

# Poverty during the COVID-19 pandemic: findings from new data

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# Basic definitions

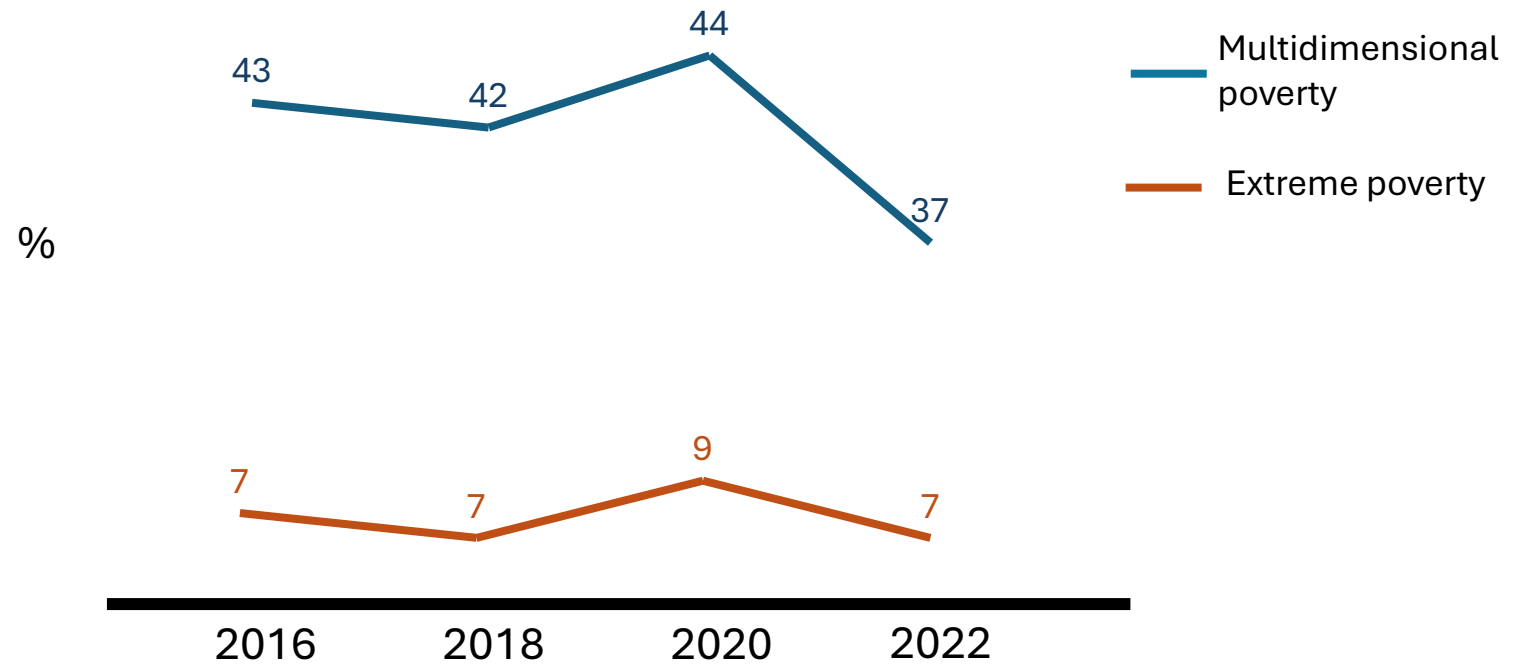
- **Multidimensionally poor:** Income below the overall poverty line & with a score of 1+ deprivations
- **Extremely poor:** Income below the food poverty line and with a deprivation score of 3+ deprivations
- **Data:** The official poverty figures draw on the ENIGH survey which is conducted every two years: 2008-2022.
- **New data:** In December 2021, the ENIGH-S (seasonal) was released, which was conducted during the first quarter of 2020 and throughout 2022.

Both surveys ENIGH and ENIGH-S have sample size differences but, in principle, both should produce comparable estimates.

# Evolution of multidimensional poverty in Mexico: 2016-2022

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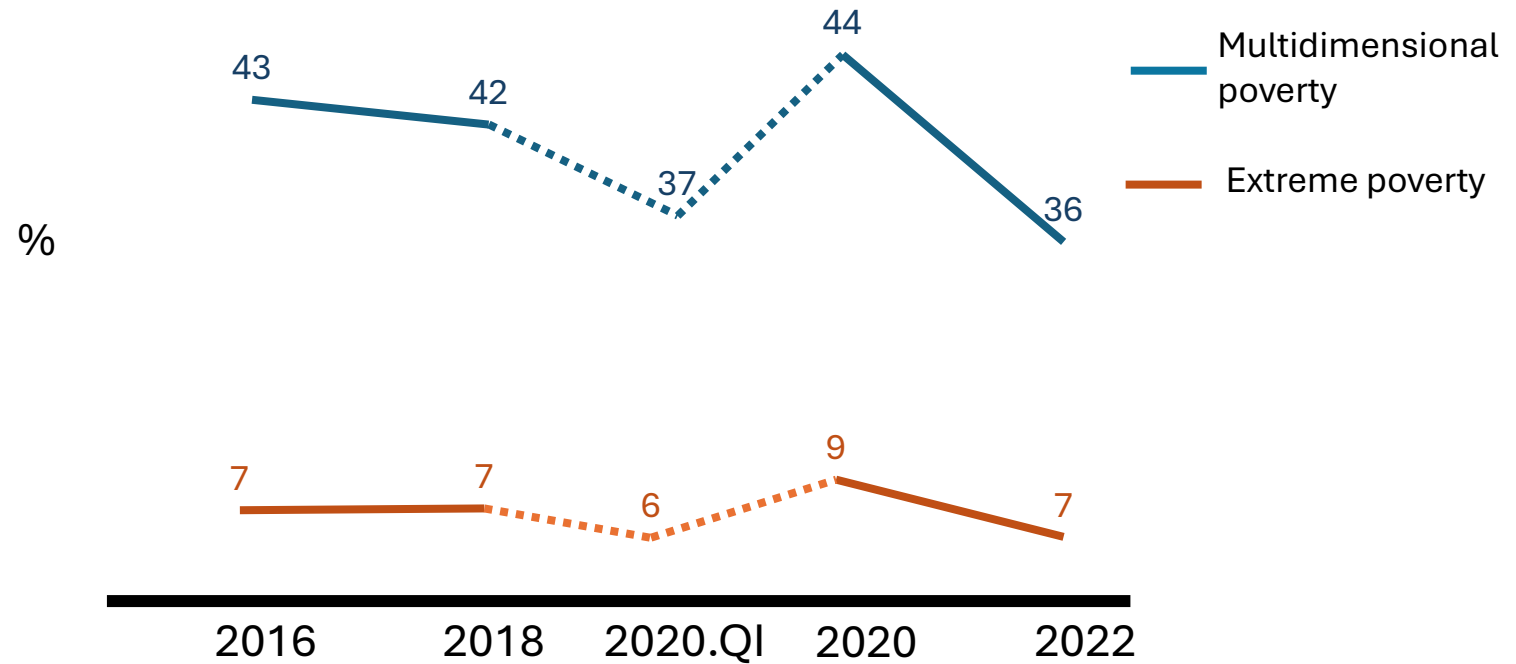
# Evolution of multidimensional poverty in Mexico: 2016-2022

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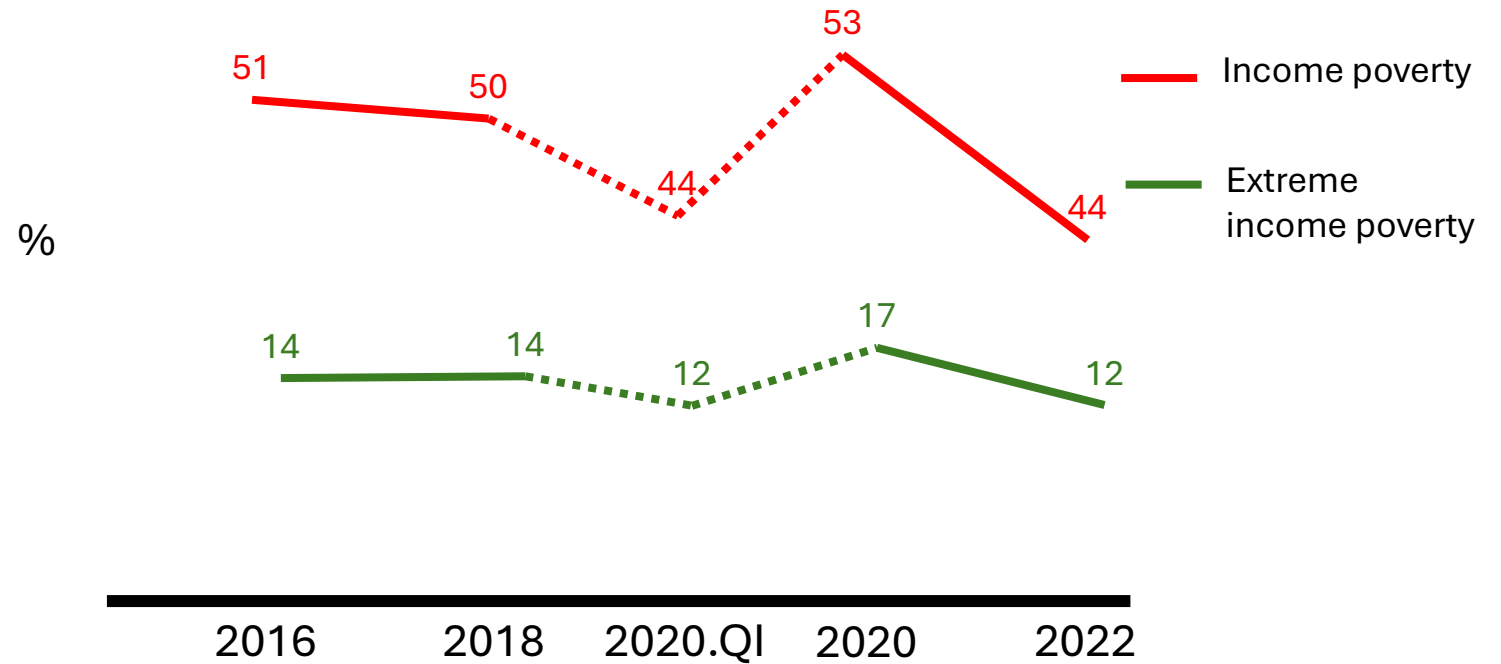
## New data:

The changes in poverty were 7.1 p.p. and 2.4 p.p., respectively.



# Income poverty

Poverty and extreme monetary poverty show the same pattern as multidimensional poverty: a drop from 2016 to the first quarter of 2020, a rise marked by the pandemic and a subsequent reduction.



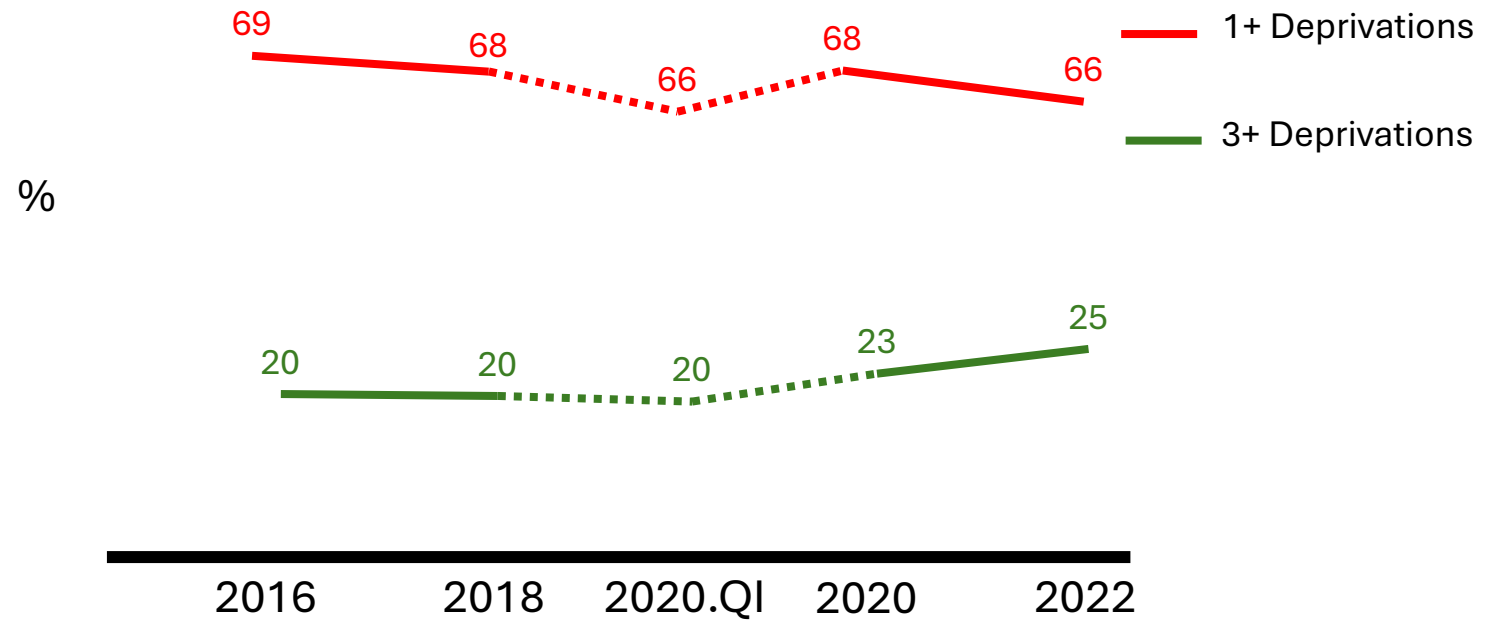
# Material deprivation

## 1+ deprivation group:

- Without significant changes over the period

## 3+ deprivation group:

- A slight upward trend, mainly due to the lack of access to health.



# The influence of monetary poverty on multidimensional poverty

- The graphs show that the observed changes in multidimensional poverty depend, fundamentally, on income poverty.
- Taking this characteristic into account, the focus will be on the evolution of income poverty.
- Extreme income poverty will be ignored for simplicity.

# Decomposition of the changes in income poverty

The evolution of income poverty depends not only on household income and distribution among them, but also on a number of other factors, including (but not limited to) **price changes** and their effects on poverty lines, demographic trends affecting the age composition of household members, etc. the strategies followed by households (especially the poor) in the use of their labour force, the patterns of formation and dissolution of conjugal unions, as well as the orientation of social programmes and the success of their targeting, etc.

To study the change in income poverty, Datt and Ravallion (1992) proposed the equation:

$$\Delta P = G + RD + R;$$

where  $\Delta P$  symbolizes the change in poverty over a period, G represents the effect of the **change in income**; RD is the **redistribution effect** and R are the **residuals** attributable to other factors.

This equation can be extended to account for **price variations**

$$\Delta P = G + RD + EP + R$$

in which EP symbolizes the price effect.



# Decomposition results

Between 2018 and the first quarter of 2020, income growth (3.6%) and the progressive redistribution of income (2.6%), drove poverty reduction (5.6 p.p.).

The increase in monetary poverty in the months of COVID was caused by the fall in income. Which in turn is the most important factor in the return to the pre-pandemic situation. The fluctuations in inequality were small, as can be seen in the following chart.

Income redistribution played an important role from 2016 to 2020.1. In times of Covid the effect was small; The income effect dominated.

Datt Ravalion. Decomposition						
Income Poverty. México 2016 - 2022						
Observed data			Effects			
Periods		$\Delta$ poverty	Income	Redistribution (RD)	Prices	Residuals (R)
<b>2016</b>	<b>2018</b>					
50.8	49.9	-0.9	1.5	-3.9	1.3	0.2
<b>2018</b>	<b>2020.1</b>					
49.9	44.3	-5.6	-3.6	-2.6		0.6
<b>2020.1</b>	<b>2020</b>					
44.3	52.8	8.5	7.6	1.3		-0.4
<b>2020</b>	<b>2022</b>					
52.8	43.5	-9.2	-8.3	-1.6	1.1	-0.3

Fuente: cálculos propios usando las ENIGH y ENIGH E y las rutinas de cálculo en R elaboradas por José Rafael Pineda (2024)

# What explains the fall of poverty?

The current explanations have highlighted three forces:

1. Increases in minimum wages
- 2.- The social policy implemented by the government
- 3.- Remittances

Explanations:

Labour income, especially if the other transfers follow a dynamic of their own, largely independent of short-term economic vicissitudes.

Social programs and remittances have had significant growth, however, their weight is reduced, to which is added that social programs have targeting problems (Cortés, Nájera, & Valdés, 2022)

## Percentage composition of total current income, according to sources. Mexico 2016 - 2022.

Sources of Income	2016	2018	2020.1	2020	2022
Remuneration for work	71.4	70.7	67.6	68.0	68.1
Own Businesses	8.2	9.0	9.5	8.7	9.7
Property Rents	1.3	1.4	1.6	1.3	1.2
Other Transfers	10.8	10.9	12.5	13.2	12.0
remittances	0.8	0.9	1.0	1.0	1.2
Social Programs	2.0	1.7	2.3	2.7	3.2
Non-Monetary	5.5	5.5	5.6	5.2	4.6
	100.0	100.0	100.0	100.0	100.0

Fuentes: INEGI, Encuesta Nacional de Ingresos y Gastos de los Hogares (ENIGH) y ENIGH estacional primer trimestre 2020

# On the redistribution effect

- It could be argued that although social programs and remittances from abroad do not play a preponderant role in terms of the amount of labour income, they could play a preponderant role through inequality in income distribution: social programs (cash transfers) would preferentially favour the population in conditions of poverty and extreme poverty.
- A decomposition of the Gini index according to sources of income was used to examine this argument (Liebbrandt M, C. Woolard, & I. Woolard, 1996).
- The results are unequivocal: both the level of inequality, as measured by the Gini index, and its changes over time are influenced, preponderantly, by labour income and by the behaviour of other transfers.

Decomposition of the Gini Index of Total Current Income by Source										
Source	2016		2018		2020.1		2020		2022	
	Contribution	Part. %	Contribution	Part. %	Contribution	Part. %	Contribution	Part. %	Contribution	Part. %
Remuneration for work	0.35	0.77	0.34	0.76	0.32	0.73	0.33	0.74	0.32	0.74
Own Businesses	0.03	0.07	0.03	0.07	0.03	0.08	0.03	0.07	0.04	0.09
Property Rents	0.01	0.02	0.01	0.02	0.01	0.02	0.01	0.02	0.01	0.02
Other Transfers	0.05	0.10	0.05	0.11	0.05	0.12	0.06	0.13	0.05	0.11
remittance	0.00	0.00	0.00	0.01	0.00	0.01	0.00	0.01	0.00	0.01
Social Programs	0.00	-0.01	0.00	-0.01	0.00	0.00	0.00	0.00	0.00	-0.01
Payment in kind	0.02	0.04	0.02	0.05	0.02	0.04	0.02	0.04	0.02	0.04
<b>Total Current Income</b>	<b>0.46</b>	<b>1.00</b>	<b>0.45</b>	<b>1.00</b>	<b>0.44</b>	<b>1.00</b>	<b>0.45</b>	<b>1.00</b>	<b>0.43</b>	<b>1.00</b>

Fuentes: Cálculos propios basados en INEGI, Encuesta Nacional de Ingresos y Gastos de los Hogares (ENIGH) y ENIGH estacional primer trimestre 2020

# Conclusions

The COVID-19 pandemic had a bigger short-term effect than previously documented on multidimensional poverty in Mexico

The prevalence of poverty had already been reduced between 2018 and the first quarter of 2020. The poverty levels in 2022 are simply a return to the values observed in the first quarter of 2020. The economic shock caused by the pandemic raised all poverty measurements and two years later Mexico returned to the initial situation in 2020.

The observed changes in the prevalence of multidimensional poverty depend fundamentally on changes of income and, to a lesser extent, on those that occur in the domain of social rights.

The story is different for the poorest of the poor as very little progress has been made in this regard in Mexico. The impact of the redistribution via minimum wages seems much more modest. The evidence also suggest that this group is more likely to lack access to health services according the official index.

It is noteworthy that the sharp fall in monetary poverty recorded between 2018 and 2020.1 (5.6 p.p.) was due to the combination of the increase in income with the reduction in inequality and that in the post-pandemic recovery (between 2020 and 2022) both factors are operating again, although they were tempered by price growth.

# Conclusions II

- The main source of income that brought down poverty were the salaries. Social programs (cash transfers) and remittances from abroad played a meagre role.
- Behind the increase in income that brought poverty down between 2018 and 2020.1 is the rise in wages in general. In fact, minimum wages began to grow from 2016, when they began to recover after years in which they were contracted, and accelerated from 2018 onwards (Esquivel G, 2023: 30 to 32). The recovery of labour income in 2022, after the pandemic, is consistent with the rise in minimum wages, however, the relationship between minimum wage and per capita household income is neither direct nor simple.
- However, labour income is also the main source of inequality in income distribution.
- The increase in wages, observed in the pre- and post-pandemic periods, has a double effect on poverty: it reduces it because households saw their economic resources increase and because this increase tended to favour households with low-income levels more.
- The multidimensional measurement of poverty in Mexico has, in accordance with the General Law of Social Development, a focus on social rights that are explicitly considered in the Political Constitution of the United Mexican States in articles three, four and 123. However, the analysis has shown that social deprivation has had a limited effect on changes in poverty prevalences.



# Thanks



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