0.01	0.03	0.04	0.06	0.06	0.12	0.12	0.13	-0.12
	Δ Y/N (Δ YNL/N)	0.41	0.03	0.04	0.05	0.05	0.05	0.07	0.10	0.16	0.37	3.18
Guatemala[d]	Y/N 1989	1.18	**0.1**	**0.2**	**0.3**	**0.4**	**0.5**	**0.7**	**0.9**	1.2	1.8	5.7
	Y/N 2002	1.47	**0.2**	**0.3**	**0.5**	**0.6**	**0.7**	**0.9**	1.2	1.6	2.4	6.3
	Δ Y/N (Δ YL/O)	0.00	0.03	0.02	-0.02	-0.03	-0.04	-0.08	0.12	0.06	0.14	0.51
	Δ Y/N (Δ O/N)	0.24	0.03	0.05	0.12	0.13	0.13	0.15	0.16	0.30	0.32	0.24
	Δ Y/N (Δ YNL/N)	0.05	0.03	0.04	0.04	0.03	0.06	0.16	0.06	0.08	0.15	-0.08

TABLE 1 (concluded)

Country	Per capita income (Y/N)	Total	Decile I	Decile II	Decile III	Decile IV	Decile V	Decile VI	Decile VII	Decile VIII	Decile IX	Decile X
Nicaragua	Y/N 1993	0.99	**0.0**	**0.2**	**0.3**	**0.4**	**0.5**	**0.6**	**0.8**	1.1	1.6	4.5
	Y/N 2001	1.16	**0.1**	**0.2**	**0.3**	**0.4**	**0.6**	**0.7**	**0.9**	1.2	1.8	5.5
	Δ Y/N (Δ YL/O)	-0.06	0.00	0.00	0.00	-0.01	-0.03	-0.11	-0.07	-0.15	-0.18	0.59
	Δ Y/N (Δ O/N)	0.24	0.03	0.05	0.06	0.10	0.11	0.20	0.18	0.25	0.32	0.47
	Δ Y/N (Δ YNL/N)	-0.01	0.00	0.00	0.00	0.00	0.01	0.00	-0.02	0.00	0.02	-0.10
Honduras	Y/N 1990	0.87	**0.1**	**0.1**	**0.2**	**0.3**	**0.4**	**0.5**	**0.6**	**0.9**	1.4	4.4
	Y/N 2003	0.95	**0.1**	**0.2**	**0.2**	**0.3**	**0.4**	**0.6**	**0.8**	1.1	1.6	4.4
	Δ Y/N (Δ YL/O)	-0.13	0.00	-0.02	-0.02	-0.02	-0.05	-0.03	-0.05	-0.10	-0.11	-0.68
	Δ Y/N (Δ O/N)	0.09	0.00	0.02	0.03	0.06	0.06	0.06	0.06	0.10	0.14	0.07
	Δ Y/N (Δ YNL/N)	0.13	0.02	0.02	0.03	0.02	0.06	0.06	0.13	0.19	0.18	0.52

GROUP 3. **No progress** *(variation in the poverty headcount index between -0.5% and 0.5% per year)*[b]

Country	Per capita income (Y/N)	Total	Decile I	Decile II	Decile III	Decile IV	Decile V	Decile VI	Decile VII	Decile VIII	Decile IX	Decile X
Venezuela (Bol. Rep. of)	Y/N 1990	1.80	**0.3**	**0.5**	**0.7**	**0.9**	1.1	1.4	1.7	2.2	3.0	6.5
	Y/N 2005	1.97	**0.2**	**0.5**	**0.7**	1.0	1.2	1.5	1.9	2.4	3.2	7.2
	Δ Y/N (Δ YL/O)	-0.13	-0.06	-0.07	-0.08	-0.11	-0.11	-0.10	-0.07	-0.08	-0.07	0.11
	Δ Y/N (Δ O/N)	0.34	0.06	0.12	0.19	0.22	0.28	0.30	0.28	0.31	0.32	0.60
	Δ Y/N (Δ YNL/N)	-0.03	-0.09	-0.06	-0.07	-0.06	-0.06	-0.06	-0.04	-0.03	0.02	0.04
Bolivia[e]	Y/N 1989	1.67	**0.1**	**0.4**	**0.5**	**0.7**	**0.9**	1.1	1.4	1.9	2.8	7.0
	Y/N 2004	1.71	**0.3**	**0.5**	**0.6**	**0.7**	**0.9**	1.1	1.3	1.8	2.7	7.3
	Δ Y/N (Δ YL/O)	-0.38	0.01	-0.07	-0.10	-0.10	-0.19	-0.24	-0.35	-0.45	-0.58	-1.10
	Δ Y/N (Δ O/N)	0.21	0.13	0.11	0.10	0.09	0.14	0.14	0.15	0.10	0.20	0.27
	Δ Y/N (Δ YNL/N)	0.21	0.00	0.03	0.05	0.06	0.07	0.08	0.16	0.26	0.31	1.13
Argentina[f]	Y/N 1990	3.10	**0.5**	**0.8**	1.1	1.4	1.8	2.2	2.7	3.5	4.8	12.2
	Y/N 2005	3.14	**0.4**	**0.8**	1.1	1.4	1.7	2.1	2.6	3.4	4.8	13.1
	Δ Y/N (Δ YL/O)	-0.27	-0.15	-0.14	-0.11	-0.09	-0.06	-0.22	-0.33	-0.45	-0.62	-0.12
	Δ Y/N (Δ O/N)	0.28	0.06	0.15	0.12	0.25	0.04	0.09	0.15	0.23	0.60	0.76
	Δ Y/N (Δ YNL/N)	0.02	-0.02	-0.04	-0.03	-0.16	-0.01	0.05	0.07	0.10	0.02	0.25
Uruguay[c]	Y/N 1990	3.09	**0.6**	**0.9**	1.2	1.5	1.8	2.2	2.6	3.2	4.3	12.7
	Y/N 2005	2.77	**0.5**	**0.8**	1.1	1.4	1.8	2.1	2.6	3.3	4.5	9.6
	Δ Y/N (Δ YL/O)	-0.36	-0.10	-0.14	-0.11	-0.15	-0.13	-0.08	-0.10	-0.07	0.20	-2.71
	Δ Y/N (Δ O/N)	0.00	0.00	0.01	0.01	0.04	0.05	0.01	-0.02	-0.03	-0.08	-0.16
	Δ Y/N (Δ YNL/N)	0.03	0.05	0.04	0.02	0.04	0.04	0.05	0.12	0.17	0.09	-0.24

GROUP 4. **Increase in poverty** *(variation in the poverty headcount index above 0.5% per year)*[b]

Country	Per capita income (Y/N)	Total	Decile I	Decile II	Decile III	Decile IV	Decile V	Decile VI	Decile VII	Decile VIII	Decile IX	Decile X
Paraguay[g]	Y/N 1990	1.69	**0.3**	**0.5**	**0.7**	**0.9**	1.1	1.2	1.5	2.0	2.8	5.9
	Y/N 2005	1.67	**0.3**	**0.5**	**0.6**	**0.8**	**0.9**	1.2	1.4	1.8	2.6	6.6
	Δ Y/N (Δ YL/O)	-0.21	-0.11	-0.13	-0.19	-0.13	-0.18	-0.27	-0.27	-0.42	-0.50	-0.14
	Δ Y/N (Δ O/N)	0.09	0.02	0.03	0.05	-0.04	-0.02	0.11	0.08	0.10	0.11	0.62
	Δ Y/N (Δ YNL/N)	0.10	0.04	0.05	0.07	0.06	0.08	0.09	0.08	0.13	0.14	0.24

Source: Prepared by the authors on the basis of household surveys in the countries concerned.

* Figures in bold font and highlighted in grey indicate deciles in which per capita income is below the poverty line *(<1.0)*. Countries are listed by level of poverty during the period 2001/2005, from less poor to more poor.

a The components of variations in per capita income that are due to changes in labour income per employed person Δ *Y/N(Δ YL/E)*, to changes in the total employment rate Δ *Y/N(Δ E/N)* and to changes in per capita non-labour income Δ *Y/N(Δ YNL/N* (in multiples of the poverty line) are estimated according to formula 3.

b The yearly variation in the poverty rate for each country, allowing for the countries to be classified in groups, was estimated using the formula *VAP = [((PF-PI) / PI) *100]/A*, where *VAP* = yearly variation in poverty, *PF* = percentage of final poverty, *PI* = percentage of poverty at start and *A* = number of years included in the period.

c Urban areas.

d In the case of Guatemala, the number of deciles with per capita incomes under the poverty line is higher than the figure shown for poverty levels in *Social Panorama of Latin America*, published by ECLAC. Data-processing adjustments had to be made to deal with the lack of measurements to include the under-10 population in 1989 and the under-7 population in 2002.

e Cochabamba, El Alto, La Paz, Oruro, Potosí, Santa Cruz, Tarija and Trinidad.

f Greater Buenos Aires.

g Asunción Metropolitan Area.

TABLE 2

Latin America (16 countries): typology of countries by trends in global employment rate, labour income per employed person and non-labour income in deciles including poor households, 1989/1995 to 2001/2005

Trends in poverty (yearly average)	Poverty at start (%)[a]	Global employment rate (E/N)	Labour income per employed person (YL/E)	Per capita non-labour income (YNL/N)	Poverty at end (%)[a]
Sharp reduction _(variation under -1.5% per year)_					
Chile, 1990-2003	38.3	++	++	++	18.6
Ecuador, 1990-2005	61.8	++	+	+	45.1
Brazil, 1990-2005	47.4	++	+	++	36.2
Panama, 1991-2005	42.8	++	–	+	32.7
Mexico, 1989-2005	47.4	++	–	+	35.5
Slight reduction _(variation between -1.5% and - 0.5% per year)_					
El Salvador, 1995-2004	54.0	+	–	+	47.5
Costa Rica, 1990-2005	26.2	+	+ –	+	21.1
Colombia, 1991-2005	55.6	+	=	+	46.8
Guatemala, 1989-2002	70.3	++	=	++	58.4
Nicaragua, 1993-2001	73.6	++	– –	=	69.3
Honduras, 1990-2003	80.5	++	– –	++	74.6
No progress _(variation between -0.5% and 0.5% annual)_					
Venezuela (Bol. Rep. of) 1990-2005	40.0	++	– –	–	37.1
Bolivia, 1989-2004	52.1	++	– –	+	51.6
Argentina, 1990-2005	21.1	+	–	=	22.6
Uruguay, 1990-2005	17.8	=	–	+	19.1
Increase _(variation above 0.5% per year)_					
Paraguay, 1990-2005	42.2	+ –	– –	+	47.7

Legend:

++	Significant progress
+	Progress
= / +-	No change / progress and deterioration
–	Deterioration
– –	Significant deterioration

Source: Prepared by the authors on the basis of household surveys in the countries concerned.

[a]   These percentages may not coincide with those shown in _Social Panorama of Latin America_, published by ECLAC, owing to the difference in treatment of data on domestic servants. In the case of Guatemala, data-processing adjustments were made in order to deal with the lack of measurements to include the under-10 population in 1989 and under-7 in 2002.

accompanied by a sharp drop in the unemployment rate. The remaining countries showed little or no improvement, mainly owing to the poor performance of their labour markets. In countries that significantly reduced poverty, the main factor of change was the behaviour of families in terms of composition and participation of women in the labour market. Although these phenomena are fairly widespread in all the other countries, poverty reduction efforts have not been accompanied by increases in productivity or in transfers to families.

2. The labour market as a factor influencing differences in poverty trends among countries

A comparison between countries that have achieved a greater or lesser degree of poverty reduction brings to light some striking differences in the performance of the labour market (figure 3). As shown in section A of this figure, the increase in the ratio of employed persons to total population (light gray bars) in Brazil, Chile and the urban areas of Ecuador is complemented

with an increase in labour income per employed person (black bars), indicating strong growth in the labour market; to this is added an increase in non-labour income (dark gray bars). All this works together to produce a significant growth in family income in those countries, thus lowering the poverty rate. This is suggested by the leftward shift in the per capita income distribution curve between 1990 (black curve) and 2005 (gray curve), which crossed the poverty line in the lower deciles of income distribution. In Argentina (Greater Buenos Aires), Bolivia, Paraguay (Asunción Metropolitan Area), Uruguay (urban areas) and the Bolivarian Republic of Venezuela, on the other hand, labour income per employed person fell among the poor, and that drop was not adequately offset by improvements in the global employment rate or in non-labour income. For the same reason, there was no progress in poverty reduction.

Figure 3 also illustrates three important aspects of the analysis. To begin with, the less unequal the distribution of per capita income of families –shown where the corresponding curves are less slanted– the more poverty will be reduced when income per employed person or State transfers increase.

In the second place, the figure shows that around 2005 in the countries considered, while about one third of the population had per capita incomes below the poverty line, many more were living with incomes barely above the poverty line, indicating that they would not be able to deal with a crisis.[12] The situation is similar in the other countries of the region, given that in no country of Latin America does the population in the fifth decile of distribution have an average per capita income equal to or higher than twice the poverty line (table 1).

In the third place, when measured as a proportion of the poverty line, the variation in labour income per employed person reflects the income distribution profile and is thus substantially higher among the higher deciles. This is consistent with the hypothesis that productivity increases begin in formal enterprises, that they mostly benefit workers in those enterprises and that they are distributed proportionally to the preceding income strata, so that they are not in and of themselves redistributive but rather they are transmitted slowly according to the salary scale.

## 3.   The phenomenon of poor workers

Finally, it should be noted that because of the way the labour market currently works in the region, large segments of workers are unable to overcome poverty. In the urban areas of Latin America, between 10% (Chile) and 54% (Nicaragua and Honduras) of all employed persons live in poverty (figure 4), and in the rural areas, the percentage of employed persons who are poor is even higher, ranging from 11% (Chile) to 81% (Honduras). As might be expected, in countries where the labour income of the poorest families rose significantly between 1990 and 2005 (Chile, Brazil and urban areas of Ecuador), the percentage of employed persons living below the poverty line dropped, while it rose in those countries where labour income fell: Argentina (urban areas), Bolivia, Bolivarian Republic of Venezuela, Paraguay and Uruguay. It is therefore imperative to improve the quality of insertion in the labour market of large sectors of the labour force, especially of the poorest segments. In particular, this entails ensuring adequate wages, stable contracts, workplace safety (coverage for accidents and work-related illnesses), access to health systems and insurance and membership in and contribution to social safety nets (ECLAC, 2007a).

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[12] In figure 3, the per capita income curve slopes more sharply after the eighth decile, indicating that subsistence is very difficult for 70% of the population.
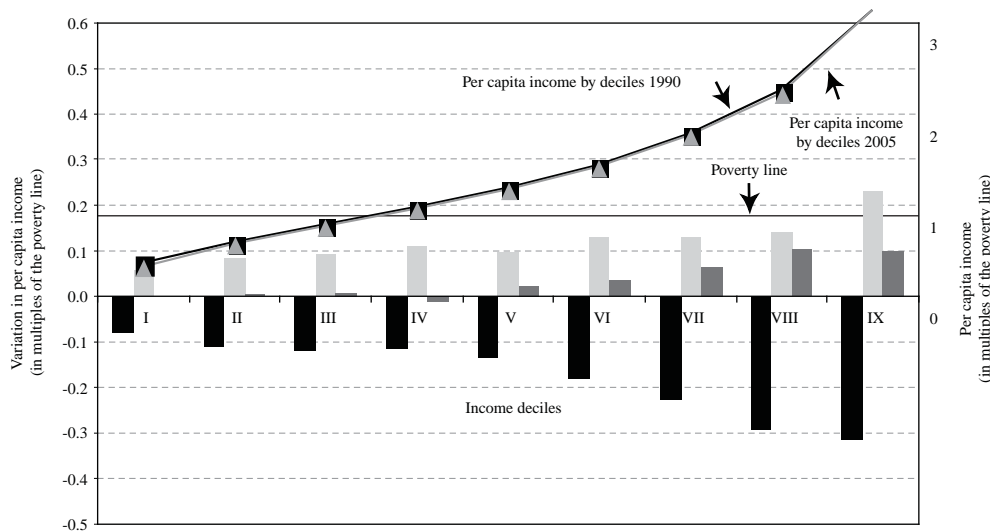
FIGURE 3

Factors influencing changes in the incidence of poverty, deciles i-ix, 1990-2005[a]

A. Countries with sharp reduction of poverty and increases in labour
productivity (Brazil, Chile and urban areas of Ecuador, simple average)
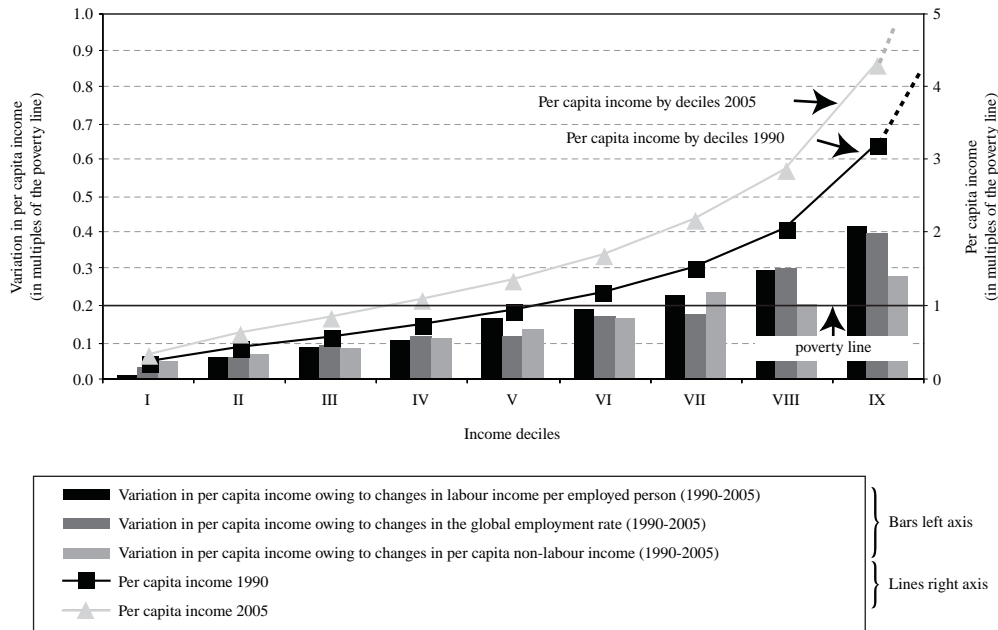
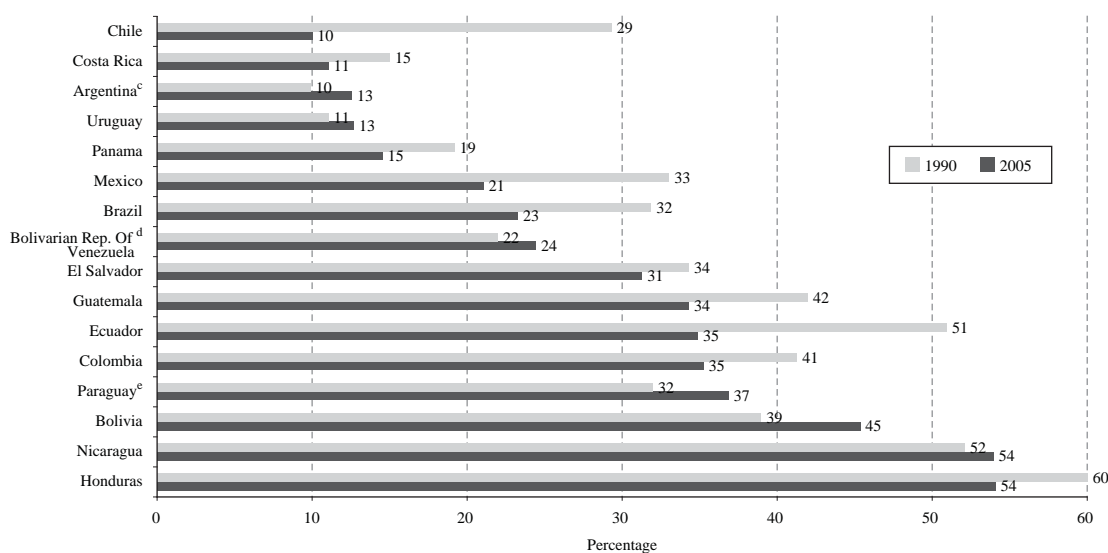
B. Countries with no progress or with increased poverty (Argentina, Bolivia,
Bolivarian Rep. of Venezuela, Paraguay, Uruguay simple average)

Source: Prepared by the authors on the basis of household surveys in the countries concerned.

[a]   Years around 1990 and 2005.

FIGURE 4

Latin America (16 countries): percentage of working poor,[a] 1990- 2005[b]

Source: Prepared by the authors on the basis of household surveys in the countries concerned.

[a]   Refers to the percentage of employed persons living in households with incomes below the poverty line.
[b]   Years around 1990 and 2005.
[c]   Greater Buenos Aires.
[d]   As of 1997, the survey sample design does not allow for an urban-rural breakdown. Therefore, the figures refer to the national total.
[e]   Urban areas: refers to Asunción Metropolitan Area.

IV

Reflections on the demographic bonus
and challenges for public policy

In their poverty reduction efforts, the Latin American countries have benefited –and can still benefit– from the drop in the demographic dependency ratio which means that the burden of meeting the needs of children and the elderly is lighter for each working age person. This situation –known as the "demographic bonus"– is especially encouraging given that with fewer dependents per economically active member, households can improve their per capita income.

However, the demographic bonus has a time limit, since lower fertility and longer life spans will increase the burden of older persons, causing the dependency ratio to rise again, this time generating additional demands for health care and economic security. It is safe to say that when the dependency ratio goes up, the demographic bonus ends.[13]

Although this demographic bonus may continue for as long as working age persons –especially women– are increasing their participation in economic activity,

[13] Nevertheless, some authors have put forward the hypothesis that there is a "second demographic bonus", presumably arising from the fact that the ageing of a society creates more incentives to save, thus stimulating investment and growth (Mason y Lee, 2004).

many of its dividends are not guaranteed, since they are contingent on the capacity of the region's economies to generate employment when the demographic bonus occurs, on the capacity of the poor to find well-paid jobs that also provide social protection and on how well they are organized, in terms of family composition, for dealing with unforeseen circumstances. Thus, to take advantage of the demographic bonus, it is necessary to provide jobs for a growing active population while at the same time reducing the insecurity, precarity and informality that are typical of labour markets in the region.

In particular, although the poorest families need better incomes, there are factors that limit and discourage their participation in the labour market. Having a limited endowment of human capital, family members have fewer job opportunities and are more likely to become unemployed or to bring in a small labour income. In turn, high fertility and dependency rates and the need to care for other family members further limit the participation of women in the labour market, as well as the family's investment in human capital.

Although some countries did manage to reduce poverty from the early 1990s onward, thanks to the demographic bonus and the increase in income per employed person –Chile, Brazil and Ecuador (urban areas)– the overall results so far have not been encouraging. It must be borne in mind that the situation created by the demographic bonus, which promoted development and poverty reduction, will eventually be reversed.

The end of the demographic bonus will have a significant impact on all the countries of the region, particularly those that have reduced poverty only as a result of improvements in the ratio of the working age population to total population or in the participation rate without significantly improving employment and income per employed person, as well as on those countries where poverty increased. Around 2010, Cuba will be the first Latin American country to see its demographic bonus end, and it will be followed by Chile and Costa Rica (around 2015) and then by Brazil, Colombia, Mexico and Uruguay (around 2020).

While it is true that progress has been made towards achieving the first Millennium Development Goal –largely as a result of the demographic bonus– it is no less true that the increase in the number of persons entering the labour market and in job opportunities for the poorest sectors is still inadequate.

If the Latin American countries are to continue reducing poverty, they need to implement active public policies that will make it possible to reconcile care of the household with paid work, improve the productivity of occupations in which members of the poorest households are engaged and, if necessary, target social spending to meet the demands of these more needy groups. For the same reason, it is essential to raise to the rank of public policy those actions that will enable women, especially in poor households, to reconcile the care of dependents with paid work, in order to increase their participation rates. It is also important that women be able to fully exercise their reproductive rights and make decisions regarding the size of their households and the dynamics of their families at different stages in the life cycle. All this should be supplemented with appropriate general policies such as job training and retraining for workers in low-productivity jobs, so as to open up better opportunities for them.

These issues, which must be addressed by national socioeconomic development strategies, are not new. However, as populations grow older, these demands will become more pressing, given that when the demographic bonus peaks, demographic trends will not be conducive to increasing per capita income.

The challenge facing the region has not arisen in a vacuum. Solutions must be sought that will make it possible to reconcile three major changes that must be addressed by public policy: those that represent a response to demographic inertia, such as the ageing of the population and the falling birth rate; those that are contingent on the performance of economic agents, such as improvements in productivity in a highly competitive international context; and those changes in the political economy that have to do with the role and the size of the State.

(Original: Spanish)

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