Global Poverty and Poverty Reduction Strategies

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Two questions

• How is the world doing against poverty?

• Is maintaining the policy “status quo” sufficient?
The focus on extreme absolute poverty

- Poverty line fixed in real value over time and space.
- Anchored to national lines found in the poorest countries:

Malawi, Mali, Ethiopia, Sierra Leone, Niger, Uganda, Gambia, Rwanda, Guinea-Bissau, Tanzania, Tajikistan, Mozambique, Chad, Nepal, Ghana

Log private consumption per capita ($PPP per day)

National poverty line ($PPP per day per person)

$1.25 (2011)

$1.90 (2011)
Poverty monitoring must be socially relevant

• Absolute consumption poverty reduction should remain the highest priority.
• However, this approach is increasingly out of step with social thought and the aims of social policy in developing countries.
• Two main inadequacies: incorporating social effects on welfare and monitoring whether the poorest are left behind.

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)
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

Headcount index (% below poverty line)

Upper bound: absolute + relative

Lower bound: absolute poverty
Numbers of poor

Number of poor in millions

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 poor.
We are not 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
- And in 2015 the Vatican’s representative to the U.N. reaffirmed that the poorest of the world are being left behind.
- 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.

- **Poorest left behind**
  - Floor stays put
  - Rising floor

- **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.

Ravallion, Martin, 2016, “Are the World’s Poorest Being Left Behind?,” Journal of Economic Growth, in press,
Focusing on the floor gives a very different picture to the counting approach
Much less progress in raising the consumption floor

Overall mean for developing world

No sign that the new Millennium raised the floor

Mean consumption ($ per person per day)

$0.67 on average

Consumption floor: expected level of lowest consumption
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

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

Implications for poverty reduction strategies
Economic growth will be 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*. 
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.
  – 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).
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 new role for direct interventions?
Cruel irony: Poorer countries are less effective in reaching their poor

Safety net coverage for poorest quintile (%)
Safety net coverage for whole population (%)

Poorest quintile
Population

GDP per capita at PPP for year of survey
Better direct interventions 1: Focus on poverty reduction not finer “targeting” \textit{per se}

- Excessive emphasis on reducing \textit{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 $\Rightarrow$ poverty traps
  - Political economy; concerns about undermining social support/political consensus
Better direct interventions 2: Improve the protection-promotion trade-off in practice

- 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.
- “Social investment” approaches (CCT 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.
Long-term perspective:
Lessons from today’s rich world
Escape from poverty in the 19th century
(Today’s rich world was once very poor!)
A lesson from today’s rich world?

• Today’s developing world is making faster progress in reducing the poverty rate (the counting approach) than did today’s rich world.

• But today’s rich world did better at raising the floor.
  – The annualized rate of growth in the floor over this period in today’s rich world was 0.7%, about double the rate we have seen in the developing world over the last 30 years.
  – Greater success in comprehensive social policy may well be the main reason.
Two questions

• How is the world doing against poverty?
  – “Poverty” in terms of command over commodities.
  – You have heard the headlines; but you now know that important things are missing.

• Is maintaining the policy “status quo” sufficient?
  – The emphasis on economic growth in poor areas is justified, but it needs to be complemented by greater policy emphasis on reaching the poorest and redressing extreme inequalities.
Further reading


• 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

Thank you for your attention!