

Global Poverty Reassessed: A Reply to Reddy

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In “One Pager” No. 65, Sanjay Reddy says the World Bank is “digging (itself) deeper into a hole” in measuring global poverty. It seems we are in this hole (in Reddy’s eyes) because we have not adopted his preferred method; I have tried to explain why we have not done so in past responses to Reddy (including Ravallion, 2008).

Nobody is stopping Reddy from doing his own calculations. Indeed, the Bank long ago made all the (now 670) household survey-based distributions we use publicly available on an interactive web site, *PovcalNet* (<http://econ.worldbank.org/povcalnet>), where users can try their own poverty lines. *PovcalNet* will soon be revised to include the results of the 2005 *International Comparison Program* (ICP). (The ICP is an international effort to collect prices from a large sample of outlets in each country.)

The 2005 round of the ICP is a quantum leap in our knowledge about the cost of living in the developing world. Nobody who bothers to look into the history of the ICP—from 1970 (crude price surveys for 10 countries) to 2005 (state of the art price surveys for 150 countries)—could disagree. Reddy dismisses these data improvements, but they have great relevance to measuring global poverty. Most importantly, the 2005 ICP did a much better job than prior ICP rounds in collecting prices. Doing reliable price surveys is difficult, particularly in poor countries where many goods (including those consumed by the poor) are not traded internationally. Far more detailed product descriptions introduced by the 2005 ICP helped to identify comparable goods, so that we do not make the mistake of judging people to be better off simply because they consume lower quality (and hence cheaper) goods.

Based on the new ICP we have updated our past “\$1 a day” international poverty line to \$1.25 in 2005 prices. This is the average poverty line found in the poorest 15 countries, based on data drawn from World Bank *Poverty Assessments* and governmental *Poverty Reduction Strategy Papers*. These national lines attain stipulated food energy requirements with allowances for essential non-food spending. Naturally, each national line accords with the prevailing concept of “poverty” in that country. (Nutritional requirements are similar, but the imputed expenditures for food and non-food needs vary greatly.) We estimate that one quarter of the population of the developing world in 2005 lived below \$1.25 per day; one half lived below that line 25 years earlier.

As Reddy notes, \$1.25 is lower than the value in the US of our old poverty line, which works out to be \$1.45 in 2005 prices. This has nothing to do with Reddy’s claimed faults in our methods, but stems from the revisions to the PPPs in the light of the better price data from the 2005 ICP; naturally, with higher PPPs in poor countries, the \$US value of their national poverty lines falls.

Reddy thinks \$1.25 a day is “...far too low to cover the cost of purchasing basic necessities.” He asserts that: “A human being could not live in the US on \$1.25 a day in 2005 (or \$1.40 in 2008), nor therefore on an equivalent amount elsewhere, contrary to the Bank’s claims.” I have no idea how Reddy reconciles this view with the fact that one quarter of (say) India’s population manages to live below the country’s official poverty line, which is about \$1.00 per day in 2005 prices—even lower than our international line.

Nonetheless, I agree with Reddy that the \$1.25 line is frugal by international standards. That has never been at issue. In measuring global poverty against such a line, the Bank is explicitly measuring poverty in the world by a standard that would be judged far too low in many countries in the world. We are measuring poverty by the standards of the poorest countries, fully acknowledging that better off countries use higher standards for defining poverty.

Recognizing this point, the World Bank’s global poverty measures have also used lines more representative of middle-income countries. Chen and Ravallion (2008) present results for \$2.00 per day (the median poverty line amongst developing countries) and \$2.50 a day (the median amongst all except the poorest 15 countries). Almost 60 per cent live below \$2.50 per day.

At the other extreme, 95 per cent of the developing world’s population lived below the average US poverty line of about \$13 per day. But this is hardly a useful statistic for moving forward in the task of fighting absolute poverty in the world—hopefully starting with the poorest.

References:

- Shaohua Chen and Martin Ravallion (2008) “The Developing World is Poorer than we Thought, but no Less Successful in the Fight Against Poverty,” Policy Research Working Paper 4703, World Bank, Washington DC. Available at: <http://econ.worldbank.org/docsearch>.
- Martin Ravallion (2008) “How Not to Count the Poor: Reply to Reddy and Pogge” in Sudhir Anand; Paul Segal; and Joseph Stiglitz (ed), *Debates on the Measurement of Poverty*, Oxford University Press.