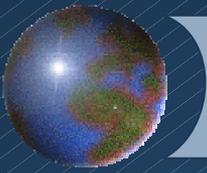


Better Options for the Future

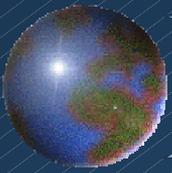
• Better Options for the Future

• Sanjay Reddy and Thomas Pogge



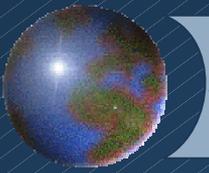
The Questions:

- **How many people in the world live in absolute income poverty?**
- **How poor are they?**
- **Where do they live?**
- **How has the total number of the poor and their geographical distribution been changing over time?**



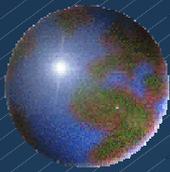
Income Poverty is Only One Aspect of Poverty

- **However, it cannot be ignored**
- **Inadequacy of income plays an important role in our judgments about deprivation**



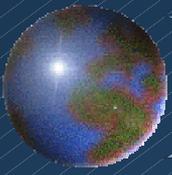
Why Do the Answers Matter? Because They Influence:

- **Assessment and design of policies**
- **Choice of resource priorities**
- **Explanations of how poverty is caused**
- **Determination of obligations**
- **Descriptions of the world**



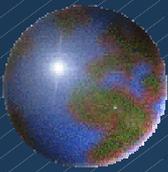
An Acceptable Approach to Monitoring Global Poverty Must:

- **Adopt a criterion for identifying the poor that possess *at least* three minimal features:**
- **It should have an interpretation in terms of the most basic requirements of human beings**
- **It should have the same meaning everywhere**
- **It should have the same meaning at every point in time**



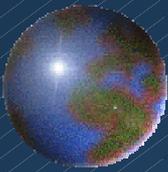
Does The Existing Approach Satisfy These Minimal Requirements?

- **The existing approach fails all three minimal requirements**



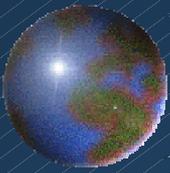
Where Do Current Estimates Come From?

- **The World Bank is the sole producer of global income poverty estimates. Why?**
- **There have been some restrictions on who can gain access to the required household survey data**
- **Until recently, the consumers of the estimates have believed them to be trustworthy**



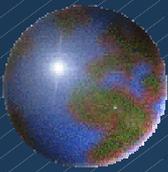
What Is the Current Methodology?

- **Establish an international poverty line (IPL) of individual consumption expenditure of '\$1/day PPP' (or '\$2/day PPP) for a certain year**
- **Convert this into national currency and year 'equivalents'**
- **Use household surveys (where available) to determine the number of poor persons and the depth of poverty**



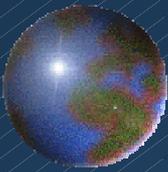
Has the Methodology Been Consistently Executed?

- **Since 1990, the Bank has changed the way in which it executes its methodology frequently and without full explanation**
- **Estimates of global poverty are not robust to these changes**



What Are the Apparent Strengths of the Current Methodology?

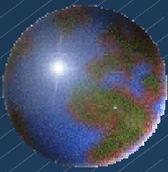
- **The '\$1/day' and '\$2/day' figures *appear* readily understandable, especially to individuals in the rich countries**
- **They are therefore useful 'advocacy tools'**



What Are Its Weaknesses?

Lack of Meaning:

- **The IPL does not correspond to domestic poverty lines in poor countries**
- **The IPL does *not* have any interpretation in terms of the basic requirements of human beings**
- **For both reasons, the IPL does *not* measure poverty in the sense required by policy-makers**



What Are Its Weaknesses?

Lack of Consistency:

- **The IPL corresponds to different levels of purchasing power in different countries, and so means *different* things in different places**
- **The IPL corresponds to different levels of purchasing power at different points in time, and so means *different* things from year to year**
- **A change in the base year would lead to massive changes in estimates**
- **As a result, it is *not* possible to determine meaningfully either the distribution or the trend of global income poverty**

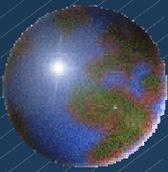
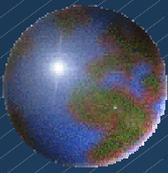


Table 4

Changes in Estimates of the Prevalence and Regional Distribution of Poverty Due to Methodological Revision

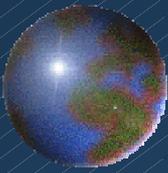
	Head count Index for 1985 PPP			Head count Index for 1993 PPP			% Change in head count from 1985 to 1993 PPP		
	Poverty Line (% of population living below \$1.00 a day at 1985 PPP)			Poverty Line (% of population living below \$1.08 a day at 1993 PPP)			Poverty Lines		
	1987	1990	1993	1987	1990	1993	1987	1990	1993
East Asia	29.7	28.5	26	26.6	27.58	25.24	-10.44%	-3.23%	-2.92%
Eastern Europe & Central Asia	0.6	.	3.6	0.24	1.56	3.95	-60.00%	.	9.72%
Latin America & Caribbean	22	23	23.5	15.33	16.8	15.31	-30.32%	-26.96%	-34.85%
Middle East & North Africa	4.7	4.3	4.1	4.3	2.39	1.93	-8.51%	-44.42%	-52.93%
South Asia	45.4	43	43.1	44.94	44.01	42.39	-1.01%	2.35%	-1.65%
Sub-Saharan Africa	38.5	39.3	39.1	46.61	47.67	49.68	21.06%	21.30%	27.06%
Total	30.7	.	29.4	28.31	28.95	28.15	-7.79%	.	-4.25%



What Are its Weaknesses?

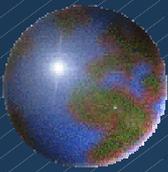
Data Uncertainties

- **The global poverty estimates are based on 'guesstimates' of critical parameters, leading to massive uncertainties in the resulting estimates (e.g. PPP conversion factors for China and India, regression-based estimates for many countries)**



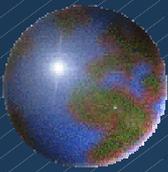
The Consequences:

- **Current estimates are too unreliable to be useful**
- **There is little basis for factual judgments concerning the extent, distribution and trend of global income poverty**



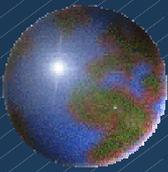
What is the 'Real' Level of Global Income Poverty?

- **If global income poverty estimates were produced with more meaningful concepts and more reliable approaches they would be likely to be *higher* than now thought**
- **The External Reason: The IPL is set too low to account for the real requirements of human beings**
- **The Internal Reason: The national currency counterparts of the IPL are based on 'general' PPPs that understate the cost of purchasing basic necessities in poor countries**



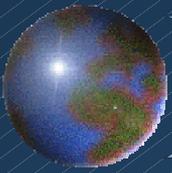
What is the 'Real' Trend of Global Income Poverty? - 1

- **The true trend is unknown. However, there is some reason to believe that the trend is *less favorable* than now thought**
- **Higher poverty lines may lead to lower apparent rates of poverty reduction**
- **Current methods of calculating PPPs lead to 'secular declines' in PPPs even if *nothing* changes in those countries. An IPL defined in a later year's PPP dollars will lead to lower global poverty estimates in any given year than would an IPL defined in an earlier year's PPP dollars. Poverty estimates corresponding to IPLs defined in different years' PPP dollars should not be compared, but often are. Such comparisons lead incorrectly to the conclusion that poverty has declined.**



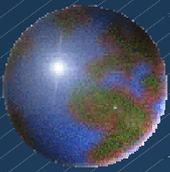
What is the 'Real' Trend of Global Income Poverty? - 2

- **A change of the base year in which the IPL is defined can lead to an entirely different view of the trend of poverty. This fragility undermines confidence in existing trend estimates.**
- **Different years' estimates corresponding to a single IPL (defined in a fixed year's PPP dollars) can suggest an overly favorable trend if inequalities are worsening (as has been the case in many countries in recent years) and new survey data is not available to take this in to account. The reason is that in such cases, the Bank's method attributes to all persons an increase in consumption corresponding to the growth rate of aggregate consumption**



There Is an Alternative:

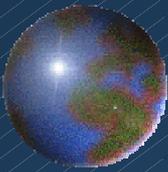
- **Specify a concept of absolute poverty in terms of the basic requirements of human beings (e.g. absolute in the space of capabilities and relative in the space of commodities)**
- **Collect the necessary data (re. household expenditures, prices, and tastes) required to monitor income poverty**



How Should the Alternative Be Implemented ?

At the global level:

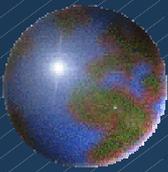
- **Specify and fix a set of basic human requirements (or 'elementary capabilities') that must be possessed in order to avoid absolute deprivations, (e.g. adequate nourishment)**
- **Identify (wherever possible) the characteristics of the commodities that would be needed to achieve these basic human requirements (or 'elementary capabilities'), e.g. calories**



How Should the Alternative be Implemented ?

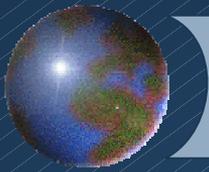
● At the national level:

- Identify a set of locally relevant commodities which promote the capabilities specified at the global level**
- Choose the set of commodities so as to reflect local preferences and environmental conditions to an appropriate degree**
- Determine the cost of this bundle and compare with household resources (making adjustments for household size and composition)**



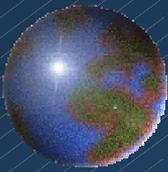
Point or Band Estimates?

- **Develop a band of global poverty estimates corresponding to alternative assumptions (e.g. regarding the basic human requirements to be included)**
- **Place upper and lower bounds on the plausible range of global income poverty**



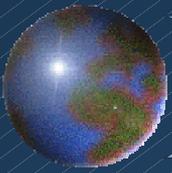
The Alternative Criterion for Identifying the Poor Satisfies the Basic Requirements:

- **It has an interpretation in terms of the most basic requirements of human beings**
- **It is the same everywhere**
- **It is the same at every point in time**



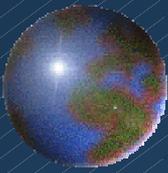
Other Benefits of the Alternative:

- **It does not require the use of general PPPs, thereby removing a major source of inconsistency and uncertainty (and limiting the significance of the so-called index-number problem)**
- **It is complementary to national poverty assessment exercises, and can be linked to efforts to improve such assessments throughout the world**



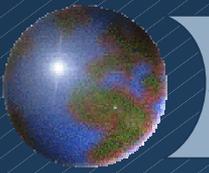
Resource Commitments are Needed:

- **The financial and human resources required to coordinate and facilitate the collection of the necessary data on prices and preferences**



Institutional Changes are Needed:

- **A *transparent* global process incorporating widespread *consultation* at global, regional and national levels**
- **Hosted by a structurally *independent* organization or cell within an existing organization**



A Long-term Process:

- **The development of an alternative will take time**
- **That is no reason not to begin the effort**
- **The UN's System of National Accounts provides an example of how credible internationally comparable systems for statistical estimation can be developed and diffused**