More relatively-poor people in a less absolutely-poor world

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Looking back 200 years

• Around 1820, there were about one billion people living in poverty by the standards of today’s poorest countries.

• That was then over 80% of the world’s population.

• On a comparable basis (as best we can determine), there are still over one billion people who are poor by this measure today.

• But now less than 20%.
Huge progress over 200 years

1950 saw a turning point, with much faster progress against extreme poverty

1.5 billion people!
Uneven but huge overall progress against absolute poverty in China since 1980

Poverty rate (% of population living below $1.25 a day at 2005 PPP)

- Poverty rate for China
- Poverty rate for developing world less China
But this is not just about success in China!

Since 2000 we have seen a marked acceleration in absolute poverty reduction outside China.
Pessimistic and optimistic paths looking forward
Looking forward: the **pessimistic** benchmark for absolute poverty

- This assumes that the developing world outside China returns to its **pre-2000** pace of poverty reduction, but China remains on track.
- Projecting the series forward, this implies that the number of poor would fall from 1.1 billion in 2012 to 0.9 billion by 2022, and 0.8 billion by 2030.
- Almost one billion people will still be poor in 2030.
- This path will take 50 years to lift one billion people out of poverty!
The optimistic benchmark

- The guiding principle for the optimistic benchmark is that the recent success against extreme poverty in the developing world as a whole will be maintained.

- Three ways to quantify such a benchmark:
  1. Time-series projections of past experience.
  2. Simulations based on country-level growth projections by World Bank aggregated up.
  3. Past overall growth rate but without rising overall inequality.

- All three methods suggest a trajectory that will reach 3% by around 2030. (95% CI for linear projection: 2025-30.)
Two paths for extreme absolute poverty

Poverty rate: Percentage living below $1.25 a day

Optimistic trajectory

Pessimistic trajectory
The optimistic target will require that the developing world is successful in:

- Fostering the conditions for continued economic growth.
- Avoiding major crises—financial and agro-climatic.
- Assuring that poor people are able to participate fully in that growth.
- This will require that they have access to schooling, health care, water and sanitation, labor-market opportunities and financial resources when needed.

- However, that will still leave a large number of people who are poor by the standards of the county they live in.
Two proposed poverty goals for 2030:

3% for absolute poverty

33% for relative poverty
Higher poverty lines in richer countries
Relative poverty

• Absolute poverty measures do not allow for higher costs of social inclusion and avoiding relative deprivation in richer countries.

• Social inclusion must have a positive minimum.
  – This rules out the “strongly relative” lines used in Western Europe and OECD. These lines under-estimate the costs of social inclusion in poor countries.
  – And absolute incomes must also matter.

• We need “weakly relative poverty measures”(*).

• These relative lines closely track national lines.

Two poverty goals

I suggest we think about monitoring two poverty goals going forward:

– **absolute poverty** by the $1.25 a day standard and

– **relative poverty** by the standards typical of the country one lives in (weakly relative measure).
Slower progress against relative poverty in the developing world

Headcount index (% below poverty line)

Upper bound: absolute + relative

Lower bound: absolute poverty
Numbers of absolutely and relatively 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.
Growth is a less important proximate cause of uneven progress against relative poverty

- Average elasticity of absolute poverty reduction to growth in the mean of around -2.
- Weakly relative poverty is also responsive to economic growth, but less so.
- Elasticity of -0.4 for the relative poverty measure—one fifth of the value for absolute poverty.
- And the elasticity will decline with growth.
The 33% target for relative poverty in 2030

- Success against absolute poverty will undoubtedly swell the ranks of the relatively poor.
- **So progress against relative poverty will be slower.**
  - Reaching the 33% target would still leave 2.2 billion socially excluded people 10 years from now—though 0.5 billion less than current projections.
  - Half of these 2.2 billion people can be accounted for by those who are absolutely poor this year.
- The 33% goal would nonetheless entail a substantial reduction in the number of people who are relatively, but not absolutely, poor.
  - That number is 1.7 billion in 2012, but (under the 33% target for relative poverty) it would fall to 1.1 billion by 2022.
Thank you for your attention!