

# Pathways Out of Poverty: Fancies, Facts, and Challenges

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Let us start this lecture with, to borrow Al Gore's phrase, the "inconvenient truth": Poverty in its various absolute dimensions is widespread in the Philippines, increasing in recent years, and threatening to rip our social fabric. It is disturbingly high, especially in comparison with other countries in East and Southeast Asia. If past economic difficulties are any guide, the current global financial crisis, which is degenerating into a global economic meltdown, is poised to further deepen destitution and hunger, and widen the divides between the haves and the have-nots. Undeniably, addressing the poverty problem is the single most important policy challenge facing the country today.

Proposals peddled to address the poverty problem are aplenty — and keep growing. At one end of the spectrum are proposals with the "it's the economy, stupid" perspective. The contention is that the root of the problem is simply the lack of a respectable economic growth, at least in comparison to East Asian countries. Putting the economy on a high-growth path is thus prescribed as all that is needed to lick the poverty problem. At the spectrum's other end are proposals treating the poverty problem as purely a concrete manifestation of gross economic and social inequities. Redistributing wealth and opportunities then becomes the key to winning the war on poverty. A variant of such proposals holds that economic growth does not at all benefit the poor. Focusing on growth rather than on redistributive reforms is seen to exacerbate inequities, which could lead to further erosion of peace and social stability.

Between these extremes are views that consider economic growth as a necessary condition for poverty reduction and recognize that reform measures have to be put in place to enable the poor to participate in growth processes. Proponents of so-called "pro-poor growth" or "inclusive growth" belong to this mold, although not necessarily sharing common grounds on what, conceptually and operationally, constitutes pro-poor or sustained growth processes. For some groups, pro-poor growth requires nothing less than institutional reforms, including electoral reforms, aimed at substantially reducing corruption in public service. For others, it is about addressing head on the country's rapid population growth.

How do these proposals stand against the body of evidence, particularly recent development experiences? What are facts and what are fancies? Given the country's fiscal resources, what policy levers can be expected to generate high returns in terms of poverty reduction?

We attempt to answer these questions in this lecture. We do this by examining the Philippine experience in poverty reduction from an “international” perspective. We first characterize the nature, pattern, and proximate determinants of poverty reduction during the past 20 years. We then focus on the connection between economic growth and poverty reduction from a comparative perspective. Next, we move to identifying the key drivers to poverty reduction, specifically the quantitative significance of the country’s continued rapid population growth to long-term income growth and poverty reduction. Finally, we conclude with the big challenge facing the country.

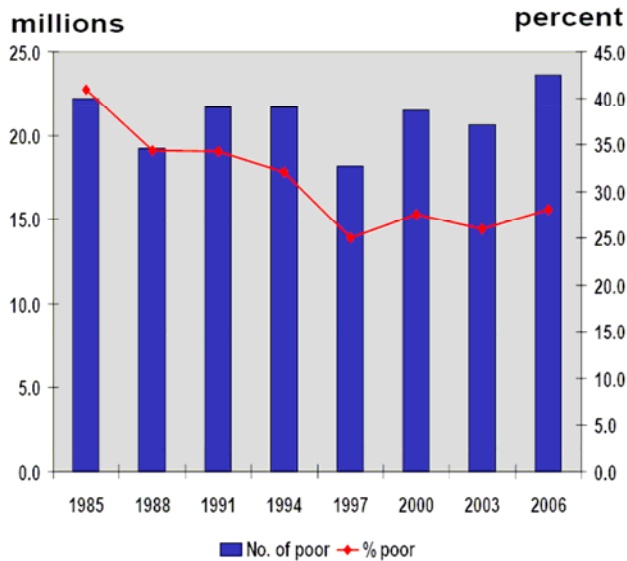
### **What Do We Know about Poverty**

Poverty is a multi-dimensional concept, but for the purpose of this lecture, let us focus on its income dimension. In the Philippines, income poverty is pervasive and has declined quite slowly over an extended period. Thus, the bulk of the income poor are likely to be also poor in the other dimensions of deprivation, as indicated, for example, by lack of capabilities in terms of educational achievement and health. Hence, we define the poor as those whose incomes fall below a pre-determined income threshold. In comparing poverty across countries, it is common to use a fixed norm or poverty line (for example, the international line of \$1.25 a day in 2005 prices currently used by the World Bank).

Owing to comparability problems, the official poverty estimates could not be used to assess the country’s performance in poverty reduction over time and across space. Over the past many years, I have employed a consistent procedure to quantify the magnitude of absolute poverty over time and across geographic areas or population groups. My interest has not been so much about the absolute *level* of poverty as the *changes* during the past 20 years and across provinces and regions of the country.

More worrisome than the comparability problems are concerns raised by a number of circles about the quality of economic and household data coming out of our statistical agencies. Specifically, the inconsistencies in the patterns of two broad indicators of national welfare — per capita GDP as reported in the National Income Accounts and per capita income as shown by household surveys of the National Statistics Office (NSO) — in recent years are notably disturbing. We will not go into the technical details of this issue here. Suffice it to note that we share these concerns and recognize that there are serious problems in the statistical system. Still, we have some confidence in the household data, especially since the trends in the welfare measures drawn from these surveys tend to be broadly consistent with welfare indicators from other sources, such as nutrition, child and maternal health indicators, as well as the poverty and hunger indices of the Social Weather Stations. As an aside, these data problems underscore the government’s dismal investment in the statistical system, particularly in data generation and analysis.

Our poverty estimates for the years with reasonably comparable household survey data (1985-2006) reveal a number of striking observations:



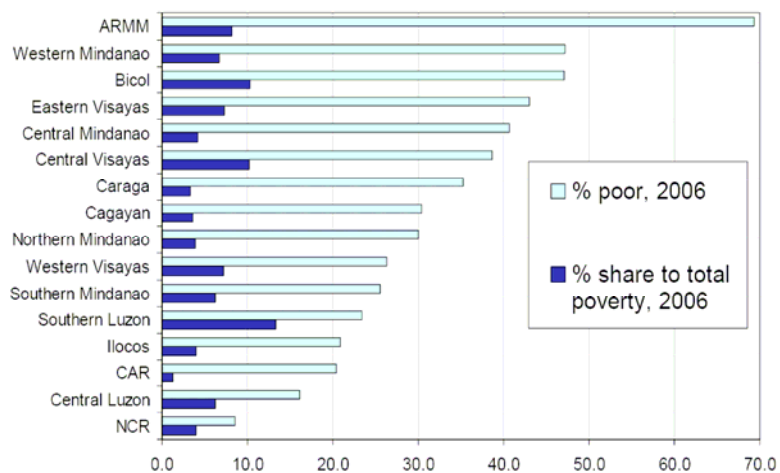
Note: Author's estimates based on *Family Incomes and Expenditures Survey*, various years.

- As a proportion of the population, poverty has decreased during the period, although tending to rise in recent years.
- Poverty increased between 2000 and 2006 despite the quite respectable economic performance (by the country's historical standard), as reflected in GDP growth during this period. It thus appears that the economic growth in recent years has by-passed the poor!

- Absolute poverty has remained geographically (regionally, provincially) very diverse.
- Progress in poverty reduction across regions and provinces has been highly uneven.
- Poverty is still a rural phenomenon despite the rapid pace of urbanization.

The above observations generally hold true for other income measures of poverty, such as those that are sensitive to the depth and severity of poverty, as well as for other equally plausible poverty lines. Let us elaborate on the significance of the last three observations. We will get back to the first two later in this lecture.

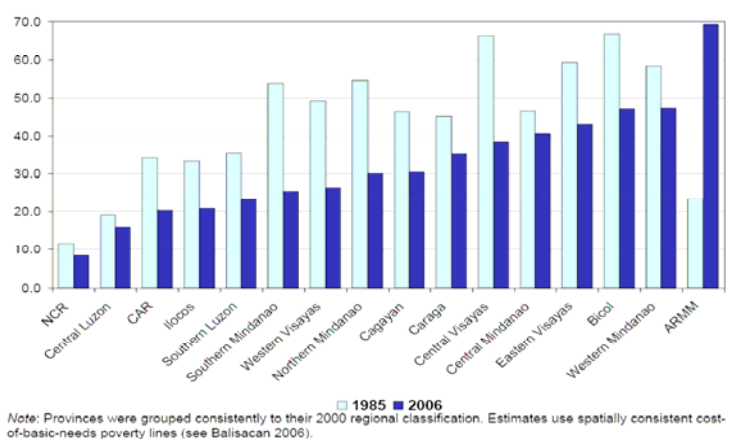
Much of what the public sees in the mass media on the state of social development in the Philippines is the poverty in Metro Manila's slums and streets. Yet, the poor in Metro Manila account for only four percent of the country's total poor population. Metro Manila's poverty incidence is also the lowest among the regions. The four



Note: Provinces were grouped consistently to their 2000 regional classification. Estimates use spatially consistent cost-of-basic-needs poverty lines (see Balisacan 2006).

regions with the highest incidence are Autonomous Region of Muslim Mindanao (ARMM), Western Mindanao, Bicol, and Eastern Visayas; their poverty incidence figures in 2006 were roughly four times that of Metro Manila's. These poorest regions account for about one-third of the country's total number of the poor. But because Metro Manila is the most accessible to the mass media and is the seat of political power, it is not surprising that subsidy programs intended for the poor, such as the rice subsidies forked out by the National Food Authority, are disproportionately concentrated in Metro Manila.

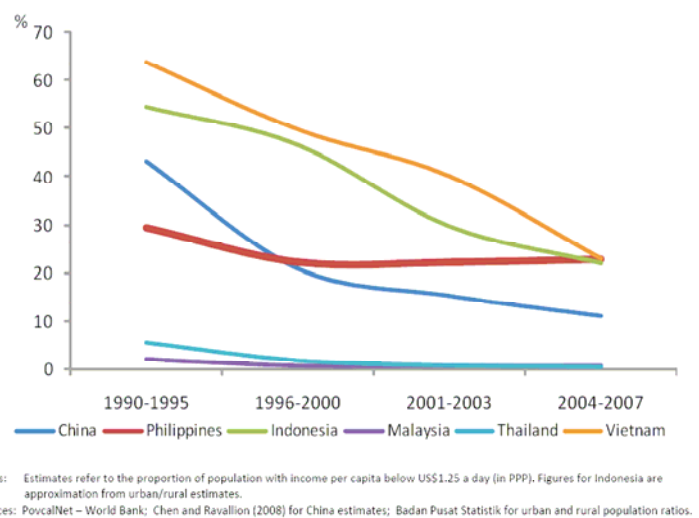
Quite remarkable particularly is the very high spatial diversity of poverty and poverty reduction in the Philippines. In recent years, some regions have done quite well in attaining high per capita income growth and reducing poverty, but disturbingly others have experienced falls in per capita income and increases in poverty.



For example, the alarmingly substantial increase in poverty in ARMM between 1988 and 2006. During this period, poverty also increased in Central Mindanao and Caraga provinces. Viewed from an international perspective, such disparities could breed regional unrest, armed conflicts, and political upheavals,

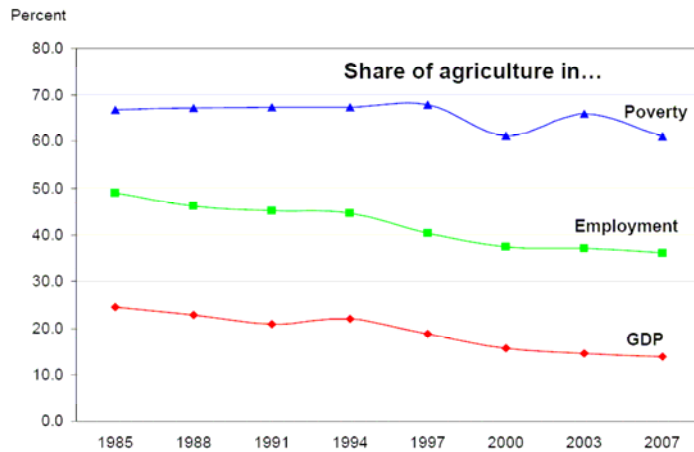
thereby undermining the progress in securing sustained economic growth and national development. The *Philippine Human Development Report 2005* shows that measures of deprivation – such as disparities in access to reliable water supply, electricity, and especially education – predict well the occurrence of armed conflicts.

From an “international” perspective, poverty reduction in the Philippines has lagged far behind that in its East and Southeast Asian neighbors, particularly Indonesia, Thailand, Vietnam, and China. Poverty levels in both Indonesia and Vietnam were about twice those in the Philippines in the early 1990s; by the mid-2000s, Indonesia and Vietnam had sharply cut down their poverty to a level similar to the Philippines'. China's progress is even more remarkable. In the early 1990s, China had a higher poverty incidence



than the Philippines, but by the mid-2000s, the former's poverty incidence was only about half that of the latter. Both Malaysia and Thailand also had virtually eliminated absolute poverty in just 20 years. Interestingly, while the Philippines had a much higher average income (US\$1,129, in 2000 prices) in the mid-2000s than Vietnam (US\$538) and Indonesia (US\$942), its absolute poverty was actually much higher than either of the latter countries.

As in most of Asia's developing countries, despite the relatively rapid pace of urbanization in the past 20 years, poverty in the Philippines is still largely a rural phenomenon. Two of every three poor persons in the country are located in rural areas and are dependent predominantly on agricultural employment and incomes. Poverty incidence among agricultural households is roughly three times that in the rest of the population. While the share of agriculture in the total labor force has gone

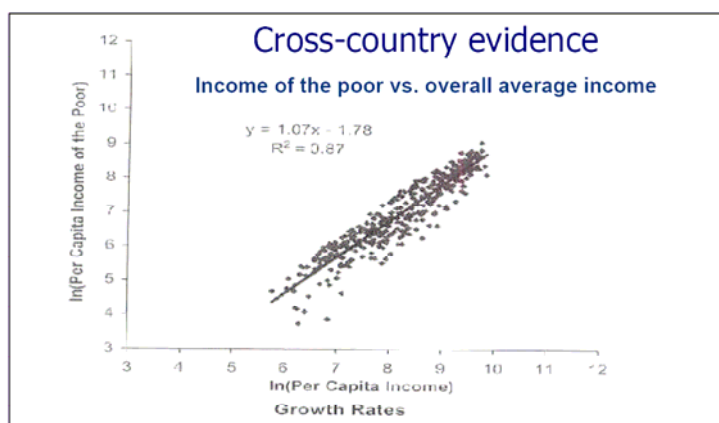


Source: Author's estimates based on FIES, various years.

down from about one-half in the late 1980s to only a little more than just one-third by the mid-2000s, the sector continues to account for about 60 percent of total poverty.

### The Poverty-Growth Nexus

Sustained increases in national income – that is, economic growth – are required for poverty reduction. Recent development experience presents clear evidence that every country that has chalked up significant achievements in poverty reduction and human development has also done quite well in securing long-term economic growth. Indeed, viewed from a long-term perspective (say, 10 to 25 years), there is an almost one-for-one correspondence between growth in the incomes of the poor and the country's average income growth. This correlation is not unexpected: economic growth is an essential condition for the generation of resources needed to sustain investments in health, education, infrastructure, and good governance (law enforcement, regulation), among others.

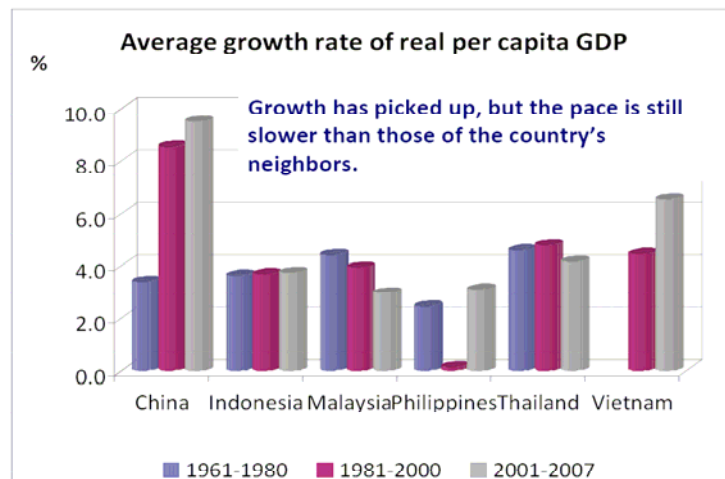


Source: Dollar and Kraay (2002)

Viewed from this perspective, the Philippines' economic growth has been quite anemic, barely exceeding the population growth rate, which has continued to expand rapidly at 2.3 percent a year for most of the past two decades. Indeed, economic growth has quickened in the past three years, even after discounting for a possibly upward bias in the National Income Accounts. Yet, even at the present pace (per capita GDP growth of

4 percent per year in 2004-2007), it can hardly be argued that the Philippines has come close to the growth trajectories of its dynamic neighbors. It is thus not surprising that serious students of Philippine

development contend that shifting the economy to a higher growth path – and keeping it there for the long term – should be first and foremost on the development agenda. And so we ask, what reforms in policies and institutions can bring about an economic climate conducive to high growth and sustained development, even as the current global economic difficulties weigh down on short-term growth prospects?



Source: World Development Indicators, World Bank

Let me quickly add that placing economic growth in the forefront of the policy agenda does not at all imply that nothing else apart from growth can be done to lick the poverty problem. On the contrary, international evidence indicates that much can be done to enhance the poverty-reducing effects of growth. For example, some countries have been more successful than others in reducing poverty, even after controlling for differences in income growth rates. Studies indicate that the response of poverty to economic growth in the Philippines, especially in recent years, is greatly muted compared with that of Indonesia, Thailand, and Vietnam (Balisacan 2007). This

Country	Response of poverty to growth (47 Developing countries = 1.0)	Source
Philippines	0.4	Our estimate (2006)
Philippines	0.6	Our estimate (2004)
47 Developing Countries (Philippines)	1.0 (0.5)	Ravallion (2001) Our estimate
China	1.2	Cline (2004)
Indonesia	1.2	Cline (2004)
Thailand	1.4	Cline (2004)
Thailand (Philippines)	0.9 (0.9)	Cline (2004)
Thailand	0.9	Deolalikar (2001)

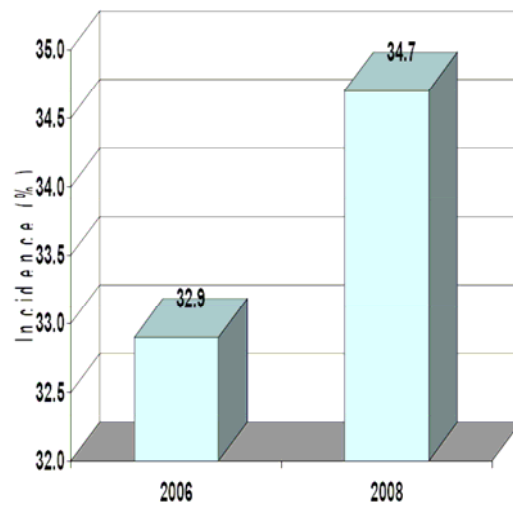
Source: A.M. Balisacan, "Local Growth and Poverty Reduction," in A.M. Balisacan and H. Hill (eds.), *The Dynamics of Regional Development: The Philippines in East Asia* (Cheltenham, UK: Edward Elgar, 2007).

observation is partly explained by the comparatively high inequality in incomes and productive assets (including agricultural lands) as well as inferior social protection infrastructure in the Philippines.

Disturbingly, in the Philippines, the connection between growth and poverty reduction has become even weaker in recent years. In fact, as shown earlier, poverty increased

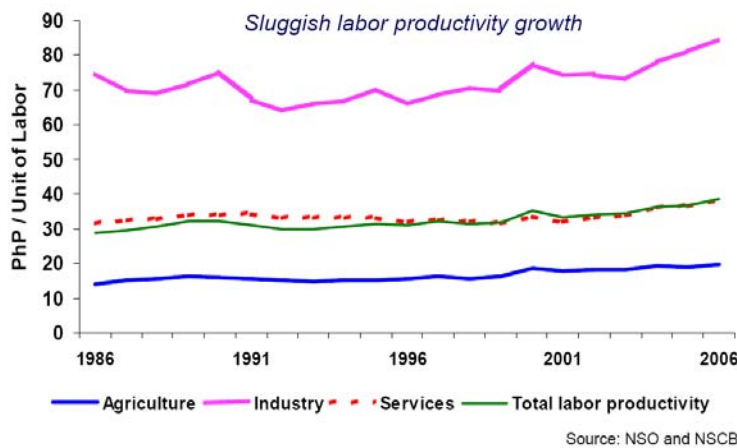
in the midst of modest growth. With the surge in food prices this year (food inflation rising from 3 percent in 2007 to 12 percent in the first 10 months of this year), poverty is likely to have risen significantly. Even with a modest GDP growth of 4 percent in 2008, the proportion of the poor in the total population is expected to rise from 30 percent in 2006 to 32 percent in 2008. The Social Weather Station's hunger data show a broadly similar trend. One can ask: Can rising absolute poverty and respectable income growth co-exist for a long time? Recent economic history of nations tells us that economic growth without a "human face" (i.e., if not accompanied by poverty reduction) is bound to be short-lived. Sooner or later, growth will be weighed down by rising destitution through such familiar channels as social unrest and low human capital formation. Put differently, poverty reduction is good for sustained growth.

**Food price spikes & poverty in 2008**



### Making Poverty Reduction More Responsive to Growth

Key to achieving pro-poor growth, or what operationally amounts to the same thing -- "inclusive growth," is expansion in access to economic opportunities, human development, social services, and productive assets, particularly by the poor. The underlying weakness of the Philippine economy lies in its inability to create



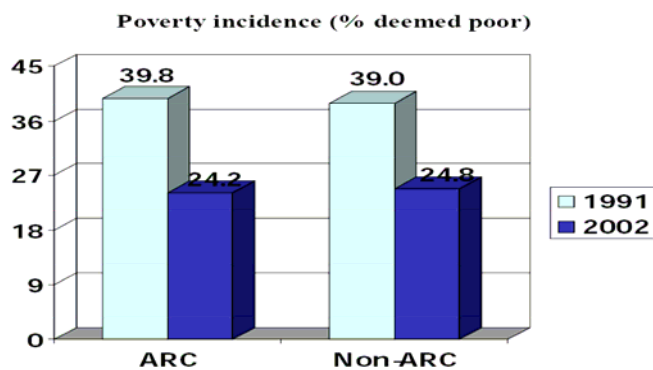
productive employment opportunities for its fast-growing labor force. Even among those who are employed, productivity is low compared with the country's neighbors'. Furthermore, access to available, productive employment opportunities favors the rich (typically skilled) more than the poor (typically unskilled).

In recent decades, international evidence suggests a strong connection running between agricultural and rural development, on the one hand, and poverty reduction, on the other. As mentioned earlier, agriculture is where most of the rural poor eke out a living. Fostering productivity growth in agriculture is thus necessary to lifting rural inhabitants out of poverty. However, for many of today's rural poor, the route out of

poverty leads out of agriculture altogether. Non-agricultural wage employment, non-farm enterprises, and migration offer important pathways out of poverty. Enhancing the efficiency of the labor market and social protection is thus essential to ensuring that migration is a boon rather than a bane to the poor.

Evidently, location attributes (rural infrastructure, distance from centers of trade, land distribution, and local institutions) influence poverty reduction across the Philippine rural landscape. These attributes may well determine the “optimal pathways” out of rural poverty. For rural areas that are well connected to rapidly urbanizing areas and where local institutions facilitate efficient transactions in the marketplace, including those concerning the use of land resources, non-agricultural employment and enterprise development may well be the major pathway out of rural poverty. On the other hand, for rural areas quite distant from such centers, agricultural growth is expected to continue to play the larger role in poverty reduction. But even here, highly inequitable land ownership patterns constrain a broadly based distribution of the benefits of such growth. Indeed, recent evidence (see World Bank 2008) suggests that lowering landholding inequality makes the growth in the agricultural sector more pro-poor. Land reform aimed at effectively redistributing land ownership may, therefore, be an effective tool for strengthening the response of poverty to agricultural income growth in rural areas disadvantaged by relative remoteness from urbanized areas.

Let’s digress a little and talk about what we now know about the impact of the Comprehensive Agrarian Reform Program (CARP), the government’s flagship program for equity and poverty reduction in rural areas for the past 20 years. Recent assessments (see Balisacan et al. 2007; World Bank 2008) of the program indicate



that while CARP has been a positive force for social reform and poverty reduction, the welfare gains have been rather small, i.e., the changes in the welfare of the beneficiary communities (ARCs) are only slightly better than those of comparable rural communities not covered by the program (non-ARCs).

The major impediment to realizing the full benefits of the asset reform has been the extremely slow program implementation. This has given rise to bureaucratic inertia, long legal disputes, corruption, lobbying for exemption, and rent-seeking activities by elite groups for the resources made available to the program. Moreover, the long-drawn implementation has bred uncertainty, not only inhibiting the flow of private investments into agriculture but also encouraging non-planting of agricultural lands and their premature conversion into non-agricultural uses. In contrast, at the heart of the remarkable success of the East Asian land reform was the speed of its implementation.

Inadequate human capabilities have often been the underlying cause of poverty and inequality. In recent years, economic growth has favored the highly skilled and

educated. Even in agriculture, which has been the reservoir of low-skilled labor, growth is increasingly anchored on higher levels of human capabilities.

Yet, the country’s public spending on basic infrastructure, education, and health, whether seen in terms of share in GDP or in expenditure per person, has been lagging well behind that of its East Asian neighbors. To catch up with these countries in terms of poverty reduction and human development outcomes, the government has to simply prioritize spending on infrastructure and the social sector, especially on basic education, health and family planning services, and environment.

The table below provides a guide to national government spending. By no means exhaustive, the list includes areas that have been extensively demonstrated — both in the country and elsewhere — as effective vehicles for directly influencing the welfare of the poor, while keeping the fiscal burden of poverty reduction programs to manageable levels by reducing leakages of the benefits of such programs to the unintended (non-poor) groups.

<b>Indicative areas for national government spending on a poverty program</b>	
Areas to spend more	Areas to spend less
1. Basic education, especially teaching materials; technical education and skills development esp. in rural areas.	Tertiary education: cost-recovery (but with scholarships for the poor)
2. Basic health; family planning services; health insurance for the poor	Tertiary health care: Impose cost-recovery
3. Rural infrastructure, especially transport & power (but w/ coordination)	Public works equipment program (except for short-term disaster relief)
4. Conditional cash transfers (food subsidy if children attend schools, visit health clinics, etc.)	General food price subsidies
5. R&D; small-scale irrigation systems	Postharvest facilities & agricultural inputs (private goods)
6. Capacity building for LGUs & microfinance providers	Livelihood programs (except for short-term disaster relief)
7. CARP: conversion of collective CLOAs to individual titles, land redistribution in remote areas (not urbanized/urbanizing areas)	CARP in urbanized or rapidly urbanizing areas

The reform effort has to go beyond simply raising the level of public investment in basic infrastructure and social services, particularly education and health. It has to be made pro-poor as well. The data indicate that the poorest groups in society have the least access to health, education, and family planning services. Targeting of public spending must be improved so that poorer individuals would receive proportionately more opportunities for publicly funded social services and infrastructure.

The reform effort has to likewise include deepening of our participation in the global marketplace. Contrary to fears expressed in various circles, globalization, defined broadly to mean interconnectedness of markets and communities across national borders, has been beneficial to the poor. Evidence indicates that in cases where

globalization (in the more limited sense of openness to international trade) has hurt the poor, the culprit has often been not globalization per se but the failure of domestic governance to secure policy and institutional reforms needed to enhance the efficiency of domestic markets and ensure a more inclusive access to technology, infrastructure, and human development.

### The Other Neglected Problem: Rapid Population Growth

One particular feature of the Philippine society is its failure to achieve a demographic transition similar to what its Southeast and East Asian neighbors went through during the past three decades. In all these countries, including the Philippines, mortality rates broadly declined at almost similar rates; however, fertility rates declined much more slowly in the Philippines than in its neighbors. Consequently, while population growth rates declined substantially to below 2 percent a year in Thailand, Indonesia, and Vietnam, the Philippines' high rate of 2.3 percent a year hardly changed (although it declined a bit to 2.0 percent in recent years). The working-age population of East Asian countries was 57 percent in 1965 and 65 percent in 1990, increasing four times compared with the number of dependents. In contrast, the Philippines had a working-age population of below 60 percent, with 52 percent in 1980, 55 percent in 1990, 56 percent in 1995, and 58 percent in 2000.

Compelling evidence demonstrates that the demographic dividend has contributed immensely to the rapid economic growth in the so-called "East Asian miracle" countries during the past three decades. Estimates show this contribution to be roughly one-third of the observed growth rates of per capita GDP.

In the Philippines, the population issue remains highly contentious. At the center of the debate is whether population growth has any bearing on economic development and poverty reduction. Surprisingly, despite its obvious importance in this debate, empirical work examining the quantitative significance of the economy-population-poverty dynamics in the Philippines is quite scarce. Until lately, what exactly the country has missed in terms of economic growth and poverty reduction by way of demographic dividend has not been known.

Our recent studies attempted to fill this gap by combining estimation techniques and data to "discover" the relationship between population growth and the demographic transition on economic growth and poverty reduction. We used data consisting of 80 developing and developed countries and covering 25 years. Our focus was on long-run effects, thus the reason for our using a relatively large time series data. To the extent allowed by available data, our estimation has

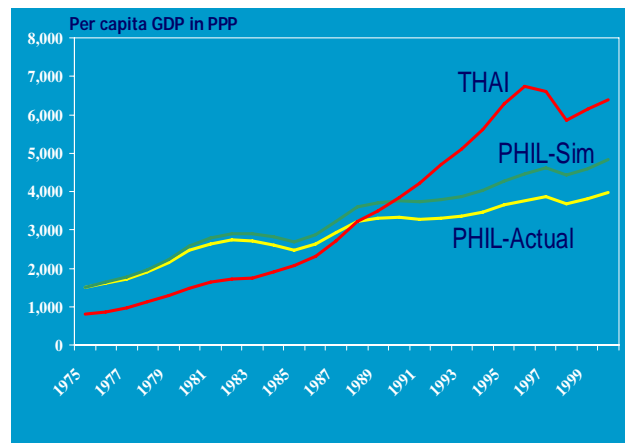
Determinants	RP	Thailand	Foregone Growth
<b>Population growth</b>			<b>0.77</b>
<b>All ages</b>	<b>2.36</b>	<b>1.58</b>	
<b>Working-age popn</b>	<b>2.85</b>	<b>2.53</b>	
<b>Other included variables*</b>			<b>2.07</b>
<b>Total growth differential accounted by model</b>			<b>2.84</b>
<b>Actual GDP per capita growth rate, average of 1975-2000</b>	<b>4.10</b>	<b>8.84</b>	<b>4.74</b>

\*The other variables included in the model are initial income (GDP per capita in 1975), trade regime, savings rate, health status, education, institutions, and location.

Source: A.M. Balisacan et al., *The Population-Poverty Nexus: The Philippines in Comparative East Asian Context*, Quezon City: UP Press and Asia-Pacific Policy Center, forthcoming.

controlled for the influences of factors other than population growth, including institutions, trade regimes, and income inequality.

Of particular interest to us were the results of the comparison between Thailand and the Philippines. These two countries make for an interesting case because they have a lot of things in common: land area, economic structure, natural resources, and goods traded in the international market. In terms of demographic and economic structures, these countries were like twin sisters in the early 1970s. But their patterns diverged significantly since then. In 2000, per capita GDP in the Philippines was about 2.5 times that in 1975. Thailand's 2000 per capita GDP was 8 times that in 1975.



Our economic sleuthing showed that had the Philippines followed Thailand's population growth path during the period 1975 to 2000, the country's growth in average income per person would have been 0.77 percentage point higher every year. Poverty incidence in 2000, had the Philippines followed Thailand's population growth, would have been lower by 5.3 percentage points. Put differently, given that the population in 2000 was 76.5 million, about 4 million people would have escaped poverty, if only the Philippines followed the population growth dynamics of Thailand during the period 1976-2000.

### The Big Challenge

The big challenge for the Philippines, therefore, is to pursue a strongly pro-poor development agenda in a regime where institutions are initially weak, governance is fragile, and the external environment for global trade, finance, and overseas employment is deteriorating. Many past costly programs (e.g., credit programs, food subsidy programs, etc.) have been christened in the name of the poor and equity, but in practice have benefited disproportionately the non-poor, including politicians, bureaucrats, and the elites in society. It cannot be overemphasized that the quality of our institutions has to be upgraded so that they become more responsive to the needs and aspirations of those in the lowest rung of the social ladder.

The government's posture with respect to the rapidly growing population is very disturbing. The consequence of such posture on economic growth and poverty reduction has been staggering: it has contributed to the country's degeneration into being Southeast Asia's basket case. This stance has to change, if only to improve the country's chances of moving the economy to a higher growth path and winning the war against poverty.