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Poverty Reduction Strategies

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Is the policy “status quo” sufficient?
What else is needed?

Two messages of this presentation

1. Yes, there has been good overall progress against absolute poverty. But there are continuing challenges in reducing relative poverty and in making sure that “none are left behind.”
2. Poorer countries have relied less on direct interventions against poverty; economic growth has done the bulk of the work. This may need to change, but there are some challenges ahead.

Message 1. Overall progress against poverty + continuing challenges

Poverty monitoring must be socially relevant

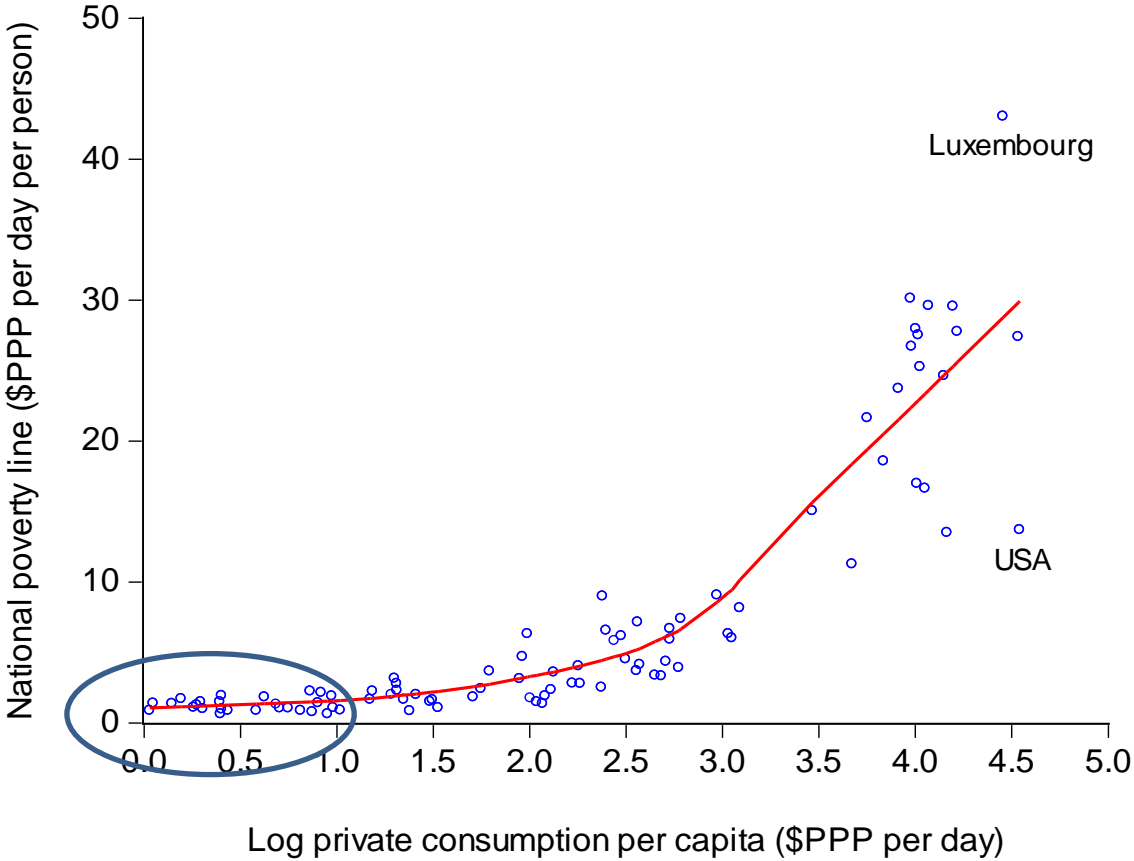
- Absolute poverty reduction should remain the highest priority.
- However, this approach is not fully consistent with social thought and the aims of social policy in developing countries.
- Two main challenges:
 - incorporating **social effects on welfare** and
 - monitoring **whether the poorest are left behind**.

Challenge 1: incorporating social effects on welfare

Poverty is absolute in the space of welfare

- Poverty measures that use a constant real line do not take account of the concerns people face about **relative deprivation, shame** and **social exclusion**. These are specific to place and time.
- The overriding principle: poverty is absolute in the space of welfare: “...an absolute approach in the space of capabilities translates into a relative approach in the space of commodities” (Amartya Sen, 1983)
- Comprehensive **global definition of poverty**: someone is not poor if she is neither poor by the global international line nor poor by the standards of the country they live in.

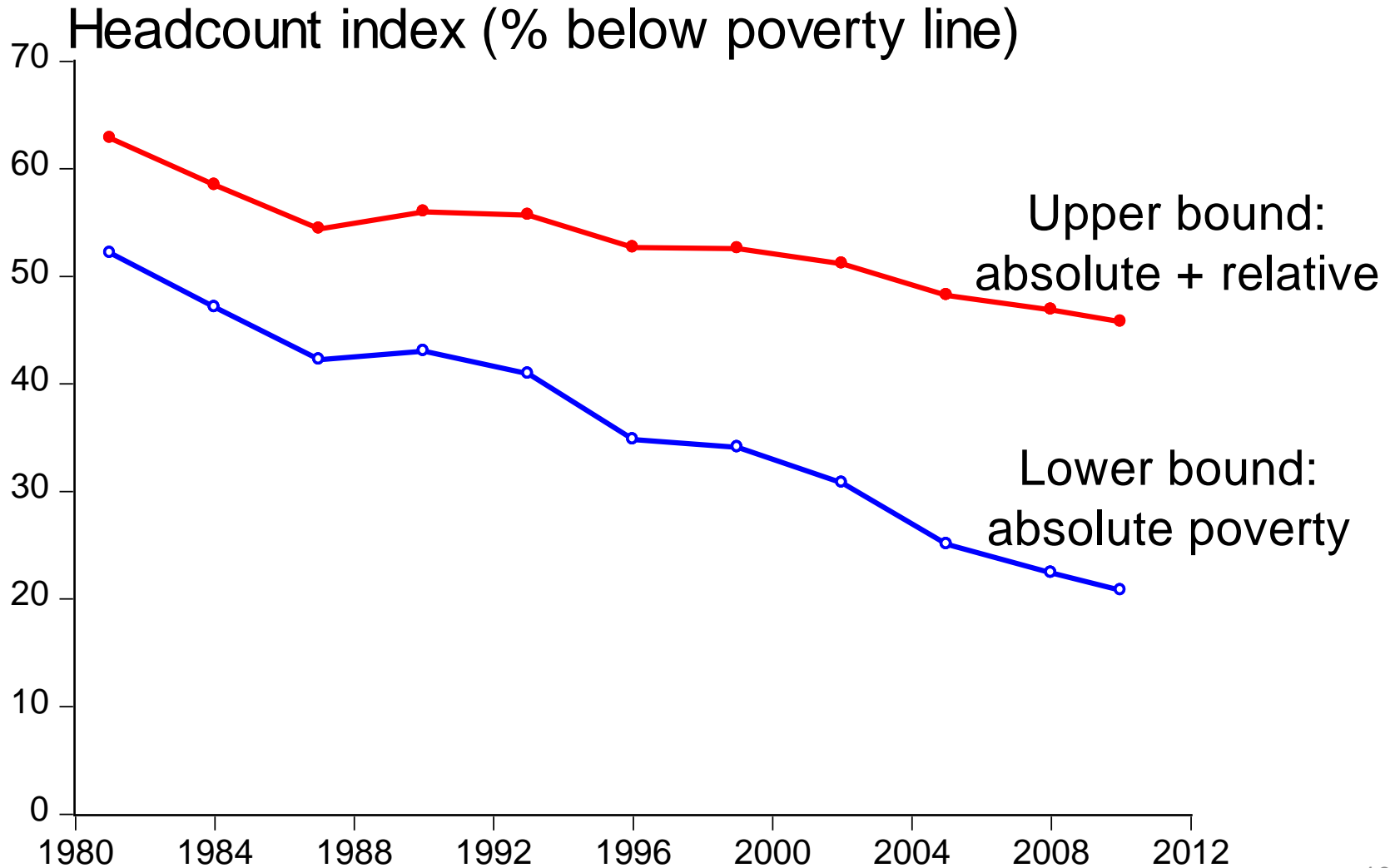
Higher (real) poverty lines in richer countries



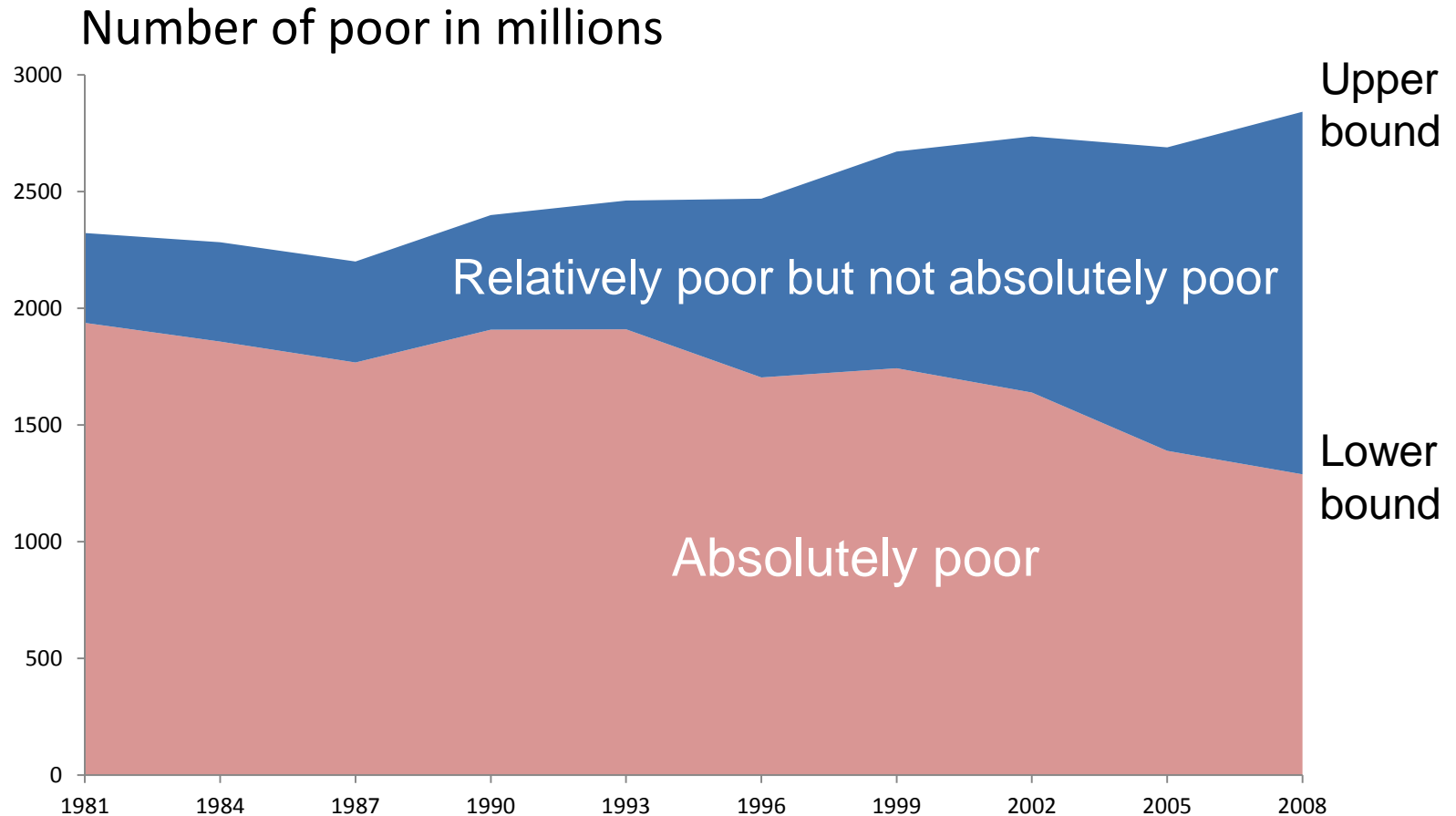
Upper and lower bounds to the true welfare-consistent measure

- Absolute poverty measures can be interpreted as the **lower bound** to the true welfare-consistent measure.
 - The lower bound assumes that the economic gradient in poverty lines across countries only reflects differing social norms.
- A weakly relative measure of poverty provides its **upper bound**, allowing for social effects on welfare.
 - The upper bound assumes that the gradient in national lines stems solely from social effects on welfare—extra spending needed to attain the same level of welfare in richer countries.
- Strongly relative measures (e.g., 50% mean) are implausible.
- **The true welfare-consistent absolute line lies somewhere between the two bounds.**

Poverty measures for the developing world



Numbers of poor



Two-thirds of the increase in the number of people who are relatively poor but not absolutely poor is accountable to the decrease in the number of absolutely poor.

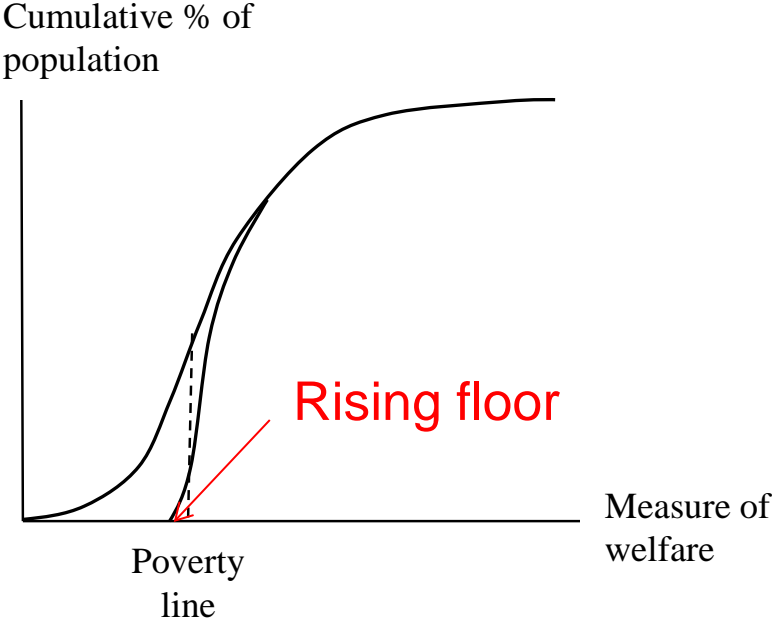
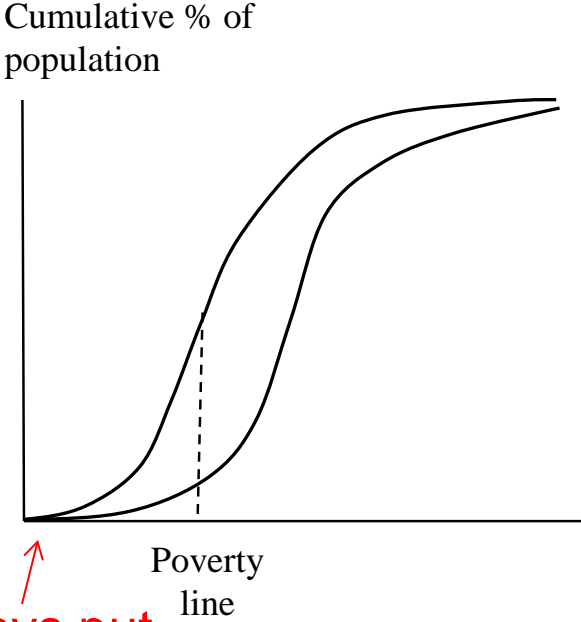
Challenge 2: monitoring progress in
assuring that no one is left behind

A widely held view: the poorest are left behind

- *“The poorest of the world are being left behind. We need to reach out and lift them into our lifeboat.”* U.N. Secretary-General Ban Ki-moon, 2011
- *“Poverty is not yet defeated. Far too many are being left behind.”* Guy Ryder, ILO
- Yet economists appear to tell a very different story. Adages such as *“a rising tide lifts all boats”* or claims that *“growth is good for the poor”* or that there has been a *“breakthrough from the bottom”*

The counting approach misses what is
happening at the floor

Same reduction in the poverty count but different implications for the poorest



Same reduction in the incidence of poverty but without leaving the poorest behind

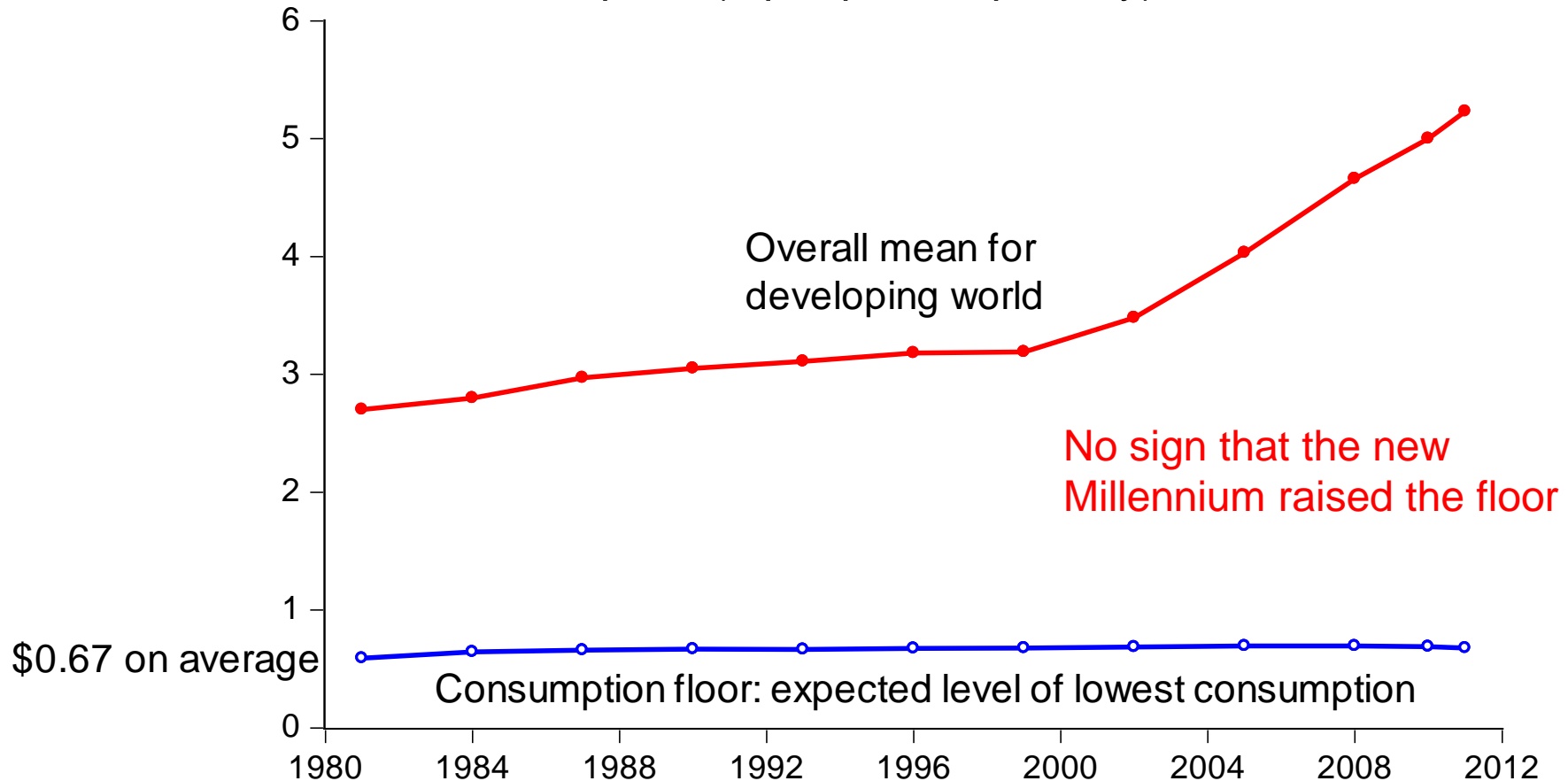
We can also measure our success at leaving no one behind

- The floor is certainly not all we care about, but we cannot continue to ignore it in monitoring poverty.
- Our success in assuring that no one is left behind can be readily monitored from existing data sources under certain assumptions.
- That also assures consistency between how we monitor poverty and how we think about social protection policies.

Focusing on the floor gives a very
different picture to the counting
approach

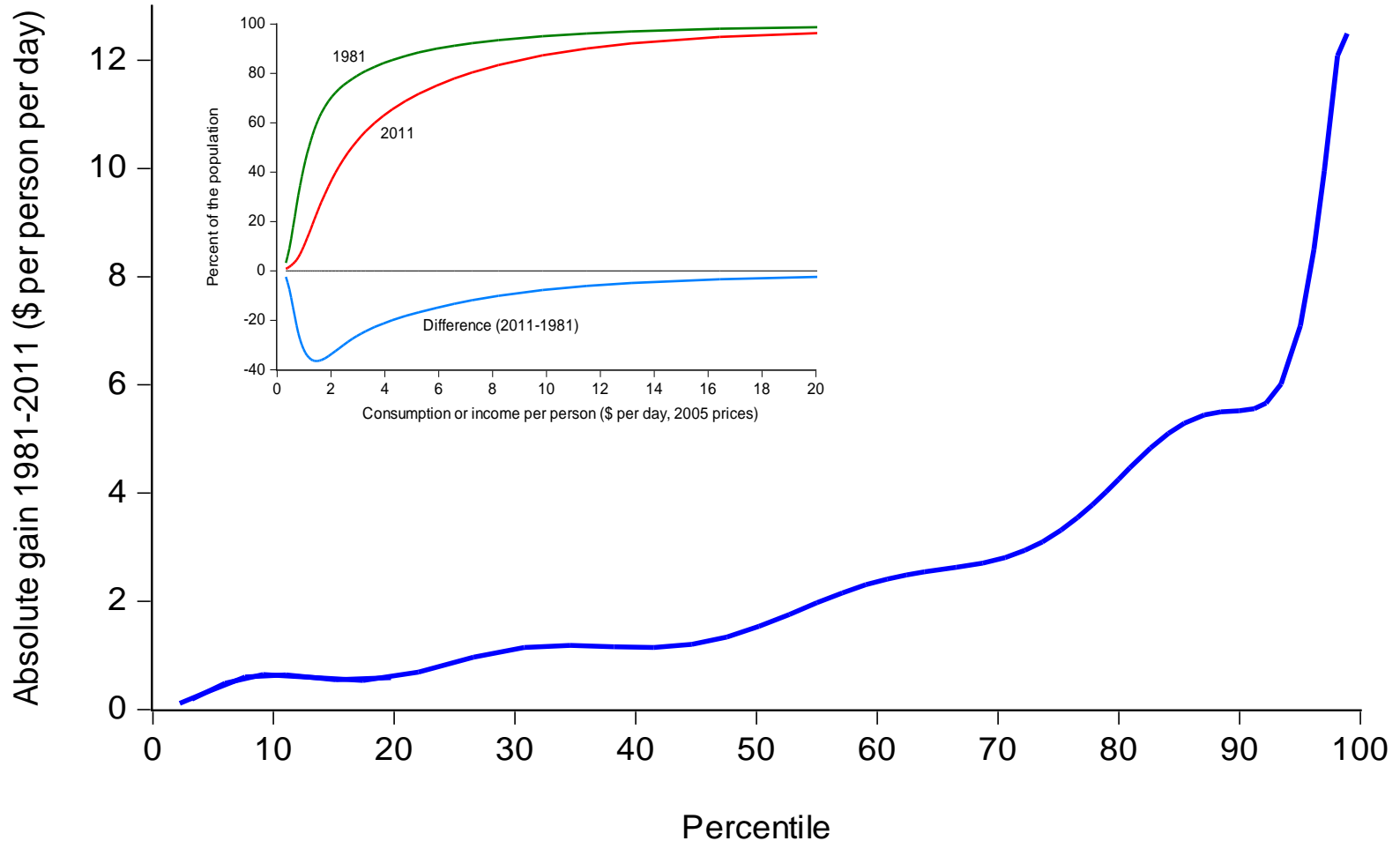
Much less progress in raising the consumption floor

Mean consumption (\$ per person per day)



Yes, the poorest have been left behind!

Fewer people living near the floor, but little change in the floor

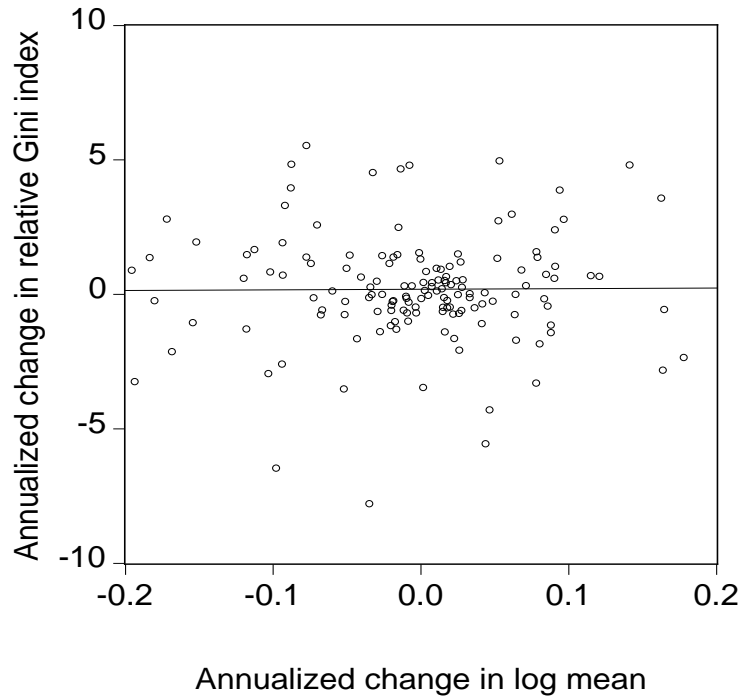


Growing economies have seen rising absolute inequality

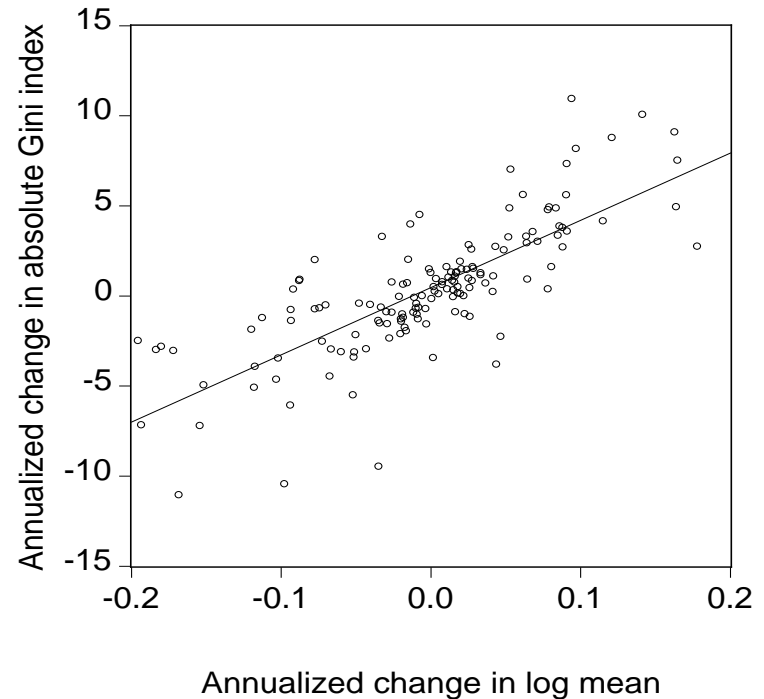
- We have seen that the mean has been rising markedly relative to the floor.
- This generalizes to the mean absolute gap => **the absolute Gini index.**

Same data, but very different pictures

Relative inequality (Gini)



Absolute inequality (Gini)



Differing concepts of “inequality” underlie development policy debates, not differences in data.

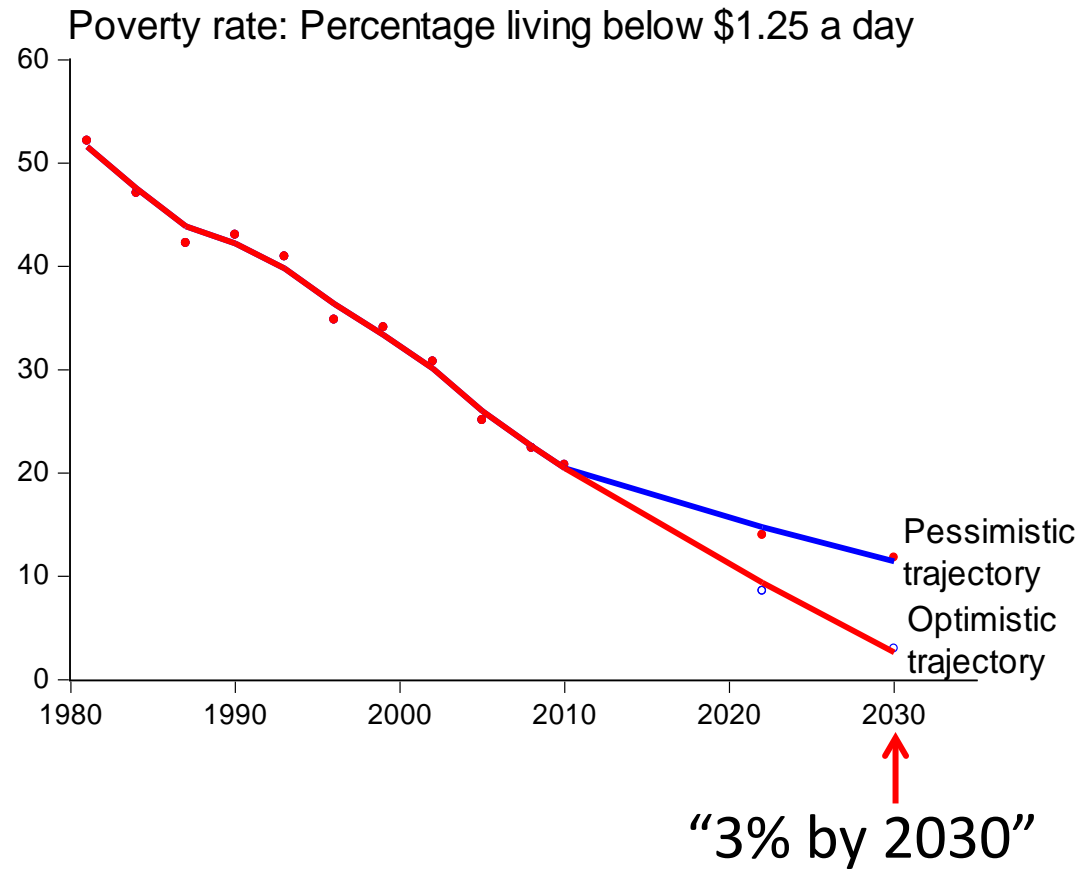
Message 2. Better direct interventions
are needed to complement growth

Economic growth has been crucial, especially in poor places

- Few countries have seen sustained progress in reducing inequality. Growth has been **distribution neutral** on average.
- Thus, growth has been the main proximate source of progress against absolute poverty.
- However, high and (often) rising **inequality** threatens to undermine prospects for future growth, and dampens the impact on poverty.
- Countries starting out with a high poverty rate have a **harder time growing their economy**, and a harder time assuring that their growth is **pro-poor**.
- And **uninsured risks** galore, both macro and micro!

Optimistic vs. pessimistic paths

- Maintaining the new growth trajectories since 2000 without a rise in overall inequality will lift about **one billion** people out of extreme absolute poverty over the next 15 years or so.



How to reach the optimistic path?

- The optimistic path requires successful action in fostering the conditions for continued, reasonably rapid, **pro-poor growth**
 - Poverty-reducing economic reforms. Making markets work better for poor people
 - Assuring that poor people are able to participate fully in that growth, which will in turn require that they have access to schooling, health care, labor-market opportunities and financial resources when needed
- And it will need a measure of good luck:
 - Avoiding major crises (financial and agro-climatic)
 - Success in dealing with climate change
 - Continuing progress in global trade

How to achieve more pro-poor growth?

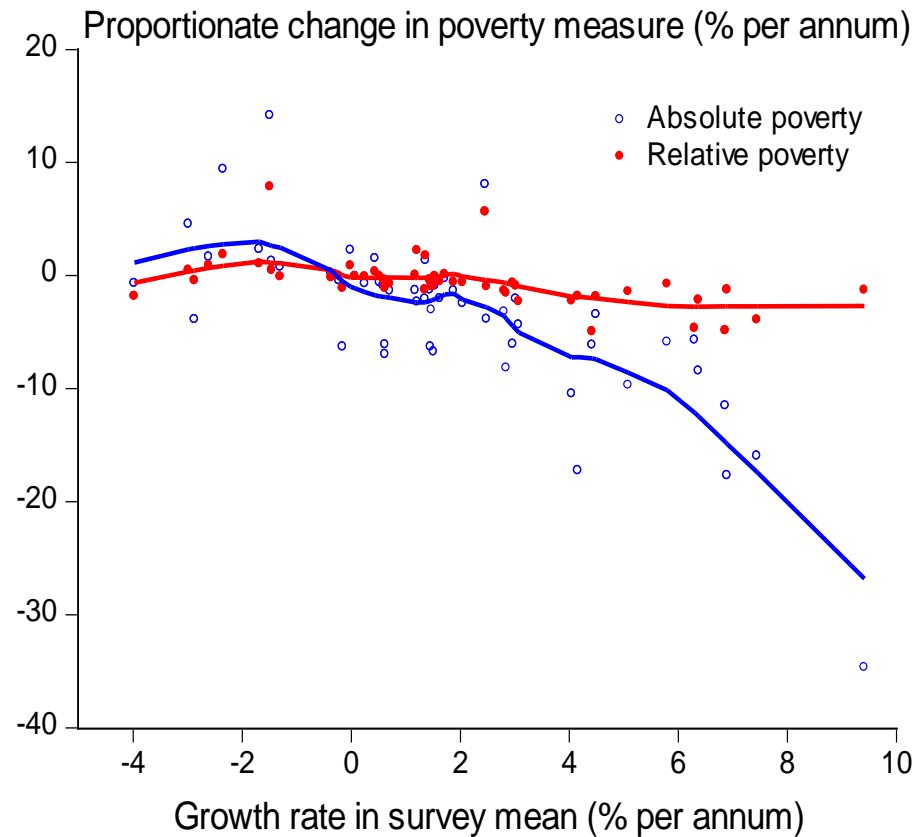
Literature and policy discussions point to the need to:

- Develop human and physical assets of poor people
- Make markets work better for them (credit, labor, land)
- Remove biases against the poor in public spending, taxation, trade and regulation
- Promote agriculture and rural development; invest in local public goods in poor areas
- Remove restrictions on migration
- Foster labor absorption from urban economies, esp., small and medium sized towns

Even the optimistic path will leave over one billion people living in relative poverty

Growth is less effective against relative poverty, judged by predicted national lines for each country/date:

- Average elasticity of absolute poverty reduction to growth in the mean = -2.
- Elasticity of weakly relative poverty = -0.4.

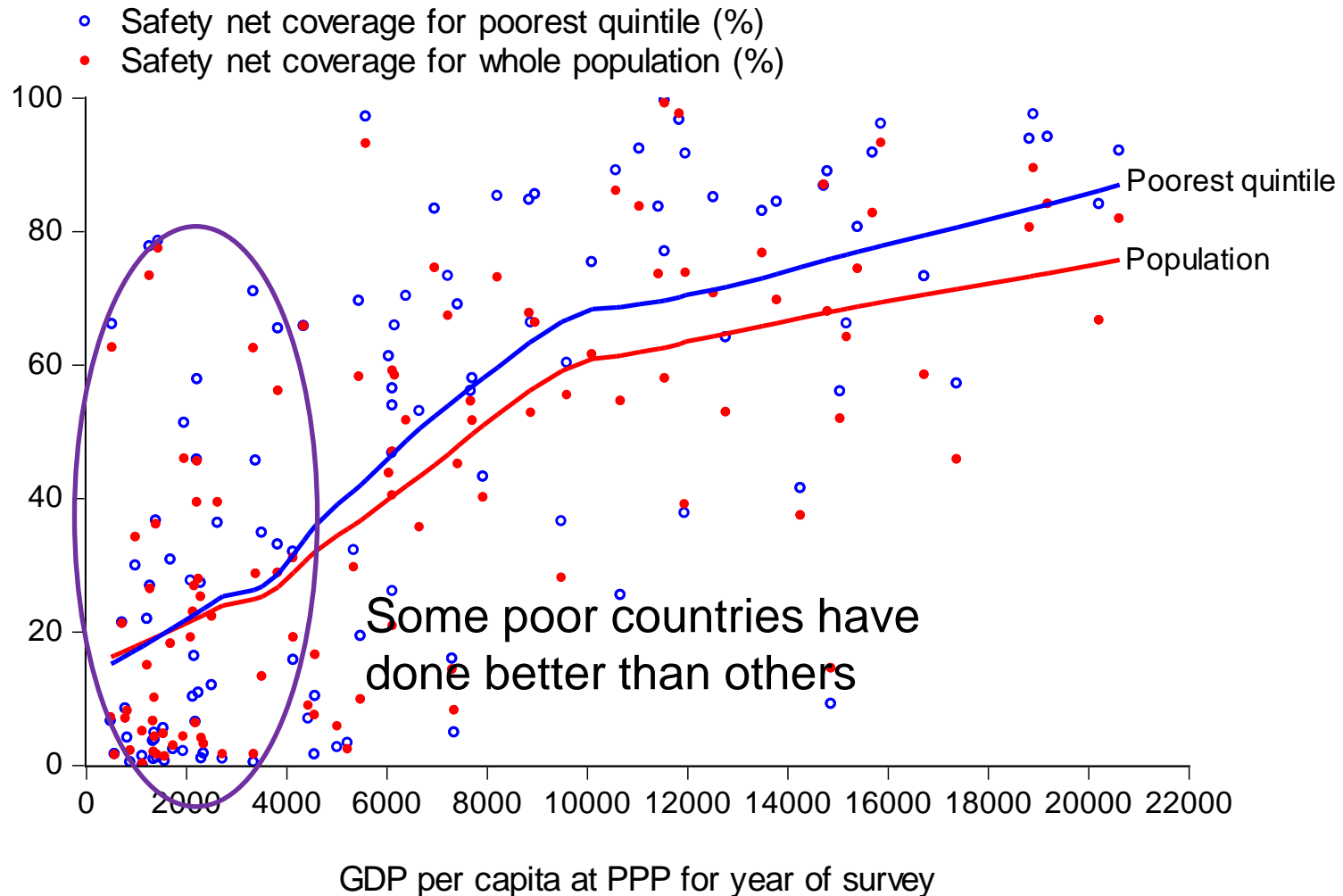


A role for direct redistributive
interventions?

Huge expansion in “social safety nets” (SSN) in the developing world

- SSN: Direct non-contributory income transfers to poor or vulnerable families
- In last 15 years many developing countries have introduced new SSN programs.
- Today almost every developing country has at least one SSN program.
- Roughly **one billion** people currently receive assistance.
- Using the World Bank’s [ASPIRE](#) database I estimate that population coverage of SSN programs (% receiving any help) is growing at 9% per annum (3.5% points).

Cruel irony: Poorer countries are less effective in reaching their poor



Constraints on direct interventions

- **Information:** low administrative capacity => imperfect information
 - Weak proxies for the poverty of households
 - Weak relationship between individual deprivation and household poverty
- **Incentives:** longstanding concern about undermining personal incentives for escaping poverty
 - Protection-promotion trade off: Finely targeting to guarantee a minimum income can destroy incentives for promotion
 - Incentive constraints can never be ignored, but there is also a risk of exaggerating their importance.
- **Budgets:** how much a government is willing to spend depends crucially on program design and effectiveness.
- **Political:** attaining the consensus needed for pro-poor reforms

Six recommendations for better direct interventions in poor places

Recommendation 1: Policies must be tailored to the realities of the setting

- Successful policies respect local constraints on the information available, administrative capabilities and incentive constraints.
- A key role for analysts is to learn about these constraints and make them explicit.
- Too often policy making is done in the absence of a proper understanding of these constraints, which makes for bad policies.

Recommendation 2: Tap local information with effective state support

- Tapping local information can help identify those in need, and help in responding, but it must be combined with strong governments.
- We have seen greater use of participatory, community-based (governmental and non-governmental), institutions for income support and/or service provision.
- However, these should not be seen as substitutes for **strong public administration**, which will still be needed in guiding and monitoring local institutions, including addressing grievances.

Recommendation 3: Focus on poverty reduction not finer “targeting” *per se*

- Excessive emphasis on reducing **inclusion errors**.
- The most finely targeted policy (lowest inclusion errors) need not have the most impact on poverty
 - Information problems; measurement errors
 - Proxy means tests are often poor means tests, esp., poorest
 - Hidden costs of participation
 - Adverse incentives: high marginal tax rates => poverty traps
 - Political economy; concerns about undermining social support/political consensus

Recommendation 4: Improve the protection-promotion trade-off

- There can be a trade off, though often exaggerated.
- Transfers have a role in allowing markets to work better from the perspective of poor people.
- “Smart,” “Social investment,” approaches (Conditional Cash Transfers and workfare) show promise, though assessments must consider all the costs and benefits and avoid **paternalism**.
- Greater flexibility is needed in responding to **shocks**. Participant capture is a common problem. Also local moral hazard.
- Don’t be too ambitious: administrative capacity is a key constraint in practice.
- Monitor and evaluate, and adapt accordingly.

Recommendation 5: Monitoring and evaluation are crucial

- There are persistent knowledge gaps about the effectiveness of this class of policies.
- In addressing those gaps, generalized preferences among the methodological options are rarely defensible in the absence of knowledge about the setting, and (especially) the data that are available.
- There is a **menu of defensible options**.
- It is no less important that policy makers are active in identifying **key knowledge gaps**, and/or supporting the creation of relevant knowledge.

Recommendation 6: Learn from mistakes

- Policy makers must also adapt to evidence of failure, admitting and learning from mistakes as well as scaling up successes.
- Too often, it seems, deficient programs survive well beyond their useful life.
- Bureaucratic inertia and participant capture appear to be common problems.
- The NGO [GiveWell](#) has a page on its website devoted to acknowledging its own mistakes (the first listed of which was not hiring a PhD economist, which the NGO is in the process of correcting at the time of writing).
- Citizens should demand that governments do the same.

Further reading

- New approaches to measuring global poverty: “Toward Better Global Poverty Measures,” *Journal of Economic Inequality*, Vol. 14, 2016, pp. 227-248.
- Optimistic and pessimistic paths to lifting 1 billion people out of poverty: “How Long will it Take to Lift One Billion People out of Poverty?” *World Bank Research Observer*, Vol. 28 (2), 2013, pp. 139-158.
- On progress in raising the consumption floor: “Are the World’s Poorest Being Left Behind?,” *Journal of Economic Growth*, Vol. 21(2), 2016, pp 139–164.
- Policies for fighting poverty: *The Economics of Poverty. History, Measurement, and Policy*, New York: Oxford University Press.

Thank you for your attention!