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THE DETERMINANTS OF POVERTY IN MEXICO: 1996

A Dissertation
presented to
The Faculty of the Graduate School
University of Missouri-Columbia

In Partial Fulfillment
Of the Requirements for the Degree

Doctor of Philosophy

---

by
JORGE GARZA RODRIGUEZ

Dr. Whitney Hicks, Dissertation Supervisor

AUGUST 2000

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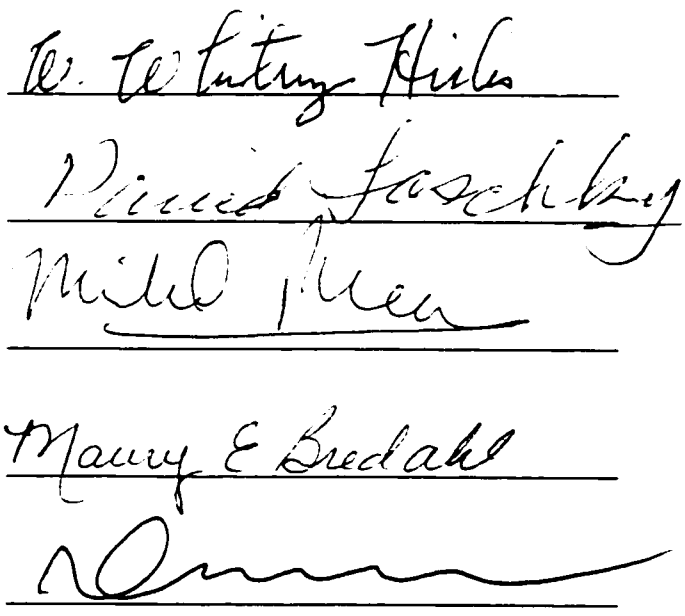
presented by Jorge Garza Rodriguez

a candidate for the degree of Doctor of Philosophy

and hereby certify that in their opinion it is worthy of acceptance.



To the love of my life, Pavis

To our beloved children, Jorge and David Ricardo

ACKNOWLEDGEMENTS

Writing this dissertation would have been impossible without the permanent guidance and support of my advisor, Dr. Whitney Hicks. I am particularly grateful to him for continuing his advice even from long distance when I was in Mexico collecting the data for this dissertation. I thank him for all the E-mails that he had to read and write during this period. I can not thank him enough for all the help he gave me throughout all the years in my doctoral program.

I extend my deep appreciation to the other members of my dissertation committee, Dr. Maury Bredahl, Dr.David Loschky, Dr. Van Pham and Dr. Michael Podgursky, for their valuable help and suggestions to improve this study.

I am also grateful to Dr. Ronald Ratti for all the help he gave me during my graduate program. I extend my gratitude to Mrs. Lynne Riddell of the Department of Economics for her kind help during the last years of my doctoral program.

Special thanks are due to INEGI for helping me to interpret and use the ENIGH data sets. Many people in INEGI helped me in this task and I am sincerely grateful to all of them.

I wish to express my sincere appreciation to the University of Monterrey for providing financial support to conclude my doctoral program. I am particularly grateful to

Nora Elsa Cárdenas and José de Jesús García, former and present Head of the Department of Economics, as well as to Hernán Salinas, Director of the Division of Professional Studies, for their valuable support during the last years of my doctoral program. Likewise, I sincerely thank all my fellow professors and friends in the Department of Economics and in the University for the encouragement they always gave me to conclude this dissertation.

Above all, I am most grateful to my beloved wife, Pavis, and to our dear children, Jorge and David Ricardo, for all the time that I had to take away from them to write this dissertation. I am grateful to God for giving me such wonderful wife and children and I thank them with all my heart for their sacrifice, encouragement and love.

THE DETERMINANTS OF POVERTY IN MEXICO: 1996

Jorge Garza Rodríguez

Dr. Whitney Hicks, Dissertation Supervisor

ABSTRACT

This study examines the changes in poverty in Mexico for the period 1994-1996 as well as the determinants or correlates of poverty in 1996. The data used in the study come from the National Survey of Income and Expenditures of Households for the years 1994 and 1996. By estimating the Foster-Greer-Thorbecke family of poverty measures, we found that both moderate and extreme poverty increased in Mexico during the 1994-1996 period, and that the depth and severity of poverty also increased. The poverty profiles constructed for both years indicate that poverty incidence is higher for households located in rural areas, for large households, for households where the head has a low level of education, and for households whose head works in a rural or domestic occupation.

A logistic regression model was estimated for 1996, with the probability of a household being extremely poor as the dependent variable and a set of economic and demographic variables as the explanatory variables. It was found that the variables that are positively correlated with the probability of being poor are: size of the household, living in a rural area, working in a rural occupation and being a

domestic worker. Variables negatively correlated with the probability of being poor are: the education level of the household head, his/her age and whether he or she works in a professional or middle level occupation.

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CHAPTER II

INTRODUCTION

Poverty in Mexico is widespread and pervasive. According to the estimates to be presented in Chapter IV, more than 34 million people were living in poverty in 1996, which represents 38 percent of the Mexican population. Although this rate decreased constantly from 1950 until 1984, after that year there has been no further improvement (Székely, 1998) and, as it will be shown in Chapter IV of this study, the poverty rate increased significantly during the 1994-1996 period.

The high poverty rates prevalent in the country are a reflection of both low incomes and an unequal income distribution. Mexico has one of the more unequal income distributions in the world. According to the World Bank (1999), only eleven countries in the world have a worse income distribution than Mexico. This feature of the Mexican economy is not new; it has been one of its distinct characteristics for a long time. According to Székely (1998) income distribution in Mexico improved between the years of 1950 and 1984, but then worsened after that year. The Gini coefficient decreased from 0.52 in 1950 to 0.44 in 1984 but then increased to 0.49 in 1992. Our own estimates in this

study indicate that the Gini coefficient further increased even more to 0.52 in 1996, the same figure as for 1950.

During the 1980's and 1990's, the period in which income distribution has become more unequal, the Mexican economy experienced a deep transformation which involved a major shift in the development model that the country had been following until the 1970´s. Important manifestations of this change were the macroeconomic stabilization programs that were implemented, the process of trade liberalization, the privatization of state-owned enterprises and banks, deregulation and the reduction or elimination of barriers to foreign investment in important sectors of the economy since 1988.

After these reforms, the Mexican economy started to grow consistently, although slowly, from 1987 until 1994. However, after a series of political events, including the appearance of a guerilla movement in the south of the country and the assassination of the Institutional Revolutionary Party presidential candidate, the Mexican economy entered one of the most profound crises in recent history. Gross Domestic Product fell 6.2 percent in 1995 and the peso lost half its value against the dollar. The real minimum wage fell by 13 percent, while real private consumption decreased 9.6 percent. Although the economy eventually recovered during 1996, the gains were not enough to compensate for the losses that occurred during 1994. Thus, per capita real GDP was still 4.8 percent lower in

1996 as compared to 1994, average real wages were 22 percent lower than in 1994 and real private consumption was 7.5 percent below the 1994 figure.

During the 1994-1996 period there was a slight improvement in income distribution in the country. The Gini Index decreased from 0.5338 in 1994 to 0.5191 in 1996. The income share of the lowest three deciles increased slightly and the share of the highest decile decreased. However, a closer look at the income distribution reveals that the persons situated in the lowest three percentiles of the distribution, the poorest of the poor, reduced their share during the period.

Most of the analyses of poverty in Mexico have been based on the National Survey of Income and Expenditures of Households (ENIGH), mainly for the years 1984 and 1989. A few studies include data from the 1992 and 1994 surveys, but (to the author's knowledge) no work has been based on the 1996 survey, which has, until recently, not been available. Therefore, one of the goals of the present study is to extend the analysis of the evolution of poverty in Mexico to include the 1996 survey. Since the 1994-1996 period includes the deep crisis and the subsequent recession experienced by the Mexican economy in 1994 and 1995, the 1996 data allows us to analyze the changes in poverty levels that resulted as a consequence of the crisis.

In the following chapters we intend to test the following hypotheses about poverty in Mexico:

1) The proportion of the population below the poverty line in Mexico increased between 1994 and 1996.

2) The depth and intensity of poverty, as measured by the Foster-Greer-Thorbecke indexes, increased between 1994 and 1996.

3) Poverty in rural areas in Mexico was higher than in urban areas in the period considered in the study, 1994-1996.

4) The education level of the household head, his/her gender, occupation, the economic sector in which he/she works, and the place of residency of the household are variables that explain poverty.

To test the hypotheses related to changes in poverty levels we use the Foster-Greer-Thorbecke (FGT) family of poverty indices to measure changes in magnitude, i.e. the incidence (poverty headcount), depth (FGT1) and intensity (FGT2) of poverty. We construct a poverty profile for several socio-economic characteristics pertaining to the household and its head for 1994 and 1996 and then we analyze the differences in these measures of poverty for each socio-economic variable during the same year and between both years.

To test the hypothesis about the determinants or correlates of poverty we use logistic regression with the dependent variable being the dichotomous variable of whether the household is extremely poor (1) or is not extremely poor (0). The explanatory variables considered in the analysis

were: gender, age, education, the occupation of the household head, and size and location (rural or urban) of the household.

The study is organized as follows: Chapter II reviews the literature about poverty measures and about the magnitude and evolution of poverty in Mexico during the last two decades. This chapter also deals with the few papers that have been written about the determinants or correlates of poverty and the methodology they use.

Chapter III describes the ENIGH 1994 and 1996 Surveys, and the selection of variables from the Surveys that will be used in this study.

Chapter IV discusses the evolution of poverty in Mexico during the period 1994-96, by constructing a poverty profile for the country for each of the years considered. The FGT family of poverty measures for several socioeconomic characteristics of the household and the household head are estimated using the micro data from ENIGH 1994 and ENIGH 1996.

Chapter V presents the results of the multivariate analysis to explore the correlates or determinants of poverty in Mexico based on the 1996 ENIGH dataset. A logistic regression is run, with the dependent variable being the dichotomous variable of whether the household is extremely poor (1) or not extremely poor (0). The explanatory variables considered in the analysis were: gender, age, education and occupation of the household head,

size and the location (rural or urban) of the household.

Finally, Chapter VI proposes some conclusions based on the analysis developed in this study.

CHAPTER II

LITERATURE REVIEW

2.1 Economic Development and Poverty

It has now for some time been recognized that the concept of economic development should not be limited to be equivalent to economic growth alone, or even to economic growth with an adequate distribution of income. The current consensus recognizes that there cannot be economic development without the reduction of poverty. Meier (1984) notes that, as far back as 1953, Viner (1953) warned against a limited definition of economic development, one that does not include the reduction of massive poverty, but noted that that notion was far away from the mainstream of economics at that time.

Chenery (1974) brought the question of distribution into the picture again. He noted that despite high growth in some developing countries during the 1960´s and 1970´s, most of the population in those countries did not benefit from high growth, because low-income groups did not share in the increased income.

Seers (1979) went beyond the problem of inequality to include progress in reduction of poverty. He said that the reduction of unemployment should be a requirement to be able to say that a country is developing. In his view, un- or under-employment is an important cause of poverty and economic development involves reducing un- or under-employment.

2.2 Poverty and Welfare

The World Bank (1990) defines poverty as ``the inability to attain a minimum standard of living''. Lipton and Ravallion (1995) state that ``poverty exists when one or more persons fall short of a level of economic welfare deemed to constitute a reasonable minimum, either in some absolute sense or by the standards of a specific society''. Any definition of poverty includes a given level of welfare below which a person will be considered poor. Then, it is necessary to determine how to assess welfare. In this respect, there are mainly three approaches in the literature: the welfarist approach, the basic needs approach and the capabilities approach.

The welfarist approach bases comparisons of well-being solely on individual utilities, which are based on social preferences, including poverty comparisons (Ravallion, 1993). Some problems related with this approach are the need

to make inter-personal utility comparisons to obtain social welfare functions, the degree of validity of full-information and unbounded rationality assumptions on the part of the consumers, as well as the possible conflicts between individual maximization and valuable social objectives (Ravallion, 1993).

The basic needs approach concentrates on the degree of fulfillment of basic ``human needs in terms of health, food, education, water, shelter, transport'' (Streeten et. al., 1981). The main argument behind the basic needs approach is the possibly low correlation between income and the degree to which these needs are satisfied.

The capabilities approach, due to Sen (1985, 1987) considers commodities not as ends, but as means to desired activities. Sen (1987, p.25) writes that the ``value of the living standard lies in the living, and not in the possessing of commodities'' In this approach, poverty is interpreted as lack of capability. The operationalization of this approach is difficult, but an attempt has been made in the UNDP Human Development Reports. The capabilities approach has been criticized on the ground that it does not clearly recognize the role individual preferences play in welfare, thus taking the opposite extreme to the welfarist approach.

2.3 Poverty Lines

The next step in poverty analysis is the definition of one or several poverty lines, which can be absolute or relative. This will be necessary to identify the people living in poverty, to distinguish the poor from the non-poor. In the absolute poverty concept, poverty is seen as a situation of insufficient command over resources, independent of the general welfare level in society, while the relative poverty concept is seen as a situation of purely relative deprivation (Hagenaars and van Praag, 1985).

Ravallion (1993, p.30) defines an absolute poverty line as ``one which is fixed in terms of living standards, and fixed over the entire domain of the poverty comparison'', while a ``relative poverty line, by contrast, varies over that domain, and is higher the higher the average standard of living''.

Several approaches can be used in constructing poverty lines, each related to a given concept of poverty. From an absolute poverty standpoint, they can be defined using income, total expenditure, consumption expenditure, a basket of goods that satisfies basic needs, or food shares. From a relative poverty standpoint, poverty lines can be defined as a function of income or as a function of relative deprivation in terms of commodities, that is, defining poor

households as those that are unable to attain given commodities that are normal for their society. Hagenaars and de Vos (1988) have proposed the use of poverty lines based on subjective definitions, based on surveys asking people whether they consider their income (or consumption) levels to be sufficient for them. Absolute poverty definitions are mostly used in developing countries, while relative poverty definitions are mainly used in developed countries.

2.3.1 Basic Needs Poverty Lines

Basic needs is the most widely used approach to setting a poverty line in developing countries. It considers the expenditure or income necessary to obtain a given basket of goods that satisfies basic needs, mainly food, shelter and clothing. The first and most important component of this estimate is food expenditure, which must be enough to provide a minimum food-energy intake, as recommended by nutritionists. Then some estimate of non-food expenditure is added to this amount to obtain a total minimum expenditure. A problem related to the estimation of the food component is that there are many food combinations that will yield the required minimum nutrition level and food habits vary across regions and ethnic groups in a country. However, the most difficult problem is estimating the non-food component of the poverty line, since in this case there are no objective criteria on which to base the estimate.

The two most widely used methods to estimate poverty lines are the food energy method and the food-share method. The food energy method estimates the total expenditure that will just satisfy the recommended food-energy intake. This is done through the use of a regression, in which the independent variable is calorie intake and the dependent variable can be consumption expenditures or income. This method has the advantage that it will automatically yield the non-food component of expenditure or income, but it has the disadvantage that it will yield different poverty lines across sub-groups of the population.

The food-share method estimates the cost of a food bundle that meets the energy (calorie) and other requirements and then divides it by the share of food in total expenditure of a group considered to be poor. For example, if the cost of the minimum calorie, protein, and vitamins and other nutrients food bundle is $300, and the share of food in the budget is 50 percent, then the poverty line would be $600.

Another method is proposed by Lipton (1983) who argues that the level of expenditure in which income-elasticity of demand for food-staples is unity is where the (ultra-poor) poverty line should be set. As Ravallion (1993) notes, the problem with this approach is that the poverty line, thus estimated, will shift according to all other variables entering the demand function.

2.4 Poverty Measures

While setting a poverty line deals with the problem of identifying who are the poor, the issue of poverty measures deals with the problem of estimating a measure of the degree of poverty in the society as a whole. Many poverty measures have been proposed and calculated in applied work.

2.4.1 The Head-count Index

The simplest and most widely used poverty measure is the head-count index **H**, which is simply the number of people **q** below the poverty line, divided by total population **n**, **H=q/n**. While this measure is straightforward and easily understood, it has been widely criticized because it does not account for the severity of poverty; with this measure someone just below the poverty line counts the same than someone who is extremely poor.

2.4.2 The Poverty Gap Index

The poverty gap **PG** measures the aggregate poverty deficit of the poor with respect to the poverty line:

$$\mathbf{PG} = \sum_{i=1}^{q} (1 - \mathbf{y}_i / \mathbf{z}) / \mathbf{n}$$

Where $\mathbf{y}_i$ represents the consumption level of the ith individual, **z** is the poverty line and **n** is the population size.

PG can be interpreted as the mean proportionate poverty gap in the population (the non-poor having zero poverty gap). The poverty gap is also equal to the income-gap ratio times the head count index:

$\mathbf{PG} = \mathbf{I} \bullet \mathbf{H}$, where $\mathbf{I} = 1\text{-}\mu^{z}/\mathbf{z}$ and $\mathbf{u}^{z}$ is the mean consumption of the poor.

The income-gap ratio **I** itself is not a good poverty measure, since for example if someone just below the poverty line increases his consumption to cross the poverty line then the mean consumption of the poor will decrease and therefore the income gap will increase, even though poverty in fact decreased since there are fewer poor people and the remaining poor are just as poor as before.

However, if **I** is multiplied by **H**, then the resulting measure, the poverty gap **PG**, would indeed (correctly) decrease in this case.

PG has a very useful interpretation: ``it is the ratio of the minimum cost of eliminating poverty with perfect targeting to the maximum cost with no targeting'' (Ravallion, 1993, p. 46). However, a disadvantage of this measure is that it does not adequately reflect the severity of poverty amongst the poor.

2.4.3 The Sen Index

In order to overcome the shortcomings of the headcount index, other measures have been proposed. Sen (1976, 1981) proposed the following measure:

$$P^S = H[I + k(1 - I)G^P]$$

Where $k = q/(q+1)$,

$I = 1 - \mu^* / z$, where μ^* and G^P denote the mean consumption of the poor and the Gini Index for the poor, respectively.

The problem with this measure is that it is not additive. Additivity requires that aggregate poverty be equal to the population-weighted sum of poverty levels among sub-groups of the population.

2.4.4 Foster-Greer-Thorbecke Index

A widely used poverty measure is the squared poverty gap index of Foster-Greer-Thorbecke, (Foster et. al., 1984):

$$\mathbf{FGT_2} = \sum_{i=1}^{q} (1 - y_i / z)^2 / n$$

Analyzing **H**, **PG** and $\mathbf{FGT_2}$ it can be seen that all these measures belong to the same generic class of measures, the so-called Foster-Greer-Thorbecke class of measures (Foster et. al., 1984):

$$\mathbf{P}_\alpha = \sum_{i=1}^{q} (1 - y_i / z)^\alpha / n$$

H, **PG** and $\mathbf{FGT_2}$ are special cases of $\mathbf{P}_\alpha$. When $\alpha = 0$, then we have:

$$P_0 = \sum_{i=1}^{q} (1 - y_i / z)^0 / n = H$$

When $\alpha = 1$, we have

$$P_1 = \sum_{i=1}^{q} (1 - y_i / z)^1 / n = PG$$

and when $\alpha = 2$ we have

$$P_2 = \sum_{i=1}^{q} (1 - y_i / z)^2 / n = FGT_2$$

The use of different poverty measures can lead to quite different conclusions when 1) making poverty comparisons across time and population sub-groups and, 2) most importantly, about the effects of different policies affecting income distribution and poverty.

2.5 Estimation of Poverty Measures

The two main types of data used in poverty comparisons are tabulated grouped data and household level (unit record) data. All poverty measures can be calculated when there is access to household level data, but many times this is not the case and only grouped data are available. Even in this case very accurate results can be obtained by the use of interpolation techniques, especially with the estimation of parameterized Lorenz curves (Ravallion, 1993).

Hypothesis testing can be done when the measures are calculated from unit record data. These measures are useful

to evaluate the significance of changes in poverty across time and for different sub-groups of the population.

With the use of poverty measures, especially those that are additive, poverty profiles can be constructed. A poverty profile is a poverty comparison among different groups of the population, such as by place of residence, sector of employment, education of the household head, etc. With the use of poverty profiles, it is possible to evaluate the effects of given policies or types of growth upon the different groups of the population.

2.6 The Measurement of Poverty in Mexico

Although there have been relatively many studies about income distribution in Mexico, studies about poverty have been less frequent. The most recent studies have been published by Hernández-Laos (1990), Levy (1994), INEGI-CEPAL (1993), Lustig (1992 and 1995)and Székely (1995 and 1998). Differences in methodology used by these authors make it difficult to compare their results. The main differences in the methodology they use are: different poverty lines, different welfare variables (income or consumption), different adjustments for inflation, whether the data were adjusted to be compatible with national accounts or not and, whether the sample was expanded to the total population. With all these differences in methodology, different results

were obtained. Extreme poverty head-count estimates range from 15.5 percent (Lustig (1992), using Levy's extreme poverty line) to 59.5 percent (Lustig (1992), using Hernández-Laos extreme poverty line). Head-count poverty estimates (including moderate and extreme poverty) range from 47.4 percent (Lustig(1992), using CEPAL's poverty line) to 81.1 percent (Lustig(1992), using Levy's poverty line).

Table 2.1 shows the different poverty lines used by each of the authors in their studies.

Table 2.1 Mexico: Poverty Lines used in Several Studies (Quarterly Per Capita Income, June 1984 Pesos and Converted Dollars at the average 1984 Exchange Rate of 185.19 Pesos per Dollar)

Author	Moderate Poverty		Extreme Poverty	
	Pesos	Dollars	Pesos	Dollars
Levy	39,215.18	211.95	9,372.12	50.61
Hernández-Laos	44,228.18	238.83	2,6219.56	141.58
CEPAL	20,116.33	108.63	10,460.89	56.49

Source: Lustig (1992)

Lustig (1992) describes the criteria used by the authors to determine the poverty lines:

Levy. The extreme poverty line is equal to the cost of one of the ``minimum nutritional requirements basket'' recommended by COPLAMAR (1983), (COPLAMAR was a Federal Agency created by the Mexican Government to coordinate poverty alleviation policies) multiplied by 1.25. The moderate poverty line is equal to the cost of one ``minimum basic basket'' recommended by COPLAMAR, which includes food and non-food commodities.

Hernández-Laos. The extreme poverty line is an ``infra-minimum'' COPLAMAR defined basket of goods, which includes food, housing, health and education expenditures. The moderate poverty line is supposed to be the same as Levy's moderate poverty because it is based on the same COPLAMAR's basket, but it is not equal and it has not been possible to find out why the two measures are different.

CEPAL. The extreme poverty line includes only the expenditure in a food basket that meets the minimum nutritional requirements. The moderate poverty line is equal to twice the extreme poverty line for urban areas and equal to 1.75 times the extreme poverty line for rural areas (same criteria than used in the INEGI/CEPAL study).

Besides the different poverty lines used by the authors, other differences in methodology existed. Levy does not expand the sample, while Lustig, Hernández-Laos and CEPAL expand it. Hernández-Laos and CEPAL adjust the data to be consistent with national accounts, while Levy and Lustig do not. Also, Hernández-Laos does not correct the data for inflation, which at the time the survey was done was significant; Levy and Lustig adjust the data for inflation while it is not clear whether CEPAL adjusts it or not.

The Mexican National Institute of Statistics, Geography and Informatics (INEGI) and the Economic Commission for Latin America (CEPAL) carried out another study in December of 1993. The study, ``Magnitude and Evolution of Poverty in Mexico 1984-1992'' was based on the National Survey of Household Incomes and Expenditures (ENIGH) for 1984, 1989 and 1992. INEGI/CEPAL considered two poverty lines, one for extreme poverty and the other called ``intermediate poverty''.

The first concept included all households that did not have sufficient income to buy a minimum food basket that met indispensable nutritional requirements as estimated by

CEPAL. The ``intermediate'' poverty line is equal to twice the extreme poverty line (twice the minimum food basket expenditure) for urban areas and 1.75 times the extreme poverty line for rural areas.

It is generally accepted that a poverty line which covers only minimum food expenditures can be considered an ultra-poverty line, while if that ultra-poverty line is multiplied by the reciprocal of the food share expenditure of the poor we obtain a poverty line that considers minimum food expenditure plus non-food expenditures. Based on this reasoning, it could be said that what INEGI/CEPAL calls ``intermediate'' households are in fact households living in what might be called ``moderate'' poverty. The income of these households is more that enough to buy the minimum food consumption basket, but it is less than enough to buy both this food basket and the non-food consumption basket.

With these definitions in mind, we can analyze the estimates made by INEGI/CEPAL. For the 1992 ENIGH survey, they found that 13.6 million people, 16 percent of the population, were living in extreme poverty and 23.6 million people, or 28 percent of the population were considered ``intermediate'' households, or what might be considered ``moderate'' poverty as mentioned above. Adding both figures, we could obtain an estimate of poverty in Mexico for 1992, an estimate that includes people living in extreme poverty and people living in moderate poverty. According to

these figures, 37.2 million people, representing 44 percent of the population were in poverty in that year.

These are national figures, including both rural and urban areas. Poverty in rural areas was much higher, 26 percent of the rural population were extremely poor and 29 percent moderately poor, meaning that more than half of Mexico's rural population (55 percent) was poor in 1992. Although at first sight these figures seem exaggerated, as defined by the study itself, they include only the income needed to buy a minimum food consumption basket that meets minimum nutrition requirements (extreme poverty line) and the income needed to buy this food basket plus a minimum non-food basket ("intermediate'' or moderate poverty).

Other more recent studies of poverty include the PhD dissertations by Alarcón (1993) and Castro-Leal (1995). Alarcón uses Levy´s methodology to calculate HC, FGT and PG for 1989 and compares them with Levy´s results for 1984. She found that all three poverty measures increased in the period considered. Extreme poverty increased from 20 percent of the population in 1984 to 24 percent in 1989. Rural areas registered the largest increase in poverty, increasing from 37 percent of the population in 1984 to 42 percent in 1989, while poverty in urban areas increased from 10 percent of the population in 1984 to 12 percent in 1989.

The poverty gap increased from 0.06 in 1984 to 0.08 in 1989, with again the rural areas experiencing the largest increase, rising from 0.12 to 0.16. The FGT_2 index, which

measures the severity of poverty, increased from 0.026 in 1984 to 0.039 for the national measure and from 0.057 in 1984 to 0.080 in 1989 for rural areas. Since Alarcón uses COPLAMAR´s moderate poverty line criteria, the estimates for moderate poverty that she obtains are very large and controversial. They are based on the pattern of consumption of the seventh income decile of the Mexican population. Measured by the Headcount Index, Alarcón found a slight decrease in total poverty, from 81 percent of the population in 1984 to 79 percent in 1989. However, the poverty gap and the FGT index increased slightly. PG increased from 0.46 in 1984 to 0.47 in 1989, while FGT increased from 0.30 to 0.32 in the same period.

In her PhD dissertation, Castro arrives at different conclusions about changes in poverty incidence between 1984 and 1989, but she uses a different methodology than Levy and Alarcón. Castro finds that extreme poverty decreased from 14 percent of the population in 1984 to 11 percent in 1989, while moderate poverty decreased from 66 percent of the population in 1984 to 62 percent in 1989.

In order to take into account the composition of the household, Castro also calculates the poverty measures using adult equivalence scales and finds a statistically significant decline in moderate poverty between 1984 and 1989, in contrast with the decline in extreme poverty, which is non-significant.

2.7 Studies about the Determinants of Poverty

Although the construction of poverty profiles is useful because it allows us to know whether poverty is increasing or decreasing as well as the changes in the composition of the population in poverty, poverty profiles do not throw much light about the causes of poverty. They only provide a description of poverty according to several economic, demographic or social characteristics, but do not go in depth as to look for the underlying causes of differences in poverty rates across population groups and/or across time.

However, while the literature on poverty measurement is by now relatively developed and abundant, there are very few studies dealing with finding the determinants or causes of poverty. In general, these studies have used different methodologies, including ordinary least square regression where the dependent variable is continuous, logistic regression where the dependent variable is binary, and quantile regressions where the dependent variable is income.

In one of the first studies about the determinants of poverty, Kyereme and Thorbecke (1991) estimated a cross-section regression model for Ghana, using the 1974-1975 Ghana Household Budget Survey. In their model, the dependent variable was the total calorie gap for each household in the Survey and the explanatory variables were a set of economic, demographic and geographic location variables. They found that income and education of the household are inversely

related to household calorie gap.

Rodríguez and Smith (1994) used a logistic regression model to estimate the effects of different economic and demographic variables on the probability of a household being in poverty in Costa Rica. The data they used was from a national household-income survey carried out in 1986. Among other results, the authors found that the probability of being in poverty is higher the lower the level of education and the higher the child dependency ratio, as well as for families living in rural areas.

Coulombe and McKay (1996) used multivariate analysis to analyze the determinants of poverty in Mauritania based on household survey data for 1990. They estimated a multinomial logit model for the probability of being in poverty depending on household-specific economic and demographic explanatory variables. The authors found that low education, living in a rural area and a high burden of dependence significantly increase the probability of a household being poor.

2.8 Studies about the Determinants of Poverty in Mexico

Studies about the determinants of poverty in Mexico are few, and they use different methodological approaches.

Cortés (1997), using the ENIGH 1992, estimates a logistic regression of the probability of being poor as a

function of several economic, demographic and location variables. He finds that the probability of being poor decreases with the number of years of education and increases with the burden of dependency and if the household is located in a rural area.

Székely (1998), using a different approach and based on the 1984, 1989 and 1992 Surveys reaches the conclusion that lack of education is the single most important factor in explaining poverty in the country. Other variables that he found as directly related to poverty are: household size, living in a rural area, and occupational disparities.

CHAPTER II

THE DATA

3.1 Overview

This thesis uses the information contained in the micro data from the National Surveys of Incomes and Expenditures of Households (ENIGH) for 1994 and 1996, carried out in those years by the Instituto Nacional de Estadistica, Geografia e Informatica (INEGI), Mexico´s national institute of statistics. Although the most recent survey that has been carried out was for 1998, the micro data for this survey has not yet been made available to the public, so that the 1994 and 1996 surveys are the most recent surveys that have been published by INEGI. These surveys are directly comparable since they follow the same methodology, using the same conceptual framework, reference period, and sample design. The 1994 survey has 12,815 observations while the 1996 survey has 14,042 observations. Each survey was carried out during the third quarter of the year.

3.2 Survey Methodology

The surveys' sampling unit is the house and the unit of analysis is the household. The household and its members can be classified according to various socio-economic and demographic characteristics such as income and occupational characteristics, the physical characteristics of the residence and the services available to the residents of the household.

3.2.1 Socio-demographic Characteristics

The characteristics included in the Survey are the following (and refer to the household residents): kinship relationship with the household head, gender, age, instruction level attained, school attendance, literacy status, and type of school attended.

3.2.2 Occupational Characteristics of Household Members.

The Survey's questionnaire asks about the labor force activity of household members, i.e. if they belong to the economically active population or to the economically inactive population. The economically active population includes the employed population and the unemployed

population actively seeking employment. The employed population comprises the population 12 years and older who declared that they worked at least one hour a week. The unemployed population included those 12 years and older who were unemployed and actively looking for a job at the time of the interview. The economically inactive population includes housewives, students, retirees, renters, permanently disabled workers and discouraged workers who are no longer seeking work because they have been unable to find a job.

3.2.3 Economic Transactions.

The economic transactions considered in the surveys are current transactions and financial or capital transactions. Current transactions are defined as those whose object is to cover basic needs and the result is not cumulative. Financial or capital transactions are those motivated by the desire to accumulate.

Current transactions include current income and current expenditures. Current income includes both monetary and non-monetary income (in-kind payments) received by household members during the reference period. The income concept registered in the surveys is net income, after deducting taxes, social security payments, union payments or other deductions. Current monetary income includes the following

sources: wages, entrepeneurial income, rents, incomes from cooperatives, transfer payments and other current income. Non-monetary income comprises: auto-consumption (household production consumed in the household), in-kind payments, gifts, and the imputed rent from owner-occupied housing.

3.2.4 Survey's Reference Periods

There were different reference periods for the variables included in the Surveys. For the socio-demographic variables the reference period was at the moment of the interview. For the income variable, the reference period was for one month before the interview up to six months before the interview. For the occupational characteristics the reference period was the month before the interview.

3.2.5 Survey's Geographic Coverage

The Survey is statistically representative at the national level and at the urban and rural level. According to INEGI this characteristic makes it impossible to obtain inferences at the state level, except for a few states in which the sample was expanded to permit inferences at the state level. These states paid for the cost of the expanded surveys. For the 1994 Survey, the sample was expanded for the states of Aguascalientes, Coahuila, Mexico, Puebla,

Veracruz and the Metropolitan Mexico City Area. For the 1996 Survey the sample was expanded for the states of Campeche, Coahuila, Guanajuato, Hidalgo, Jalisco, Estado de México, Oaxaca, Tabasco and the Metropolitan Mexico City Area. However, the analysis in the following chapters is performed only at the national level and at the rural and urban levels, and no analysis is done for the particular states mentioned above.

3.3 Sampling Design

The ENIGH data were obtained through a two-stage stratified sampling design. First stage sampling units are Areas Geoestadisticas Basicas, AGEBS (basic geo-statistic areas) and second stage sampling units are housing units. AGEBS in urban areas measure around 20 to 80 blocks.

The Surveys include information about expansion factors for each selected house, and they are equal to the inverse of the probability of selection. In this sense, the expansion factor for each selected house indicates the number of houses that each house represents in the total population of dwelling units.

Although the Primary Sampling Units corresponding to each observation are not released by INEGI in the compact disc that contains the surveys, we were able to obtain them directly from INEGI for the 1996 survey, but not for 1994. Thus, it is possible to obtain statistical inferences using

the complete information from the sampling design for 1996, but not for 1994, in which case we only used the strata information, but not the Primary Sampling Units information.

CHAPTER IV

CHANGES IN POVERTY LEVELS AND POVERTY PROFILES: 1994-1996

4.1 Introduction

In this chapter we look at the evolution of poverty in Mexico during the period 1994-96. We construct a poverty profile for the country for each of the years considered by calculating the Foster-Greer-Thorbecke (FGT) family of poverty measures for several socioeconomic characteristics of the household and the household head: household size, gender, place of residence (rural-urban), occupation, sector of occupation, position and education).

The chapter is organized as follows: the first section discusses the selection of the welfare indicator to be used in the study; the second section deals with the choice of poverty lines to be used; Section 4.4 gives a short review of the macroeconomic effects of the economic and financial crisis that occurred during 1994-1995; Section 4.5 analyzes the incidence of poverty during the period 1994-96; and finally, Section 4.6 constructs poverty profiles for 1994

and 1996 for several socioeconomic variables of the household and the head of the household.

4.2 Selection of Welfare Indicator

The first step in poverty analysis is deciding what welfare indicator will be used to measure well being. There are mainly two indicators that have been considered in the literature: income and consumption. Consumption is usually preferred to income because it is subject to less fluctuation and so it is argued that it is more representative of the welfare level of individuals. However, as argued by Székely (1998, p. 254), the presence of capital markets imperfections and low savings in Mexico restrict consumption smoothing possibilities, especially for the poor. For this reason we decided to use income as the welfare indicator in this study.

The definition of income used includes both monetary income and non-monetary income. Monetary income includes wages and salaries, entrepreneurial rents, property rents, incomes from cooperatives, transfers and other current income. Non-monetary incomes include home consumption of household production, payments in kind, gifts and imputed rents. Both monetary income and non-monetary income are expressed in current pesos. Non-monetary income is 24.7 percent of total income in Mexico and 25.5 percent in rural

areas (defined in this study as having a population of less than 15,000).

4.3 Selection of Poverty Lines

After selecting the welfare indicator to be used, a poverty line has to be chosen to discriminate the poor from the non-poor. This is a difficult task since it unavoidably implies some degree of arbitrariness in the determination of the income or consumption threshold that divides the poor from the non-poor. In developing countries the most commonly used approach to defining a poverty line is the basic needs approach, which is mainly based on the nutrition requirements necessary to function adequately. However, this definition is not without its problems because nutrition requirements can be met by an infinite number of combinations of foods and one has to take into account the typical diet in the country, which is not necessarily the least cost combination.

Instead of calculating a new poverty line to be used in this study we decided to follow the majority of studies written about poverty in Mexico by using the poverty line estimated by COPLAMAR (1983). COPLAMAR considers two poverty lines, one delimiting extreme poverty and the other delimiting moderate poverty. The extreme poverty line constructed by COPLAMAR includes only the necessary income to buy a minimal food bundle, including 34 different items

equivalent to 2082 calories per day per adult. The moderate poverty line includes, besides food, minimum standards for expenditures in housing, health and education.

Using these COPLAMAR poverty lines Székely (1998) updated the extreme and moderate poverty lines for 1992, equal to 92,986 pesos per head per month and 167,949 pesos per head per month, respectively. We took these poverty lines calculated by Székely and inflated them using the CPI for families with incomes below a minimum wage (for the extreme poverty line) and for families with incomes between one and three minimum wages (moderate poverty line). These poverty lines are shown in Table 4.1.

4.4 Macroeconomic Context: 1994-1996

In order to analyze the evolution of poverty in the period 1994-96 it is useful to review the performance of the Mexican economy during that period, because of the changes in income and income distribution that took place during the period and its possible impact upon poverty levels in the country. In December 1994 Mexico entered one of the most profound economic and financial crises in its modern history. Real Gross Domestic Product fell 6.2 in 1995 while the peso lost half its value against the dollar. The real minimum wage fell by 13 percent, while real private consumption decreased 9.6 percent. Although the economy

eventually recovered during 1996, the gains were not high enough to compensate for the losses that occurred during 1994. Thus, real per capita GDP was still 4.8 percent lower in 1996 as compared to 1994, real average wages were 22 percent lower than in 1994 and real private consumption decreased 7.5 percent.

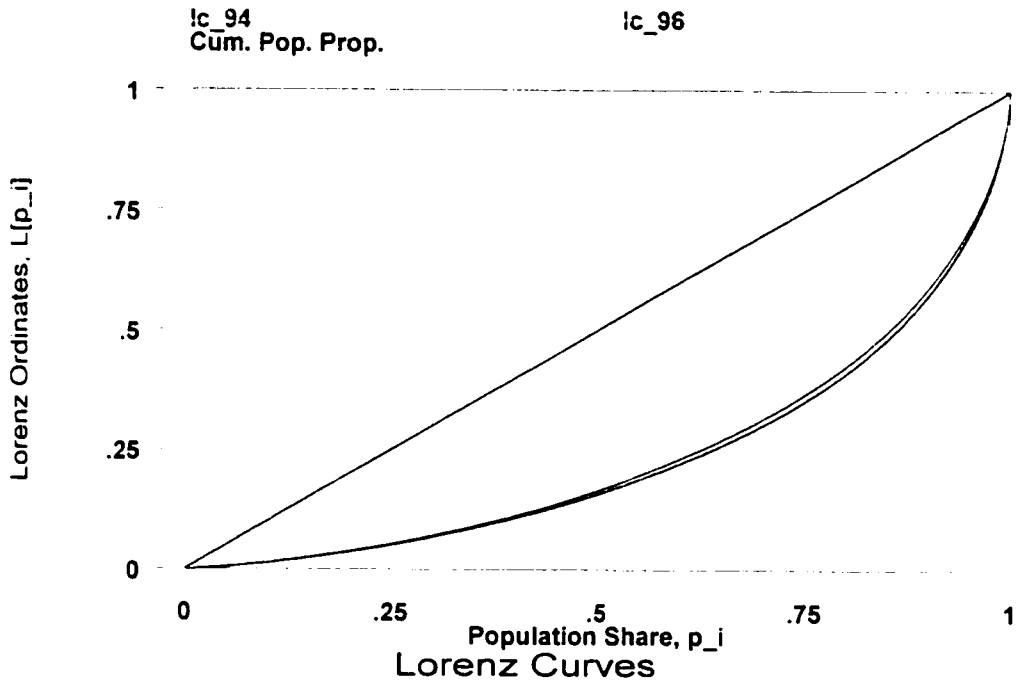
During the period there was a slight improvement in income distribution in the country as measured by the Gini Index. The Index decreased from 0.5338 in 1994 to 0.5191 in 1996. As Table 4.2 shows, the income share of the lowest three deciles increased slightly and the share of the highest decile decreased.

Despite the evidence that there was an improvement in income distribution as measured by the Gini coefficient, a closer look at the Lorenz curves for each year indicates that it is not possible to reach a conclusion about the change in income distribution. This conclusion is based on the concept of dominance of Lorenz curves. For two Lorenz curves, Lx and Ly, it is said that if Lx is always and everywhere above Ly, then it is said that Distribution X Lorenz-dominates Distribution Y and we can be sure that income distribution is better at X than at Y. However, if Lorenz curves Ly and Lx intersect each other at some point then we cannot be sure which distribution is better.

Applying this concept we can see in Figure 4.1 that the Lorenz curves of Per Capita income for 1994 and 1996 intersect each other at the lower percentiles of the

distribution, so that it is not possible to conclude which income distribution is better, 1994 or 1996.

Figure 4.1 Lorenz Curves of Per-Capita Income, 1994-1996



In order to more clearly see what happened to the income distribution at the lower deciles of the distribution we obtained the percentile shares of income for both years as shown in Table 4.3. We can confirm that the Lorenz curve for 1994 lies above the Lorenz curve for 1996 from the first percentile up to the seventh percentile, then from percentile seven to percentile 10 the two curves are equal and from percentile eleventh and more the Lorenz curve for 1994 is below the Lorenz curve for 1996.

It is possible that as a result of the fall in average income and the worsening of income distribution operating against the lowest percentiles, poverty levels could have increased during the period. The next section takes up this issue by calculating the FGT family of poverty measures for 1994 and 1996 to analyze whether there were any statistically significant changes in the incidence, depth and severity of poverty during the period.

4.5 Incidence of Moderate and Extreme Poverty: 1994-1996

Table 4.4 shows the incidence, depth and severity of extreme and moderate poverty in Mexico for the years 1994 and 1996 while Table 4.5 shows the number of people living in extreme poverty and moderate poverty for the same years. It can be seen from those tables that there was a large increase in all measures of poverty. Both extreme and moderate poverty increased, although the increase in extreme poverty was more pronounced, since it increased by about 100 percent to reach 15 percent of total population. Total poverty, including both extreme and moderate poverty, increased to 37 percent of total population in 1996.

The depth and intensity of total poverty also increased during the period. FGT(1), the normalized poverty gap rate, increased by 5.6 points, from 8.9 percent in 1994 to 14.5 percent in 1996, while FGT(2), the squared normalized

poverty gap, increased from 4.3 percent in 1994 to 7.7 percent in 1996. The increases in these measures for extreme poverty and moderate poverty were similar. For extreme poverty, FGT(1) increased from 2.4 percent in 1994 to 5 percent in 1996, while FGT(2) increased from 0.9 percent in 1994 to 2.4 percent in 1996. Moderate poverty, FGT(1), increased from 6.5 percent to 9.5 percent, while FGT(2) increased from 3.4 percent in 1994 to 5.3 percent in 1996.

The large increase in poverty levels during the period can be traced to the decrease in real per capita income, which decreased (as measured in the sample) by about 53 percent (mean per capita income increased from 1820.6 pesos in 1994 to 2443.7 pesos in 1996, an increase of 34.2 percent while prices during the period increased 87 percent).

We can see from Table 4.6 that income distribution among the poor worsened for the poorest of the poor during the period. The income share of the three lowest deciles decreased from 17.7 per cent in 1994 to 15.9 percent in 1996. Reflecting this situation, we can see in Table 4.7 that the Gini coefficient among the poor increased from 0.18921 in 1994 to 0.2198 in 1996, while the Gini coefficient among the general population decreased from 0.5338 in 1994 to 0.5191 in 1996.

4.6 Poverty Profiles: 1994-1996

As defined by Ravallion (1993), a poverty profile ``is simply a special case of a poverty comparison, showing how poverty varies across sub-groups of society, such as region of residence or sector of employment''. A poverty profile can be useful for the design of policies aimed towards the reduction of poverty, since it will indicate which sectors suffer the highest poverty rates. However, the partial coefficients derived from multi-variate models (in Chapter V) are even more useful because they show, *ceteris paribus*, the effect of the ``independent'' variables.

Since the FGT family of poverty measures (discussed in Chapter II), is additively decomposable, it provides a very useful way to analyze the evolution of poverty across population subgroups and across time. The property of additivity implies that when poverty increases (decreases) in any population sub-group, aggregate poverty will also increase (decrease) (Foster et al., 1984). The next sub-sections analyze the poverty profiles estimated for 1994 and 1996 by the following characteristics of the household and the household head: size of the household, rural/urban location, gender, sector of occupation, occupation, position and education of the head.

4.6.1 Urban and Rural Poverty

As in most developing countries, poverty in Mexico is a predominantly rural phenomenon. As shown in Table 4.10, rural population in 1996 represented 41 percent of total population but it included 66 percent of the total number of poor. The rural-to-urban poverty incidence ratio (RUPIR) is 3, which places Mexico among the countries with the highest RUPIR in the world (World Bank, 1999). This finding is consistent with Levy (1994), Székely (1998), and McKinley and Alarcón (1995), who found that poverty is much higher in rural areas than in urban areas for the years in which there were Income and Expenditure Surveys available (1984, 1989, 1992 and 1994).

Table 4.8 shows the distribution of per-capita income in urban and rural areas in 1996. It can be seen that while rural population makes up 40 per cent of total population it receives only 22 percent of total income and that mean urban income is 2.5 times mean rural income. This evidence shows that despite the fact that poverty is higher in rural areas, income is better distributed in rural areas than in urban areas, as reflected also by a lower Gini coefficient in rural areas. Thus, we might expect that as urbanization increases, other things equal, income inequality in the country would tend to increase.

Table 4.9 shows that the level of education is much higher in urban areas than in rural areas and household size

is greater in rural areas than in urban areas. Both of these factors help in explaining why poverty levels are higher in rural areas.

4.6.2 Female and Male Poverty

Households headed by women in Mexico are not more likely to be poor. In fact, as shown in Table 4.10, during 1996 the poverty rate for male-headed households was 10 percentage points higher than for female-headed households, and the difference was statistically significant at the 95 percent confidence level. This reflects the fact that average per capita income for female-headed households was 12 percent higher than for male-headed households. This in turn could be explained by the fact that although total (not per capita) household income for male-headed households is higher than for female-headed households, the difference is not enough to compensate the larger household size of households headed by men.

4.6.3 Education of Household Head

The level of education of the household head is inversely related to poverty. As shown in Table 4.10, fifty-eight percent of households headed by persons with no instruction are poor, while only 2.7 percent of households

headed by persons with at least one year of college are poor. While 45 percent of households' heads did not finish elementary school, 66 percent of poor households are headed by persons with incomplete elementary school. For households in extreme poverty, 78 percent of households heads did not complete elementary school.

These strong contrasts are the reflection of the high returns to education prevalent in Mexico (according to Psacharopoulous et. al (1996), returns to education in Mexico are relatively high). Table 4.11 shows that per capita income of households headed by persons with at least a year of college education are more than five times higher than per capita income of households headed by a person with no instruction.

4.6.4 Sector of Occupation of the Household Head.

As in most developing countries, poverty incidence is higher for households working in the primary sector of the economy. As shown in Table 4.10, 68 percent of households whose head work in the primary sector are poor. Extreme poverty in particular is highly associated with the primary sector, since 57 percent of extremely poor households are headed by persons who work in that sector.

4.6.5 Occupation of Household Head

The occupations with the highest incidence of poverty are rural workers and domestic workers, with a poverty rate of 71 percent and 45 percent, respectively. Rural workers represent 40 percent of the poor, but 21 percent of the population.

4.6.6 Position of Household Head

Fifty-one percent of households whose heads are self-employed are poor. Also, while households headed by self-employed household heads represent 30 percent of the total, they represent 40 percent of the poor. One possible explanation for the high poverty rate among self-employed household heads is that workers who cannot find a job are reported as self-employed doing work with very low productivity.

4.6.7 Household Size

The size of the household is directly related to poverty. Larger families (5 and more members) represent 65

percent of households, but 84 percent of the number of poor families. Families with one to four members represent 35 percent of households, but only 16 percent of the number of poor families.

If children require less income than adults to be above the poverty line or if there are economies of scale in providing for the needs of additional children (or family members), the effect of household size on poverty will be overestimated.

Finally, both poverty and family size may be determined by education.

4.7 Summary of Findings

The poverty profiles estimated in this chapter revealed that all measures of both extreme and moderate poverty increased during the 1994-1996 period.

The poverty profiles also showed that poverty rates are higher for households with the following characteristics: they live in rural areas, have more than five family members, their head has a low level of education and works in the primary sector or in a domestic occupation.

Table 4.1 Poverty Lines, 1994-1996 (Current Pesos per Capita per Month)

	1994	1996
Extreme Poverty	109	204
Moderate Poverty	197	367

Table 4.2 Distribution of Per Capita Income by Decile, 1994-1996

	1994		1996	
Quantile Group	Share, (%)	Cummulative Share, (%)	Share, (%)	Cummulative Share, (%)
1	1.38	1.38	1.38	1.38
2	2.35	3.73	2.48	3.86
3	3.2	6.93	3.37	7.23
4	4.06	10.99	4.3	11.53
5	5.16	16.15	5.4	16.93
6	6.47	22.62	6.72	23.65
7	8.24	30.85	8.45	32.1
8	10.75	41.61	10.96	43.06
9	15.65	57.25	15.74	58.8
10	42.75	100	41.2	100

Table 4.3 Distribution of Per Capita Income by Percentile, 1994-1996

	1994		1996	
Percentile	Share, %	Cumm. Share, %	Share, %	Cumm. Share, %
1	0.07	0.07	0.06	0.06
2	0.1	0.17	0.09	0.15
3	0.11	0.28	0.11	0.26
4	0.12	0.41	0.12	0.38
5	0.14	0.54	0.14	0.52
6	0.15	0.69	0.15	0.67
7	0.16	0.84	0.16	0.83
8	0.17	1.01	0.18	1.01
9	0.18	1.19	0.18	1.19
10	0.19	1.38	0.19	1.38
11	0.2	1.57	0.2	1.58
12	0.21	1.78	0.22	1.8
13	0.22	2	0.23	2.02
14	0.22	2.22	0.23	2.26
15	0.26	2.48	0.25	2.51
16	0.21	2.69	0.25	2.75
17	0.25	2.94	0.26	3.02
18	0.3	3.25	0.27	3.29
19	0.22	3.46	0.28	3.57
20	0.27	3.73	0.29	3.86
21	0.28	4.01	0.3	4.16
22	0.29	4.3	0.31	4.47
23	0.3	4.6	0.31	4.78
24	0.32	4.92	0.33	5.1
25	0.32	5.24	0.34	5.44
26	0.31	5.56	0.33	5.78
27	0.33	5.89	0.35	6.12
28	0.34	6.23	0.37	6.49
29	0.35	6.57	0.37	6.87
30	0.36	6.93	0.36	7.23
31	0.36	7.29	0.39	7.62
32	0.38	7.67	0.4	8.01
33	0.38	8.05	0.41	8.42
34	0.4	8.45	0.41	8.83
35	0.4	8.84	0.42	9.26
36	0.41	9.25	0.45	9.71
37	0.43	9.68	0.43	10.14
38	0.43	10.11	0.46	10.6
39	0.44	10.54	0.45	11.05

Table 4.3 (Continued)

	1994		1996	
Percentile	Share, %	Cumm. Share, %	Share, %	Cumm. Share, %
40	0.45	10.99	0.47	11.53
41	0.46	11.46	0.52	12.04
42	0.49	11.95	0.47	12.52
43	0.47	12.42	0.51	13.02
44	0.49	12.91	0.52	13.55
45	0.51	13.43	0.53	14.08
46	0.52	13.94	0.54	14.62
47	0.53	14.48	0.56	15.18
48	0.58	15.06	0.57	15.75
49	0.52	15.58	0.58	16.33
50	0.57	16.15	0.6	16.93
51	0.58	16.73	0.6	17.53
52	0.6	17.32	0.62	18.16
53	0.61	17.94	0.64	18.8
54	0.62	18.56	0.66	19.46
55	0.64	19.2	0.65	20.11
56	0.66	19.86	0.69	20.8
57	0.65	20.52	0.69	21.49
58	0.68	21.2	0.71	22.19
59	0.71	21.9	0.72	22.91
60	0.71	22.62	0.74	23.65
61	0.73	23.34	0.75	24.41
62	0.76	24.1	0.78	25.18
63	0.79	24.88	0.79	25.97
64	0.8	25.69	0.81	26.78
65	0.79	26.48	0.83	27.61
66	0.84	27.32	0.85	28.46
67	0.84	28.16	0.89	29.35
68	0.87	29.03	0.88	30.23
69	0.9	29.93	0.92	31.15
70	0.92	30.85	0.95	32.1
71	0.93	31.78	0.98	33.08
72	1.02	32.81	0.97	34.05
73	0.94	33.75	1.01	35.07
74	1.05	34.79	1.05	36.12
75	1.03	35.82	1.07	37.19
76	1.09	36.91	1.11	38.3
77	1.12	38.03	1.14	39.44
78	1.16	39.19	1.19	40.63

Table 4.3 (Continued)

	1994		1996	
Percentile	Share, %	Cumm. Share, %	Share, %	Cumm. Share, %
79	1.19	40.38	1.21	41.83
80	1.22	41.61	1.23	43.06
81	1.27	42.88	1.29	44.35
82	1.32	44.2	1.36	45.71
83	1.37	45.57	1.37	47.07
84	1.42	46.99	1.43	48.5
85	1.54	48.53	1.5	50.01
86	1.54	50.07	1.59	51.59
87	1.65	51.72	1.66	53.26
88	1.77	53.49	1.74	55
89	1.79	55.29	1.84	56.84
90	1.97	57.25	1.96	58.8
91	2.1	59.35	2.05	60.85
92	2.21	61.57	2.22	63.07
93	2.46	64.03	2.4	65.47
94	2.69	66.72	2.62	68.09
95	3.04	69.76	2.97	71.06
96	3.49	73.25	3.27	74.33
97	3.85	77.1	3.72	78.05
98	4.82	81.92	4.53	82.58
99	6.27	88.19	5.9	88.47
100	11.81	100	11.53	100

Table 4.4 FGT Family of Poverty Measures in Mexico: 1994 -1996

	1994			1996		
	H0	FGT1	FGT2	H0	FGT1	FGT2
Extreme Poverty	0.0882	0.0239	0.0093	0.1516	0.0503	0.0238
Moderate Poverty	0.1647	0.0651	0.0335	0.2192	0.0946	0.0530
Total Poverty	0.2529	0.0890	0.0428	0.3708	0.1449	0.0767

Table 4.5 Number Of People Living In Poverty In Mexico: 1994-1996

	1994	1996
Extreme Poverty	7,885,792	14,039,675
Moderate Poverty	14,714,381	20,295,680
Poverty	22,600,175	34,335,355

Table 4.6 Income Distribution among the Poor, 1994-1996

Quantile Group	1994		1996	
	Share (%)	Cummulative Share(%)	Share (%)	Cummulative Share(%)
1	4.29	4.29	3.36	3.36
2	6.06	10.34	5.51	8.88
3	7.39	17.73	6.98	15.85
4	8.74	26.47	8.34	24.2
5	9.72	36.19	9.61	33.8
6	10.71	46.9	10.83	44.63
7	11.8	58.7	12.06	56.69
8	12.67	71.37	13.19	69.88
9	13.71	85.09	14.54	84.42
10	14.91	100	15.58	100

Table 4.7 Nominal Mean Per Capita Current Income and Gini Coefficient, Total Population and Poor Population, 1994-1996

Year	Mean Per Capita Income (Poor)	Mean Per Capita Income	General Gini (Population	Gini Among The Poor
1994	383	1821	0.53376	0.18921
1996	670	2443	0.51913	0.2198

Table 4.8 Per Capita Current Income and Gini Coefficient by Rural/Urban Location, 1994-1996

Location	Population Share	Mean Per Capita Income	Income Share	Gini
Urban	0.59	3232	0.78	0.49
Rural	0.41	1301	0.22	0.45

Table 4.9 Education Level of Household Head by Urban/Rural Location, 1996

Education Level	Estimated Proportion	
	Urban	Rural
No Instruction	0.094638	0.275397
Incomplete Elementary	0.202408	0.402426
Complete Elementary	0.23242	0.176257
At Least Some High School	0.213394	0.092779
At Least Some Preparatory	0.115524	0.029069
At Least Some University	0.141616	0.024073

Table 4.10 Poverty Profile, 1994-1996 (Incidence Of Total Poverty)

	1994	1996	Δ(94-96)
Total Population	0.2529	0.3708	0.1180
Number Of Poor	22,600,174	34,335,355	11,735,181
Sex Of Head			
Male	0.2631	0.3839	0.1208
Female	0.1707	0.2814	0.1107
Location			
Urban	0.0856	0.2123	0.1267
Rural	0.4824	0.6004	0.1180
Age Of Head			
Less Than 25	0.1937	0.3333	0.1396
26-45	0.2724	0.3921	0.1197
46-65	0.2264	0.3462	0.1198
65 And More	0.2810	0.3602	0.0792
Education Of Head			
No Instruction	0.4552	0.5796	0.1244
Incomplete Elementary	0.3584	0.5218	0.1634
Complete Elementary	0.1934	0.3748	0.1814
At Least Some High School	0.0870	0.2159	0.1289
At Least Some Preparatory	0.0333	0.1049	0.0716
At Least Some University	0.0193	0.0274	0.0081
Ocupation Of Head			
Not Classified	0.2358	0.3074	0.0716
Professional	0.0329	0.0485	0.0157
Rural	0.5581	0.7056	0.1476
Industrial	0.2200	0.3780	0.1580
Middle Level	0.1036	0.2256	0.1220
Domestic	0.2295	0.4489	0.2194
Sector of Occupation of Head			
Not Classified	0.235777	0.307421	-0.071644
Primary	0.543571	0.683293	0.1080
Manufacturing	0.176500	0.2362	0.0597
Electricity And Construction	0.264514	0.512224	-0.24771
Trade	0.103743	0.274594	0.2477
Other Sectors	0.114078	0.219521	0.1331
Position Of Head			
Not Classified	0.235777	0.307421	-0.071644
Worker	0.2242	0.3348	0.1106
Owner	0.1332	0.2585	0.1253
Self-Employed	0.3488	0.5104	0.1616
Without Remuneration	0.3107	0.4842	0.1735
Household Size			
1-2 Persons	0.0672	0.0793	0.0121
3-4 Persons	0.0928	0.1866	0.0938
5-more Persons	0.3390	0.4832	0.1441

Table 4.11 Mean Per-Capita Current Income By Education Level,1996 (Pesos Per Month)

	Estimate	Std. Err.	95% Conf.Interval	
No Instruction	1345.180	56.14437	1234.331	1456.029
Incomplete Elementary	1459.049	57.90533	1344.723	1573.375
Complete Elementary	1944.463	78.90964	1788.667	2100.259
At Least Some High School	2478.107	83.47654	2313.295	2642.920
At Least Some Preparatory	3854.002	194.6993	3469.596	4238.409
At Least Some University	7260.392	519.7772	6234.165	8286.618

Table 4.12 Population Shares: 1994-1996

	1994	1996
Sex Of Head		
Male	0.889452	0.8724
Female	0.110548	0.1276
Location		
Urban	0.5784	0.5914
Rural	0.4216	0.4086
Age Of Head		
Less Than 25	0.0590	0.0577
26-45	0.5138	0.5265
46-65	0.3396	0.3277
65 And More	0.0876	0.0882
Education Of Head		
No Instruction	0.2044	0.1685
Incomplete Elementary	0.2895	0.2841
Complete Elementary	0.2028	0.2095
At Least Some High School	0.1499	0.1641
At Least Some Preparatory	0.0619	0.0802
At Least Some University	0.0915	0.0936
Ocupation Of Head		
Not Classified	0.1519	0.1512
Professional	0.0886	0.0881
Rural	0.2220	0.2084
Industrial	0.2422	0.2390
Middle Level	0.2445	0.2596
Domestic	0.0509	0.0537
Sector of Occupation of Head		
Not Classified	0.151863	0.151193
Primary	0.231221	0.218524
Manufacturing	0.134948	0.133041
Electricity And Construction	0.095430	0.085285
Trade	0.170065	0.172671
Other Sectors	0.216474	0.239286
Position Of Head		
Not Classified	0.151863	0.151193
Worker	0.533385	0.519751
Owner	0.055929	0.069214
Self-Employed	0.252909	0.252848
Without Remuneration	0.005914	0.006994
Household Size		
1-2 Persons	0.0615	0.0657
3-4 Persons	0.2819	0.2894
5-more Persons	0.6566	0.6450

Table 4.13 Poverty Profile, 1994-1996 (Incidence Of Extreme Poverty)

	1994	1996	Δ(94-96)
Total Population	0.0882	0.1516	0.0634
Number Of Poor	7,885,792	14,039,675	6,153,883
Sex Of Head			
Male	0.0925	0.1584	0.0659
Female	0.0540	0.1051	0.0512
Location			
Urban	0.0101	0.0477	0.0376
Rural	0.1955	0.3021	0.1066
Age Of Head			
Less Than 25	0.0585	0.1274	0.0689
26-45	0.1031	0.1549	0.0518
46-65	0.0731	0.1498	0.0767
65 And More	0.0799	0.1547	0.0748
Education Of Head			
No Instruction	0.1877	0.2790	0.0913
Incomplete Elementary	0.1283	0.2476	0.1193
Complete Elementary	0.0516	0.1243	0.0727
At Least Some High School	0.0130	0.0415	0.0286
At Least Some Preparatory	0.0029	0.0158	0.0128
At Least Some University	0.0016	0.0016	0.0000
Ocupation Of Head			
Not Classified	0.0527	0.1077	0.0550
Professional	0.0032	0.0082	0.0050
Rural	0.2684	0.4101	0.1417
Industrial	0.0581	0.1077	0.0496
Middle Level	0.0162	0.0552	0.0390
Domestic	0.0460	0.1695	0.1235
Sector of Occupation of Head			
Not Classified	0.05273	0.107687	0.05496
Primary	0.25786	0.394872	0.10090
Manufacturing	0.05168	0.0659	0.01420
Electricity And Construction	0.06210	0.160078	0.09798
Trade	0.02325	0.080192	0.09800
Other Sectors	0.01734	0.053484	0.04470
Position Of Head			
Not Classified	0.05273	0.107687	0.054957
Worker	0.0758	0.1225	0.0468
Owner	0.0423	0.1138	0.0715
Self-Employed	0.1451	0.2426	0.0975
Without Remuneration	0.1291	0.3525	0.2234
Household Size			
1-2 Persons	0.0130	0.0184	0.0054
3-4 Persons	0.0203	0.0456	0.0253
5-more Persons	0.1244	0.2128	0.0883

Table 4.14 Poverty Profile, 1994-1996 (Incidence Of Moderate Poverty)

	1994	1996	Δ(94-96)
Total Population	0.1647	0.2192	0.0546
Number Of Poor	14,714,381	20,295,680	5,581,299
Sex Of Head			
Male	0.1706	0.2255	0.0549
Female	0.1168	0.1762	0.0595
Location			
Urban	0.0755	0.1646	0.0890
Rural	0.2869	0.2983	0.0114
Age Of Head			
Less Than 25	0.1351	0.2058	0.0707
26-45	0.1693	0.2371	0.0678
46-65	0.1533	0.1964	0.0431
65 And More	0.2011	0.2055	0.0044
Education Of Head			
No Instruction	0.2675	0.3005	0.0331
Incomplete Elementary	0.2302	0.2742	0.0441
Complete Elementary	0.1418	0.2505	0.1087
At Least Some High School	0.0741	0.1744	0.1003
At Least Some Preparatory	0.0303	0.0891	0.0588
At Least Some University	0.0177	0.0258	0.0081
Ocupation Of Head			
Not Classified	0.1830	0.1997	0.0167
Professional	0.0297	0.0403	0.0106
Rural	0.2897	0.2955	0.0059
Industrial	0.1619	0.2703	0.1084
Middle Level	0.0874	0.1704	0.0830
Domestic	0.1836	0.2795	0.0959
Sector of Occupation of Head			
Not Classified	0.183045	0.199734	0.016689
Primary	0.285707	0.288421	0.0071
Manufacturing	0.1248	0.1703	0.0454
Electricity And Construction	0.2024	0.352146	0.149746
Trade	0.080497	0.194402	0.1497
Other Sectors	0.096735	0.166037	0.0883
Position Of Head			
Not Classified	0.183045	0.199734	0.017685
Worker	0.1484	0.2123	0.0639
Owner	0.0909	0.1448	0.0539
Self-Employed	0.2037	0.2678	0.0641
Without Remuneration	0.1816	0.1317	-0.0499
Household Size			
1-2 Persons	0.0542	0.0609	0.0067
3-4 Persons	0.0724	0.1410	0.0685
5-more Persons	0.2146	0.2704	0.0558

Table 4.15 Poverty Profile, 1994-1996 (Composition Of Poor)

	1994	1996	Δ(94-96)
Sex Of Head			
Male	0.9254	0.9032	-0.0222
Female	0.0746	0.0968	0.0222
Location			
Urban	0.1958	0.3385	0.1427
Rural	0.8042	0.6615	-0.1427
Age Of Head			
Less Than 25	0.0452	0.0518	0.0066
26-45	0.5534	0.5566	0.0032
46-65	0.3040	0.3059	0.0019
65 And More	0.0974	0.0856	-0.0117
Education Of Head			
No Instruction	0.3679	0.2633	-0.1046
Incomplete Elementary	0.4103	0.3998	-0.0105
Complete Elementary	0.1551	0.2117	0.0566
At Least Some High School	0.0516	0.0956	0.0440
At Least Some Preparatory	0.0081	0.0227	0.0145
At Least Some University	0.0070	0.0069	-0.0001
Ocupation Of Head			
Not Classified	0.1416	0.1253	-0.0163
Professional	0.0115	0.0115	0.0000
Rural	0.4898	0.3966	-0.0932
Industrial	0.2107	0.2436	0.0329
Middle Level	0.1002	0.1579	0.0578
Domestic	0.0462	0.0650	0.0188
Sector of Occupation of Head			
Not Classified	0.141587	0.125335	-0.01625
Primary	0.496995	0.402635	-0.1106
Manufacturing	0.0942	0.084732	-0.0095
Electricity And Construction	0.099817	0.117799	0.017982
Trade	0.069766	0.127855	0.0180
Other Sectors	0.097651	0.141645	0.1021
Position Of Head			
Not Classified	0.141587	0.125335	-0.016252
Worker	0.472853	0.469263	-0.0143
Owner	0.029458	0.048254	0.0209
Self-Employed	0.348836	0.348017	-0.0085
Without Remuneration	0.007266	0.009131	0.0020
Household Size			
1-2 Persons	0.0163	0.0140	-0.0023
3-4 Persons	0.1034	0.1456	0.0422
5-more Persons	0.8802	0.8404	-0.0399

Table 4.16 Poverty Profile, 1994-1996 (Composition Of Extremely Poor)

	1994	1996	Δ(94-96)
Sex Of Head			
Male	0.9324	0.9115	-0.0209
Female	0.0676	0.0885	0.0209
Location			
Urban	0.0661	0.1860	0.1199
Rural	0.9339	0.8140	-0.1199
Age Of Head			
Less Than 25	0.0392	0.0485	0.0093
26-45	0.6003	0.5379	-0.0625
46-65	0.2812	0.3237	0.0425
65 And More	0.0793	0.0899	0.0106
Education Of Head			
No Instruction	0.4348	0.3101	-0.1248
Incomplete Elementary	0.4208	0.4640	0.0432
Complete Elementary	0.1186	0.1717	0.0530
At Least Some High School	0.0220	0.0450	0.0230
At Least Some Preparatory	0.0021	0.0083	0.0063
At Least Some University	0.0017	0.0010	-0.0007
Ocupation Of Head			
Not Classified	0.0908	0.1074	0.0166
Professional	0.0032	0.0048	0.0016
Rural	0.6752	0.5637	-0.1115
Industrial	0.1595	0.1697	0.0102
Middle Level	0.0449	0.0945	0.0496
Domestic	0.0265	0.0600	0.0335
Sector of Occupation of Head			
Not Classified	0.090753	0.107371	0.016618
Primary	0.675699	0.569044	-0.0900
Manufacturing	0.0790	0.057840	-0.0212
Electricity And Construction	0.0672	0.090032	0.022832
Trade	0.044802	0.091315	0.0229
Other Sectors	0.042548	0.084399	0.0884
Position Of Head			
Not Classified	0.090753	0.107371	0.016618
Worker	0.457932	0.419914	-0.0332
Owner	0.026803	0.051922	0.0287
Self-Employed	0.415860	0.404538	-0.0042
Without Remuneration	0.008652	0.016255	0.0087
Household Size			
1-2 Persons	0.0090	0.0080	-0.0011
3-4 Persons	0.0650	0.0871	0.0221
5-more Persons	0.9260	0.9050	-0.0210

Table 4.17 Poverty Profile, 1994-1996 (Composition Of Moderately Poor)

	1994	1996	Δ(94-96)
Sex Of Head			
Male	0.9216	0.8974	-0.0242
Female	0.0784	0.1026	0.0242
Location			
Urban	0.2653	0.4440	0.1787
Rural	0.7347	0.5560	-0.1787
Age Of Head			
Less Than 25	0.0484	0.0542	0.0057
26-45	0.5283	0.5696	0.0413
46-65	0.3162	0.2936	-0.0226
65 And More	0.1071	0.0827	-0.0244
Education Of Head			
No Instruction	0.3321	0.2310	-0.1011
Incomplete Elementary	0.4047	0.3554	-0.0492
Complete Elementary	0.1746	0.2394	0.0648
At Least Some High School	0.0674	0.1306	0.0631
At Least Some Preparatory	0.0114	0.0326	0.0212
At Least Some University	0.0098	0.0110	0.0012
Ocupation Of Head			
Not Classified	0.1688	0.1378	-0.0311
Professional	0.0160	0.0162	0.0002
Rural	0.3905	0.2810	-0.1095
Industrial	0.2381	0.2947	0.0566
Middle Level	0.1298	0.2018	0.0721
Domestic	0.0568	0.0685	0.0117
Sector of Occupation of Head			
Not Classified	0.168830	0.137761	-0.0311
Primary	0.401223	0.287521	-0.1448
Manufacturing	0.1023	0.1033	0.0010
Electricity And Construction	0.117317	0.137007	0.01969
Trade	0.083144	0.153132	0.0197
Other Sectors	0.127182	0.181245	0.1241
Position Of Head			
Not Classified	0.168830	0.137761	-0.0311
Worker	0.480849	0.5838	0.0053
Owner	0.030881	0.0530	0.0159
Self-Employed	0.312917	0.3583	-0.0182
Without Remuneration	0.006523	0.0049	-0.0030
Household Size			
1-2 Persons	0.0203	0.0182	-0.0020
3-4 Persons	0.1240	0.1861	0.0621
5-more Persons	0.8557	0.7957	-0.0601

Table 4.18 Poverty Profile, 1994-1996 (FGT Poverty Measures)

	1994			1996		
	FGT(0)	FGT(1)	FGT(2)	FGT(0)	FGT(1)	FGT(2)
Total Population	0.2529	0.0890	0.0428	0.3708	0.1449	0.0767
Sex Of Head						
Male	0.2631	0.0932	0.04507	0.3839	0.1513	0.0808
Female	0.1708	0.0549	0.0248	0.2814	0.1009	0.0489
Location						
Urban	0.0856	0.0204	0.0071	0.2122	0.0612	0.0256
Rural	0.4824	0.1831	0.0918	0.6004	0.2661	0.1507
Age Of Head						
Less Than 25	0.1937	0.0601	0.0275	0.3324	0.1187	0.0599
26-45	0.2724	0.0994	0.0489	0.3921	0.1511	0.0798
46-65	0.2264	0.0771	0.0367	0.3462	0.1405	0.0750
65 And More	0.2810	0.0937	0.0413	0.3602	0.1412	0.0760
Education Of Head						
No Instruction	0.4552	0.1735	0.0882	0.5796	0.2526	0.1418
Incomplete Elementary	0.3584	0.1288	0.0626	0.5218	0.2217	0.1224
Complete Elementary	0.1934	0.0589	0.0249	0.3748	0.1293	0.0622
At Least Some High School	0.0870	0.0201	0.0077	0.2156	0.0597	0.0253
At Least Some Preparatory	0.0333	0.0094	0.0032	0.1049	0.0252	0.0091
At Least Some University	0.0193	0.0073	0.0029	0.0274	0.0049	0.0015
Occupation Of Head						
Not Classified	0.2358	0.0723	0.0312	0.3074	0.1131	0.0577
Professional	0.0329	0.0098	0.0036	0.0486	0.0135	0.0054
Rural	0.5581	0.2291	0.1204	0.7056	0.3412	0.2036
Industrial	0.2200	0.0694	0.0302	0.3780	0.1237	0.0562
Middle Level	0.1036	0.0267	0.0104	0.2254	0.0659	0.0284
Domestic	0.2295	0.0581	0.0233	0.4489	0.1641	0.0801
Sector of Occup. of Head						
Not Classified	0.23578	0.07233	0.03124	0.12535	0.11806	0.11363
Primary	0.54357	0.22196	0.11607	0.40269	0.49492	0.55720
Manufacturing	0.17650	0.05830	0.02705	0.08474	0.06560	0.05619
Electricity And Const.	0.26451	0.08077	0.03346	0.11781	0.10554	0.09181
Trade	0.10374	0.02888	0.01156	0.12775	0.10380	0.08839
Other Sectors	0.11408	0.02853	0.01123	0.14165	0.11209	0.09278
Position Of Head						
Not Classified	0.23578	0.07233	0.03124	0.30742	0.11314	0.05767
Worker	0.2242	0.0784	0.0372	0.3347	0.1214	0.0608
Owner	0.1332	0.0434	0.0199	0.2585	0.1031	0.0552
Self-Employed	0.3488	0.1312	0.0666	0.5104	0.2196	0.1235
Without Remuneration	0.3107	0.0986	0.0465	0.4842	0.2921	0.1970

Table 4.18 (Continued)

	1994			1996		
	FGT(0)	FGT(1)	FGT(2)	FGT(0)	FGT(1)	FGT(2)
Household Size						
1-2 Persons	0.0672	0.0181	0.0073	0.0793	0.0235	0.0102
3-4 Persons	0.0928	0.0260	0.0109	0.1864	0.0543	0.0235
5-more Persons	0.3390	0.1226	0.0599	0.4832	0.1979	0.1074

Table 4.19 Poverty Profile, 1994-1996 (FGT Extreme Poverty Measures)

	1994			1996		
	FGT(0)	FGT(1)	FGT(2)	FGT(0)	FGT(1)	FGT(2)
Total population	0.0882	0.0239	0.0093	0.1516	0.0503	0.0238
Head's Gender						
Male	0.0925	0.0254	0.0100	0.1584	0.0536	0.0257
Female	0.0540	0.0119	0.0040	0.1052	0.0278	0.0108
Household's Location						
Urban	0.0101	0.0017	0.0005	0.0477	0.0111	0.0042
Rural	0.1955	0.0543	0.0214	0.3021	0.1070	0.0521
Head's Age						
Less than 25	0.0585	0.0153	0.0054	0.1274	0.0368	0.0164
26-45	0.1031	0.0282	0.0113	0.1549	0.0524	0.0251
46-65	0.0731	0.0203	0.0079	0.1498	0.0492	0.0230
65 and more	0.0799	0.0185	0.0063	0.1547	0.0505	0.0232
Head's Education						
No Instruction	0.1877	0.0533	0.0215	0.2790	0.0994	0.0489
Incomplete Elem.	0.1283	0.0354	0.0136	0.2476	0.0843	0.0402
Comp Elem	0.0516	0.0109	0.0038	0.1243	0.0357	0.0153
AtlsomeHS	0.0130	0.0033	0.0013	0.0415	0.0108	0.0048
AtlsomePrep	0.0030	0.0003	0.0000	0.0158	0.0034	0.0012
Atlsomeuniv	0.0016	0.0005	0.0002	0.0016	0.0004	0.0001
Head's Occupation						
Not classified	0.0527	0.0143	0.0056	0.1077	0.0369	0.0181
Professional	0.0032	0.0005	0.0001	0.0082	0.0018	0.0006
Rural	0.2684	0.0756	0.0302	0.4101	0.1539	0.0773
Industri	0.0581	0.0140	0.0049	0.1077	0.0278	0.0108
Middle L	0.0162	0.0040	0.0015	0.0552	0.0135	0.0054
Domesti	0.0460	0.0109	0.0042	0.1695	0.0429	0.0165
Head's Sector of Occupation						
Not classified	0.05273	0.01429	0.00561	0.10769	0.03686	0.01806
Primary	0.25786	0.07239	0.02883	0.39487	0.14800	0.07425
Manufacturing	0.05168	0.01495	0.00545	0.06593	0.01643	0.00678
Electricity and Construction	0.06210	0.01229	0.00422	0.16008	0.04026	0.01518
Trade	0.02325	0.00481	0.00166	0.08019	0.01955	0.00731
Other Sectors	0.01734	0.00451	0.00177	0.05348	0.01403	0.00557
Head's Position						
Not classified	0.05273	0.01429	0.00561	0.10769	0.03686	0.01806
Workers	0.0758	0.0198	0.0076	0.12251	0.03646	0.01587
Owners	0.0423	0.0106	0.0043	0.11375	0.03826	0.01712
Self-employed	0.1451	0.0411	0.0163	0.24261	0.08679	0.04328
Without Remuneration	0.1291	0.0262	0.0064	0.35246	0.16470	0.09160

Table 4.19 (Continued)

	1994			1996		
	FGT(0)	FGT(1)	FGT(2)	FGT(0)	FGT(1)	FGT(2)
Household Size						
1-2 Persons	0.0130	0.0028	0.0010	0.0184	0.0049	0.0021
3-4 Persons	0.0203	0.0048	0.0018	0.0456	0.0111	0.0043
5-more Persons	0.1245	0.0341	0.0133	0.2128	0.0725	0.0347

CHAPTER V

THE DETERMINANTS OR CORRELATES OF POVERTY IN MEXICO:1996

5.1 Introduction

In the preceding chapter we looked at the evolution of poverty levels and poverty profiles during the period 1994-1996. We looked at the issue of what happened to poverty during the period as well as what happened to the composition of the poor according to several demographic and socioeconomic characteristics. This knowledge can be useful since it allows us to know whether poverty is increasing or decreasing as well as the changes in the composition of the poor. However, it does not provide us with much insight about the causes of poverty. For example, is poverty higher in rural areas only because education attainment is low and family size is high in rural areas or is poverty high in rural areas even if we control for those variables?

While the literature on the measurement of poverty is relatively abundant, studies about the determinants or causes of poverty are scarce. However, it is precisely in

this area where research can be most useful, since the main causes of poverty need to be understood in order to be able to design the most efficient policies to reduce it.

There are several approaches that can be taken in the analysis of the causes of poverty. If we follow the income approach, poverty can be thought as being caused by lack of income, which in turn can be caused by reduced command of economic resources available to the household. Thus, in general terms, poverty can be thought as being due to the limited amount of assets owned by the poor and to the low productivity of these assets.

Many variables can be considered as the determinants of income, and thus, of poverty. We can divide these variables into two general areas: the characteristics associated with the income generating potential of individuals and the characteristics associated with the geographic context in which the individual lives. The first kind of characteristics would include, for example, the assets owned by the individual, both physical and human, while the second type of characteristics would include, for example, the place in which the individual lives (urban or rural). However, there are severe problems in determining the direction of causality. Does poverty cause the characteristic or is it the presence of a given characteristic which causes poverty?. An example of this problem is whether poverty causes large households or a large household causes poverty. It is necessary to determine

the direction of causality, but this is a difficult task that has not been solved yet due among other things to the unavailability of better data, especially panel data in developing countries. What we will try to do in this chapter is to get an approximation about the determinants of poverty, even if they could more properly be called the correlates of poverty.

We also need to separate the effects of correlates. For example, if we find that poverty is highly correlated with rural location, and rural location is highly correlated with low education, then we need to know how much poverty is due to rural location and how much is due to low education. We approach this problem through the use of multivariate analysis, using a logistic regression. In order to explore the correlates of poverty with the variables thought to be important in explaining poverty a logistic regression model was estimated, with the dependent variable being the dichotomous variable of whether the household is extremely poor (1) or not extremely poor (0). The explanatory variables considered in the analysis were: gender, age, education and occupation of the household head, and size and location (rural or urban) of the household.

In this model, the response variable is binary, taking only two values, 1 if the household is extremely poor, 0 if not.

The probability of being extremely poor depends on a set of variables **x** so that

$$\begin{aligned} \text{Prob}(Y = 1) &= F(\beta' x) \\ \text{Prob}(Y = 0) &= 1 - F(\beta' x) \end{aligned} \qquad (5\text{-}1)$$

Using the logistic distribution we have:

$$\begin{aligned} \text{Prob}(Y = 1) &= \frac{e^{\beta' x}}{1 + e^{\beta' x}} \\ &= \Lambda(\beta' x). \end{aligned} \qquad (5\text{-}2)$$

Where Λ represents the logistic cumulative distribution function.

Then the probability model is the regression:

$$\begin{aligned} E[y \mid x] &= 0[1 - F(\beta' x)] + 1[F(\beta' x)] \\ &= F(\beta' x) \end{aligned} \qquad (5\text{-}3)$$

5.2 Empirical Results

The estimated regression is shown in Table 5.1. Except for gender of the household head and industrial occupation, all of the coefficients in the regression are significantly different from zero at the 95 percent confidence level. The variables that are positively correlated with the probability of being poor are: size of the household, living in a rural area, working in a rural occupation and being a domestic worker. The variables that are negatively correlated with the probability of being poor are: having at least one year of primary education, having completed

primary education, having at least a year of secondary education, having at least a year of preparatory school (senior high school) and having at least a year of college. Besides education, other variables negatively correlated with poverty are age of the household head, working in a professional occupation and working in a middle level occupation.

Table 5.1 Logistic estimates of poverty determinants

Number of observations=14042
chi2(14)=3144.28
Prob > chi2=0

Log Likelihood =-3829.7657 Pseudo R2=0.291

PINDEXT	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
FEMALE	0.0053611	0.1061904	0.05	0.96	-0.2027683	0.2134904
RURAL	1.100304	0.0789172	13.943	0	0.9456291	1.254979
HHSIZE	0.3453314	0.0125041	27.618	0	0.3208239	0.369839
AGE	-0.0348488	0.0023971	-14.538	0	-0.0395471	-0.0301505
PROFOCUP	-0.7083106	0.2850134	-2.485	0.013	-1.266927	-0.1496947
RURALOCUP	0.8476774	0.1016767	8.337	0	0.6483947	1.04696
INDOCUP	0.0403985	0.1134476	0.356	0.722	-0.1819548	0.2627518
MIDDLEOCUP	-0.5731112	0.1295563	-4.424	0	-0.8270368	-0.3191856
DOMESTICOC	0.4777243	0.1515968	3.151	0.002	0.1806001	0.7748486
INCELEM	-0.3958658	0.0757204	-5.228	0	-0.5442751	-0.2474564
COMPELEM	-0.8177559	0.0935378	-8.743	0	-1.001087	-0.6344252
ATLSOMEHS	-1.347069	0.1244239	-10.826	0	-1.590935	-1.103203
ATLSOMEPREP	-2.096054	0.2614024	-8.018	0	-2.608394	-1.583715
ATLSOMEUNIV	-3.600028	0.5973537	-6.027	0	-4.77082	-2.429237
CONSTANT	-2.4781	0.1746701	-14.187	0	-2.820447	-2.135753

The variables in Table 5.1 are defined as follows:

DEPENDENT VARIABLE:

PINDEXT — Binary variable indicating whether a household is below the extreme poverty line or not (1 if extremely poor, zero if not).

INDEPENDENT VARIABLES:

FEMALE — Binary variable indicating whether the household head is female or male (1 if female, zero if male).

RURAL — Binary variable indicating whether a household is located in a rural area (less than 15,000) or in an urban area (1 if located in rural area, zero if not).

HHSIZE — Size of the household.

AGE — Age of the household head.

PROFOCUP — Binary variable indicating whether the household head works in a professional occupation or not.

INDOCUP — Binary variable indicating whether the household head works in an industrial occupation or not.

MIDDLEOCUP — Binary variable indicating whether the household head works in a middle level (white collar) occupation or not.

DOMESTICOC — Binary variable indicating whether the

	household head works in a domestic occupation or not.
INCELEM	Binary variable indicating whether the household head has incomplete elementary education or not.
COMPELEM	Binary variable indicating whether the household head has completed elementary education or not.
ATLSOMEHS	Binary variable indicating whether the household head has at least a year of high school or not.
ATLSOMEPREP	Binary variable indicating whether the household head has at least a year of senior high school or not.
ATLSOMEUNIV	Binary variable indicating whether the household head has at least a year of college or not.

5.2.1 Model's Predictive Power

In order to assess the predictive power of the model, a classification table of correct and incorrect predictions was constructed, based on the predicted probability of being poor. A probability equal or greater than 0.5 was

interpreted as a prediction of a household being extremely poor, while a probability lower than 0.5 was interpreted as a prediction of a household not being extremely poor. Table 5.2 shows the classification table for the model. In this table, ``D'' represents the number of poor households in the sample while ``~D" represents the number of not poor cases in the sample. The symbol ``+'' represents the number of households predicted as poor by the model while ``-`` represents the number of not poor cases predicted by the model.

Table 5.2 Classification Table of Correct and Incorrect Predictions

	True		
Classified	D	~D	Total
+	481	273	754
-	1332	11956	13288
Total	1813	12229	14042
Sensitivity	Pr(+| D)		26.53%
Specificity	Pr(-|~D)		97.77%
Positive predictive value	Pr(D| +)		63.79%
Negative predictive value	Pr(~D| -)		89.98%
False + rate for true ~D	Pr(+|~D)		2.23%
False - rate for true D	Pr(-| D)		73.47%
False + rate for classified +	Pr(~D| +)		36.21%
False - rate for classified -	Pr(D| -)		10.02%
Correctly classified			88.57%

As can be seen in the Table, the model's sensitivity rate (percent of poor cases correctly predicted by the model) is 27 percent, while the model's specifity rate (percent of non-poor cases correctly predicted by the model) is 98 percent.

The false positive rate for households classified as poor by the model is 36 percent, which means that 36 percent of the number of households predicted as poor by the model are in fact not poor. The false negative rate for households classified as not poor by the model is 10 percent, which means that 10 percent of households predicted as not poor by the model are in fact poor.

The positive predictive value rate of the model is 64 percent, which means that 64 percent of the total number of predicted poor households is in fact poor. Negative predictive rate is 90 percent, meaning that 90 percent of the total number of not poor cases predicted by the model is in fact not poor.

As a whole, the model correctly predicts 89 percent of cases.

5.2.2 Marginal Effects and Odds Ratios

Since the logistic model is not linear, the marginal effects of each independent variable on the dependent variable are not constant but are dependent on the values of the independent variables (Greene, 1993). For the logistic distribution we have:

$$\frac{d\Lambda[\boldsymbol{\beta}'\mathbf{x}]}{d(\boldsymbol{\beta}'\mathbf{x})} = \frac{e^{\beta'x}}{(1+e^{\beta'x})^2} = \Lambda(\boldsymbol{\beta}'\mathbf{x})[1-\Lambda(\boldsymbol{\beta}'\mathbf{x})]\boldsymbol{\beta} \qquad \textbf{(5-4)}$$

Thus, as opposed to the linear regression case, it is not possible to interpret the estimated parameters as the effect of the independent variables upon poverty. However, it is possible to compute the marginal effects evaluating expression (5-4) at some interesting values of the independent variables, such as the means of the continuous independent variables and for some given values of the binary variables. This is the procedure we will use in the next sub-sections to draw graphs showing the effect of the independent variables on poverty.

Another way to analyze the effects of the independent variables upon the probability of being poor is by looking at the change of the odds ratio as the independent variables change. The odds ratio is defined as the ratio of the probability of being poor divided by the probability of not being poor. Table 5.3 shows the odd ratios for each independent variable as well as its corresponding standard error and confidence intervals, with the variables' labels being the same as in Table 5.1.

Table 5.3 Odds Ratios Estimates of Poverty Determinants

Number of obs=14042
chi2(14)=3144.28
Prob > chi2=0
Log Likelihood = -3829.7657 Pseudo R2=0.291

PINDEXT	Odds Ratios	Std. Err.	z	P>|z|	[95% Conf.	Interval]
FEMALE	1.005375	0.1067612	0.05	0.96	0.8164674	1.237992
RURAL	3.005079	0.2371524	13.943	0	2.574432	3.507764
HHSIZE	1.412458	0.0176615	27.618	0	1.378263	1.447501
AGE	0.9657514	0.002315	-14.538	0	0.9612247	0.9702995
PROFOCUP	0.4924755	0.1403621	-2.485	0.013	0.2816961	0.8609708
RURALOCUP	2.334219	0.2373358	8.337	0	1.912468	2.848977
INDOCUP	1.041226	0.1181246	0.356	0.722	0.8336391	1.300504
MIDDLEOCUP	0.5637687	0.0730398	-4.424	0	0.4373433	0.7267407
DOMESTICOC	1.612401	0.2444348	3.151	0.002	1.197936	2.170263
INCELEM	0.673097	0.0509672	-5.228	0	0.5802623	0.7807842
COMPELEM	0.4414211	0.0412896	-8.743	0	0.3674799	0.5302402
ATLSOMEHS	0.2600012	0.0323503	-10.826	0	0.2037349	0.3318067
ATLSOMEPREP	0.1229406	0.032137	-8.018	0	0.0736528	0.2052113
ATLSOMEUNIV	0.0273229	0.0163215	-6.027	0	0.0084734	0.0881041
CONSTANT	1.005375	0.1067612	0.05	0.96	0.8164674	1.237992

As can be seen in the Table, the variables RURAL, HHSIZE, RURALOCUP, and DOMESTICOC have odd ratios greater than one, which means that these variables are positively correlated with the probability of being poor.

On the contrary, the variables AGE, PROFOCUP, MIDDLEOCUP, INCELEM, COMPELEM, ATLSOMEHS, ATLSOMEPREP and ATLSOMEUNIV all have odd ratios lower than one, which means that these variables are negatively correlated with the probability of being poor.

The confidence interval for the odd ratios of FEMALE and INDOCUP includes the number one, which means that these variables have no statistically significant effect on the probability of poverty.

5.2.3 Poverty and Gender

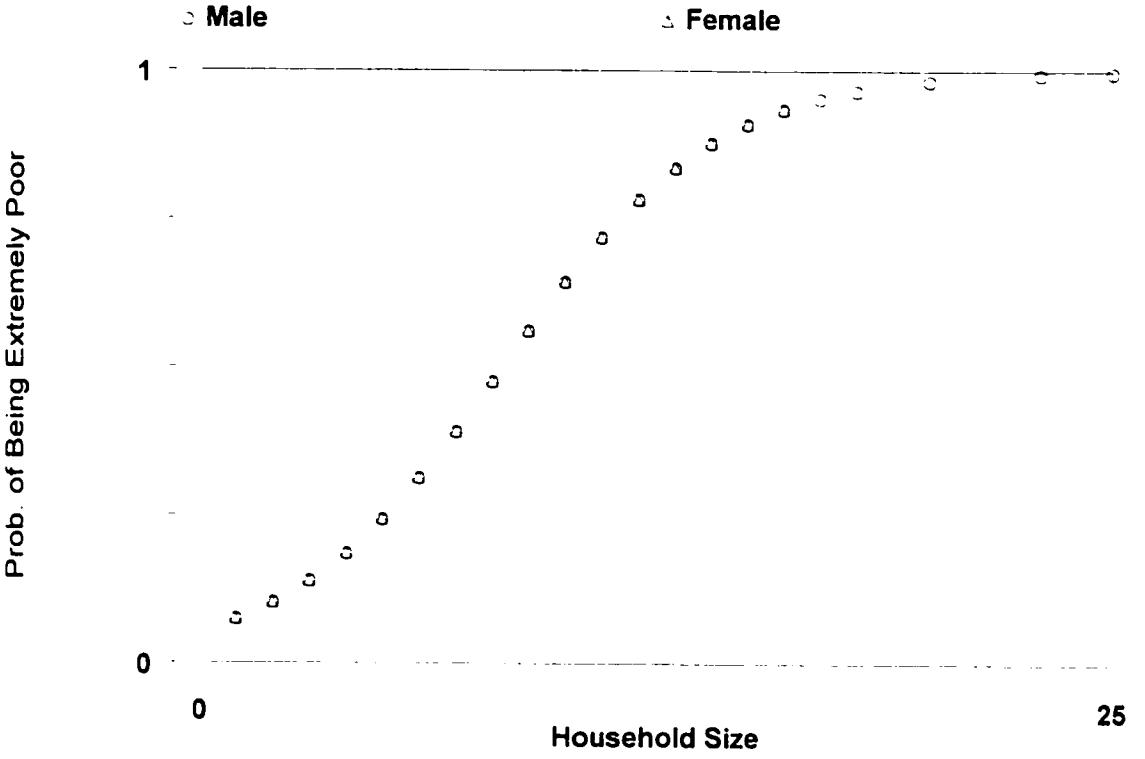
Several studies have discussed the phenomenon of the feminization of poverty, which is said to exist if poverty is more prevalent among female-headed households than among male-headed households. This situation might be due to the presence of discrimination against women in the labor market, or it might be due to the fact that women tend to have lower education than men and therefore they are paid lower salaries. Using a different methodology than the one used in this chapter, Székely (1998) found no evidence that female-headed households are more likely to be poor than

male-headed households. Using a logistic regression and the 1992 National Survey of Income and Expenditures, Cortés (1997) finds that the probability of being poor decreases by six percent if the household is headed by a woman.

Looking at the results of the logistic regression estimated above, we reach the same conclusion as Székely (1998) since even though the sign of the coefficient for gender of the head is negative; it is not statistically different from zero at the 95 percent confidence level. However, as noted by Székely (1998), these results should be viewed with care because female-headed households could be under-represented in the sample because there are cultural reasons to believe that many of the households that declared to be headed by males are in fact headed by women.

Figure 5.1 shows the probability of being poor for male and for female-headed households. This graph is drawn assuming the following values for the independent variables: the age of the household head is 44 years (the sample mean for this variable), the household location is in a rural area, the household's head did not complete elementary education and, finally, the head works in a domestic occupation. We can see in the Figure that the probability curves for male and female are almost the same, which shows that the gender of the head is not significant in explaining poverty in Mexico.

Figure 5.1 Probability of being poor and gender of the head



5.2.4 Poverty and Age

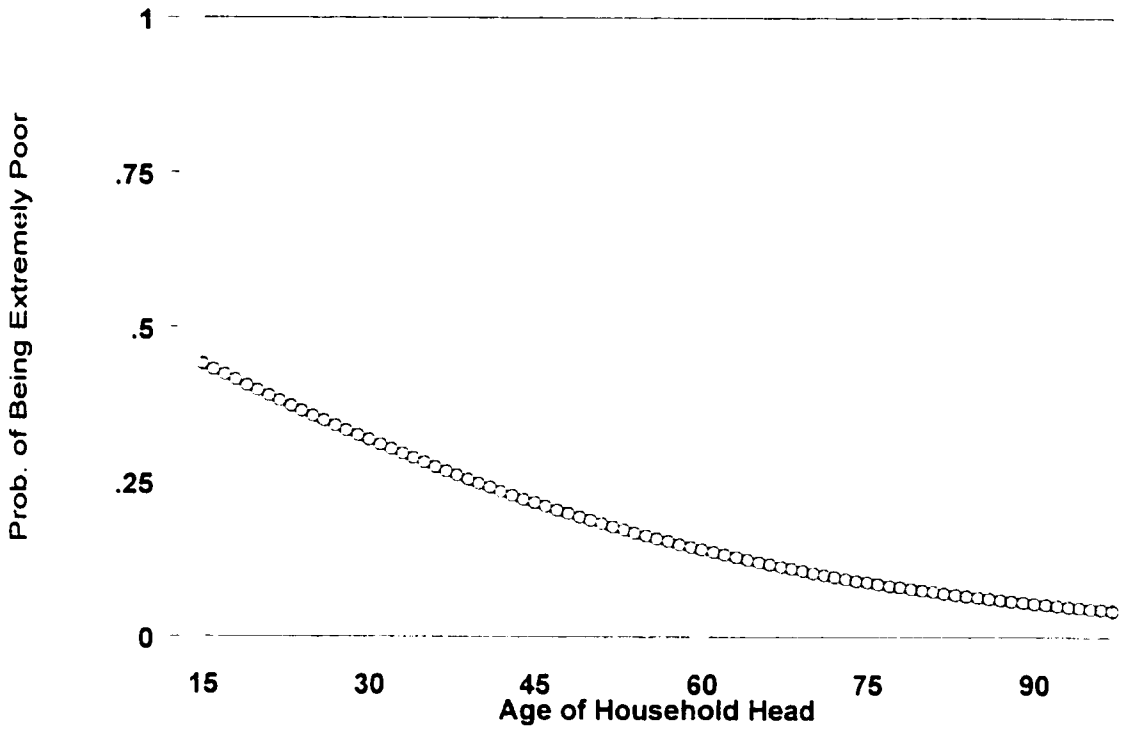
It is argued that poverty increases at old age as the productivity of the individual decreases and the individual has few savings to compensate for this loss of productivity and income. This is more likely to be the case in developing countries, where savings are low because of low income. However, the relationship between age and poverty might not be linear, as we would expect that incomes would be low at relatively young age, increase at middle age and then decrease again. Therefore, according to life-cycle theories

we would expect to find that poverty is relatively high at young ages, decreases during middle age and then increases again at old age.

For the case of Mexico and based on the 1984, 1989 and 1992 Surveys, Székely (1998) finds that age of the head is not relevant in explaining poverty. However, using the 1996 survey and the methodology developed above we found that age of the head is statistically significant in explaining poverty, although the effect is not very strong, since as can be seen in Table 5.2 above, an increase of one year in the age of the head decreases the odds of being poor by only 3.4 percent.

As Figure 5.2 shows, the probability of being poor decreases with age. This graph is drawn assuming the following values for the independent variables: household size is 4.58 members (the mean for this variable in the sample), the household head is male, the household location is in a rural area, the household's head did not complete elementary education and, finally, the head works in a domestic occupation.

Figure 5.2 Probability of being poor and age



5.2.5 Poverty and Household Size

Large households tend to be associated with poverty [World Bank (1991a,b), Lanjouw and Ravallion (1994)]. The absence of well developed social security systems and low savings in developing countries will tend to increase fertility rates, especially among the poor, in order for the parents to have some economic support from the children when parents reach old age. It might be rational for them to increase the number of children in order to increase the probability that they will get support when they get old.

High infant mortality rates among the poor will tend to provoke excess replacement births or births to insure against high infant and child mortality, which will increase household size (Schultz, 1981).

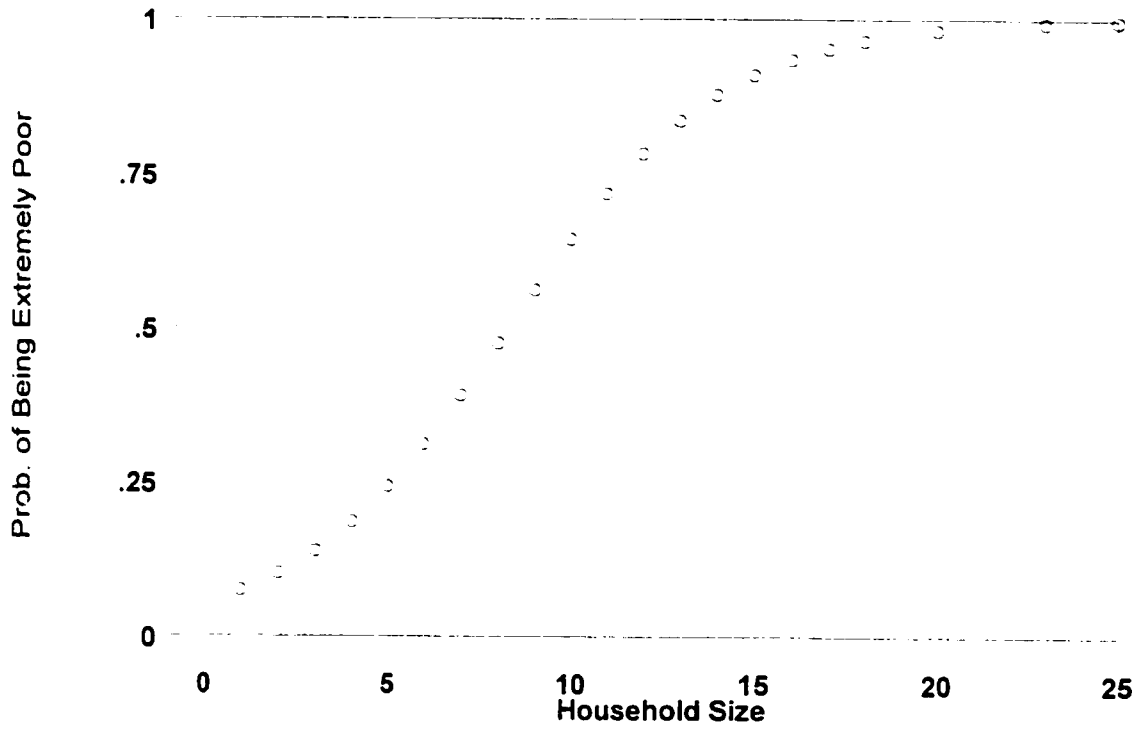
For Mexico's case Székely (1998), using the 1984, 1989 and 1992 Surveys, found that household size is relevant in explaining poverty, while Cortés (1997), based on the 1992 Survey, found a direct relationship between poverty and the burden of dependency. Using the 1996 data, we obtained similar results since, as can be seen in Table 5.2 above, an increase of one in the size of the household increases the odds of being poor by 41 percent.

Figure 5.3 shows the probability of being poor as the size of the household increases from its minimum to its maximum, assuming that the independent variables take the following values: the age of the household head is 44 years (the sample mean for this variable), the household head is male, household location is in a rural area, the household's head did not complete elementary education and, finally, the head works in a domestic occupation.

It can be seen in Figure 5.3 that the effect of a change in household size upon the probability of being extremely poor is pronounced, and that this effect increases relatively rapidly up to a household size of around 14 members and then increases less rapidly up to the maximum household size of 25. Since 87 percent of households have between 1 and 8 members, the first part of the curve is the

most relevant, which implies that household size has a strong correlation with poverty in Mexico.

Figure 5.3 Probability of being poor and size of the household.



5.2.6 Poverty and Rural-Urban Location

One of the most salient facts about poverty in developing countries is that it is higher in rural areas than in urban areas. The World Bank (1990) reports that the rural poverty rate was higher than the urban poverty rates for many developing countries during the 1980's. For example, in Kenya the rural poverty rate was six times the

urban poverty rate, while in Mexico it was 30 percent higher during the same period. Although there may be problems associated to determining the direction of causality, several variables might explain why poverty is higher in rural areas than in urban areas. First, rural areas are heavily dependent on agricultural production, which in developing countries is characterized by low labor productivity and therefore low incomes. Second, historically government policy has been biased against rural areas, including price policy, educational policy, housing, and public services in general. Third, natural disasters such as drought or flooding tend to affect rural areas more heavily than they affect urban areas, and although at first we might think that these phenomena would only affect transient poverty they affect the stock of capital of the communities which in turn have a permanent adverse effect on poverty rates.

By constructing a poverty profile using the 1984 Survey, Levy (1994) concludes that poverty in Mexico is a predominantly rural phenomenon characterized by higher poverty rates in rural areas than urban areas. Cortés (1997) finds that the probability of being poor increases if the household is located in a rural area. Székely (1998) also concludes that rural-urban location is statistically significant as a cause of poverty in Mexico.

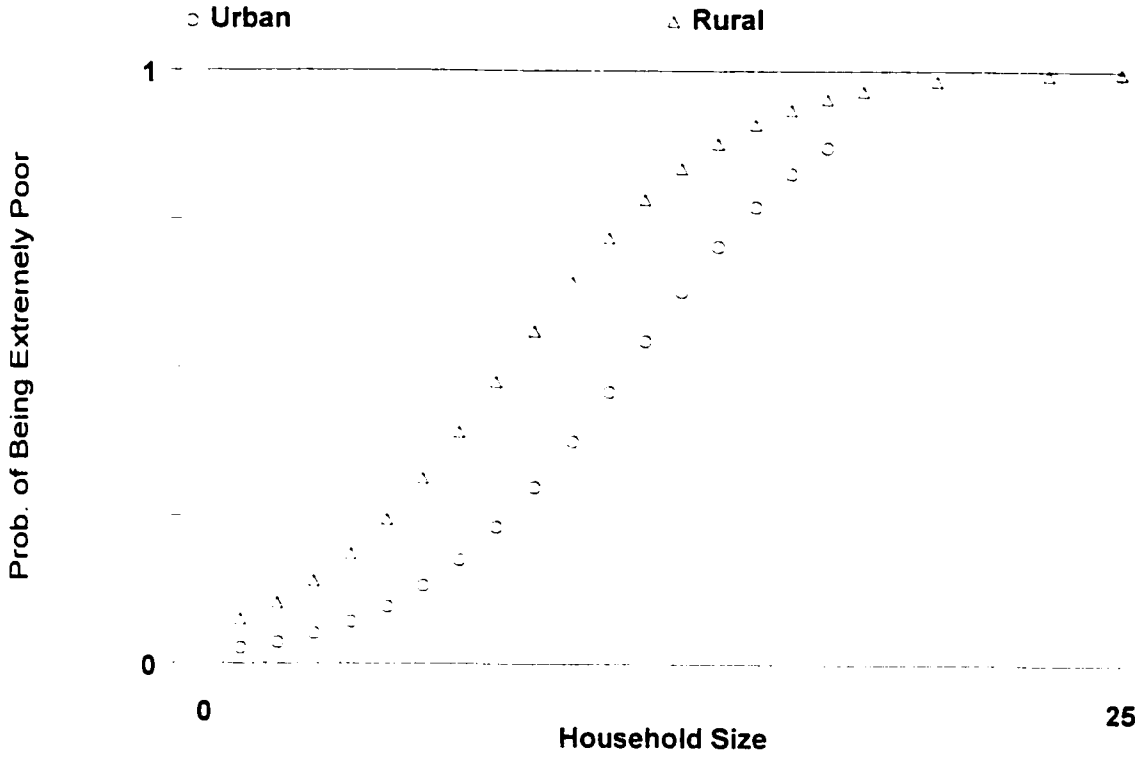
Our own estimates using the logistic regression for the 1996 survey indicate that rural location has a statistically

significant positive effect on the probability of being poor. As shown in Table 5.2, the odds of being poor for a household located in a rural area are 3 times the odds of an urban household.

Figure 5.4 shows the effect of the size of the household and rural/urban location of the household upon the probability of being poor, assuming the following values for the independent variables: the age of the household head is 44 years (the sample mean for this variable), the household head is male, the household's head did not complete elementary education and, finally, the head works in a domestic occupation.

It can be seen from the graph that the probability of being poor is significantly higher for a household located in a rural area than for one located in an urban area, and that the difference is higher the larger the household size.

Figure 5.4 Probability of being poor and rural/urban location.



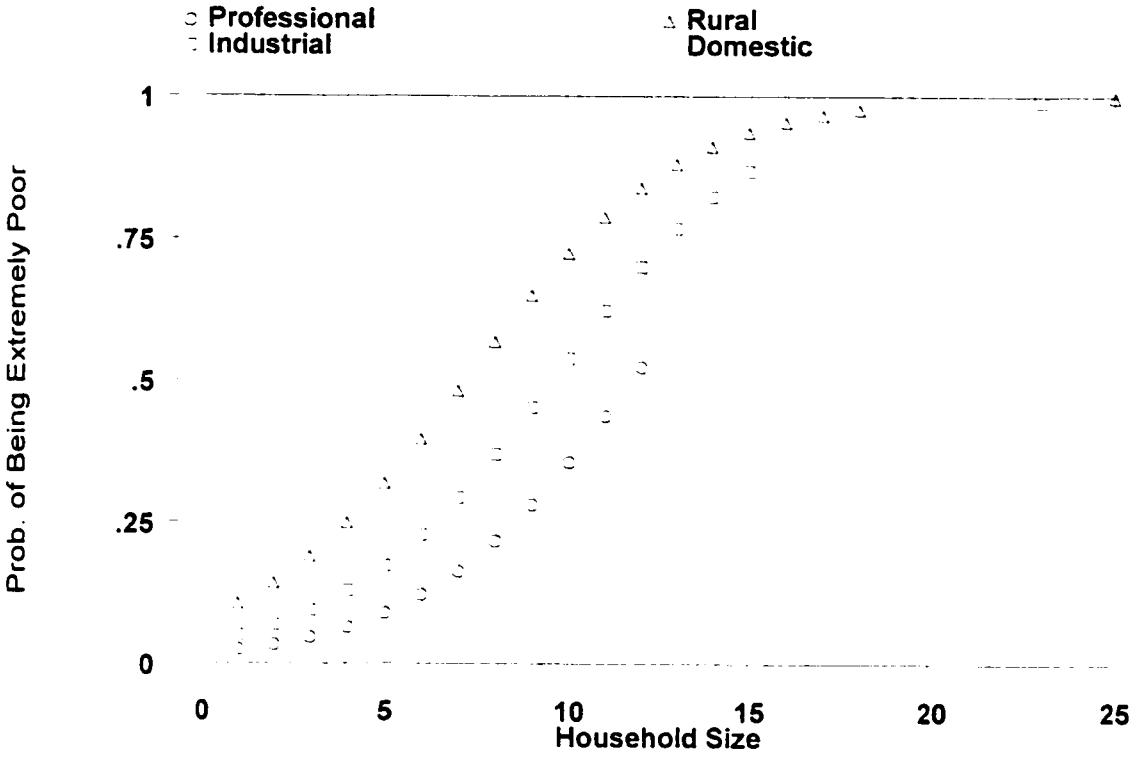
5.2.7 Poverty and Occupation

Occupation has a high correlation with poverty because occupations which require low amounts of capital, either human or physical, will be associated with low earnings and therefore with higher poverty rates. In our model we found that working in a professional occupation or in a middle level occupation decreases the probability of being poor, while working in a rural occupation or in a domestic occupation increases it. Working in an industrial occupation does not have a statistically significant effect upon the probability of being poor.

Figure 5.5 shows the effect of the occupation variable on the probability of poverty, based on the following assumptions about the values of the independent variables: household head is 44 years (the sample mean for this variable), the household head is male, the household is located in a rural area and the household's head did not complete elementary education.

It can be seen from the graph that the probability of being poor is higher for households whose head works in a rural occupation and in a domestic occupation and it is lower for households whose head works in an industrial occupation or in a professional occupation.

Figure 5.5 Probability of being poor and occupation



5.2.8 Poverty and Education

There is generalized evidence in household surveys and censuses that education is positively correlated with earnings [Schultz (1988); Psacharopoulous (1985); Blaug (1976)]. Higher earnings in turn are associated to lower poverty levels.

Education increases the stock of human capital, which in turn increases labor productivity and wages. Since labor is by far the most important asset of the poor, increasing the education of the poor will tend to reduce poverty. Thus, we might think of low education as one of the most important

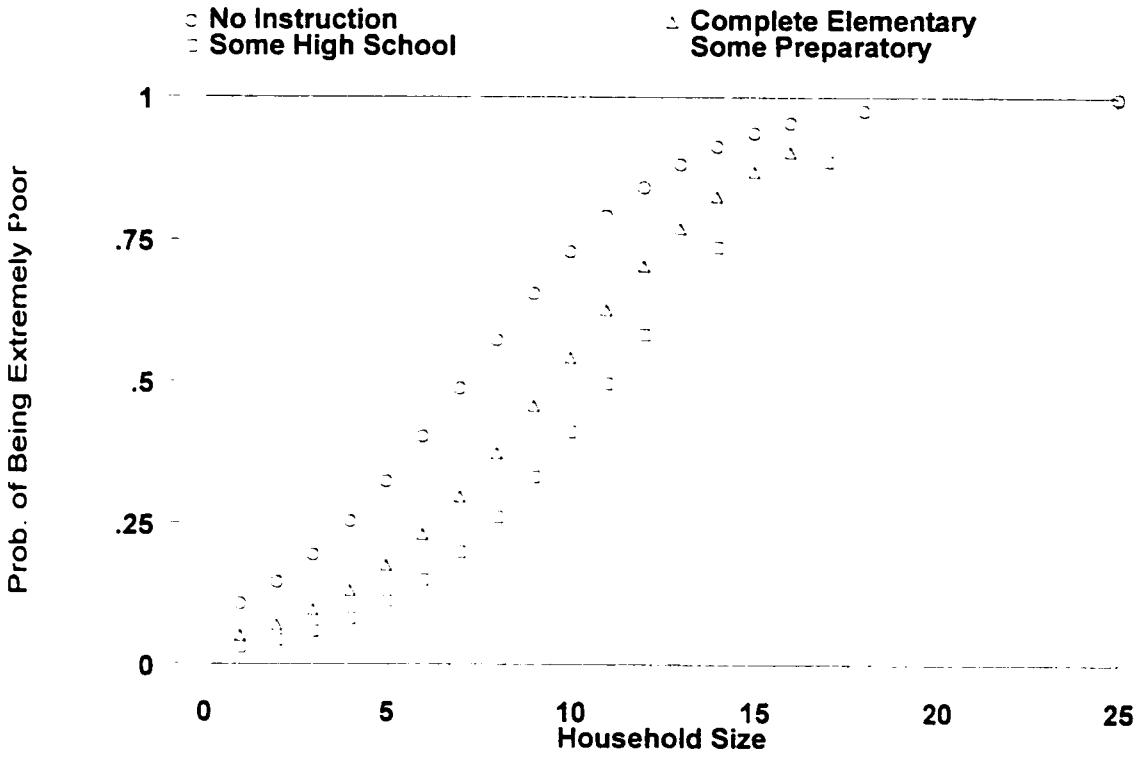
causes of poverty. In fact, there seems to be a vicious circle of poverty in that low education leads to poverty and poverty leads to low education. The poor are not able to afford their education, even if it is publicly provided, because of the high opportunity cost that they face. Many times they cannot attend school because they have to work to survive.

Both Székely (1998) and Cortés (1997) found that education is negatively correlated with poverty in Mexico. Székely reaches the conclusion that education is the single most important factor in explaining poverty in the country. The regression estimated in this chapter also finds that education has a significant effect on the probability of being poor.

Figure 5.6 shows the effect of the level of education on the probability of poverty, assuming that the other independent variables take the following values: age of household head is 44 years (the sample mean for this variable), the household head is male, the household is located in a rural area and finally, the head works in a domestic occupation.

Figure 5.6 shows that the probability of being poor decreases as the level of education increases.

Figure 5.6 Probability of being poor and Education



5.3 Summary of Findings

The estimates from the logistic model estimated in this chapter indicate that the probability of poverty is higher for households whose head has a low level of education and for households located in rural areas. Other variables that increase the probability of being poor are the size of the household and the rural or domestic occupation of the household head.

CHAPTER VI

CONCLUSIONS

This study had the following main objectives: the first objective was to measure the changes in poverty in Mexico for the period 1994-1996; the second objective was to construct poverty profiles for each of those years and finally, the third objective was to determine which variables explain or are correlated with poverty in Mexico.

The first objective, to measure poverty changes between those years, was considered important since it is argued that those changes could be related to the economic and financial crisis that affected Mexico during 1994 and 1995.

The intention of the second objective of the study, the construction of poverty profiles for 1994 and 1996, was twofold: first, it had the purpose of serving as a guide to policymakers for the design of poverty alleviation policies in Mexico, since the poverty profiles indicate the areas or sectors where poverty is more concentrated in the country; second, it had the purpose of serving as a first approximation to the problem of finding which variables explain or are correlated with poverty, which was the goal of the last chapter of the dissertation.

The third objective of the dissertation was to find out which are the determinants or correlates of poverty in Mexico, which might serve as a guide for the design of poverty alleviation policies.

Following each of these objectives outlined above it is possible to draw some conclusions based on the results obtained in the preceding chapters of this study.

First, by estimating the Foster-Greer-Thorbecke family of poverty measures, we found that both moderate and extreme poverty increased in Mexico during the 1994-1996 period, and that the depth and severity of poverty also increased. Although we did not decompose the poverty changes as due to decrease in income and the worsening of income distribution, it is possible that both factors played a role in the increase in poverty levels that occurred during the period. Thus, although the Gini coefficient declined during the period, indicating a reduction in income inequality, the Lorenz curves for the two years intersect in the lower percentiles of income, which indicates that the income share of the poorest of the poor decreased during the period.

The poverty profiles constructed for both years indicate that although poverty is predominantly rural in Mexico (60 percent of the rural population was poor in 1996), urban poverty more than doubled during the period, from 9 percent of urban population in 1994 to 21 percent in 1996. This indicates that although poverty alleviation programs should concentrate in the rural sector, the urban

sector should not be neglected when designing and implementing policies to mitigate poverty.

Another variable that the poverty profiles suggested as an important determinant of poverty was the level of education of the household head. In both years considered in the study, we found that poverty incidence was higher the lower the level of instruction of the household head. For example, 58 percent of the number of people living in households headed by persons with no instruction was poor in 1996, while only 2.7 percent of the number of people living in households headed by persons with at least a year of college was poor in the same year.

Suggesting a strong correlation between poverty and occupation of the household head, we found that poverty incidence is higher for households whose head works in a rural occupation or in a domestic occupation and it is lower for households whose head works in a professional occupation or in a middle level occupation.

Reflecting the results obtained in the poverty profiles, the multi-variate analysis in Chapter V shows that the variables that are positively correlated with the probability of being poor are: size of the household, living in a rural area, working in a rural occupation and being a domestic worker. The variables that are negatively correlated with the probability of being poor are: having at least one year of primary education, having completed primary education, having at least a year of secondary

education, having at least a year of preparatory school (senior high school) and having at least a year of college. Besides education, other variables negatively correlated with poverty are age of the household head, working in a professional occupation and working in a middle level occupation. We did not find evidence in this study to support the hypothesis of the feminization of poverty, since the parameter estimate for this variable in the logistic regression was not statistically different from zero.

The multi-variate analysis shows that increases in educational attainment have an important impact on reducing the probability that a household is poor. The five binary variables for education representing increasing levels of educational achievement show that as educational achievement increases, the probability of being poor decreases.

The logistic model shows that a rural family has a high probability of being poor. Even when controlling for education, the size of the household, and the other independent variables in the regression equation, the rural/urban variable is statistically significant and this variable increases the odds of a household being poor significantly. We can only speculate what factors, in addition to poor education and a large household, result in rural poverty. The migration from rural to urban areas is probably selective of the most ambitious and entrepreneurial persons, leaving the less ambitious and less entrepreneurial

household heads in the rural areas. These household heads are more likely to be poor.

Government policy also may contribute to rural poverty beyond the effect of poor education by providing fewer resources to rural residents for services such as medical care and by policies that reduce the incentives to increase agricultural production. Poor medical care, which includes problems in the delivery of contraceptive supplies and services, may contribute to the larger household size in rural areas (Chen, et al., 1990).

Suggestions for further research include the construction of poverty profiles at the state and regional levels, but this task could only be possible if INEGI expands the ENIGH Surveys to make them representative at the state and regional levels. Likewise, the availability of panel data is badly needed in order to be able to construct better models of the determinants of poverty.

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