

World Bank Presentation on Shared Prosperity, December 3, 2013

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

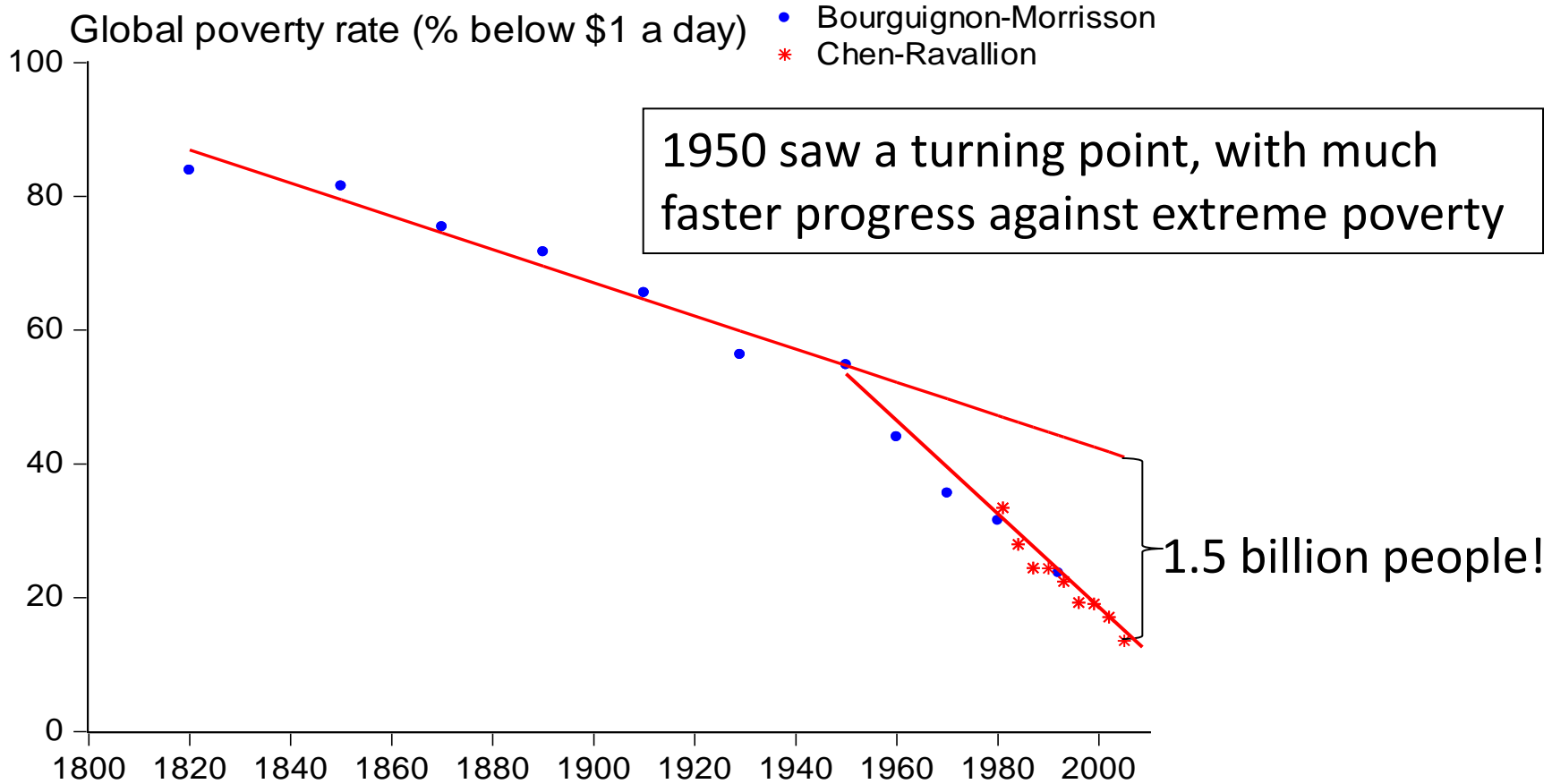
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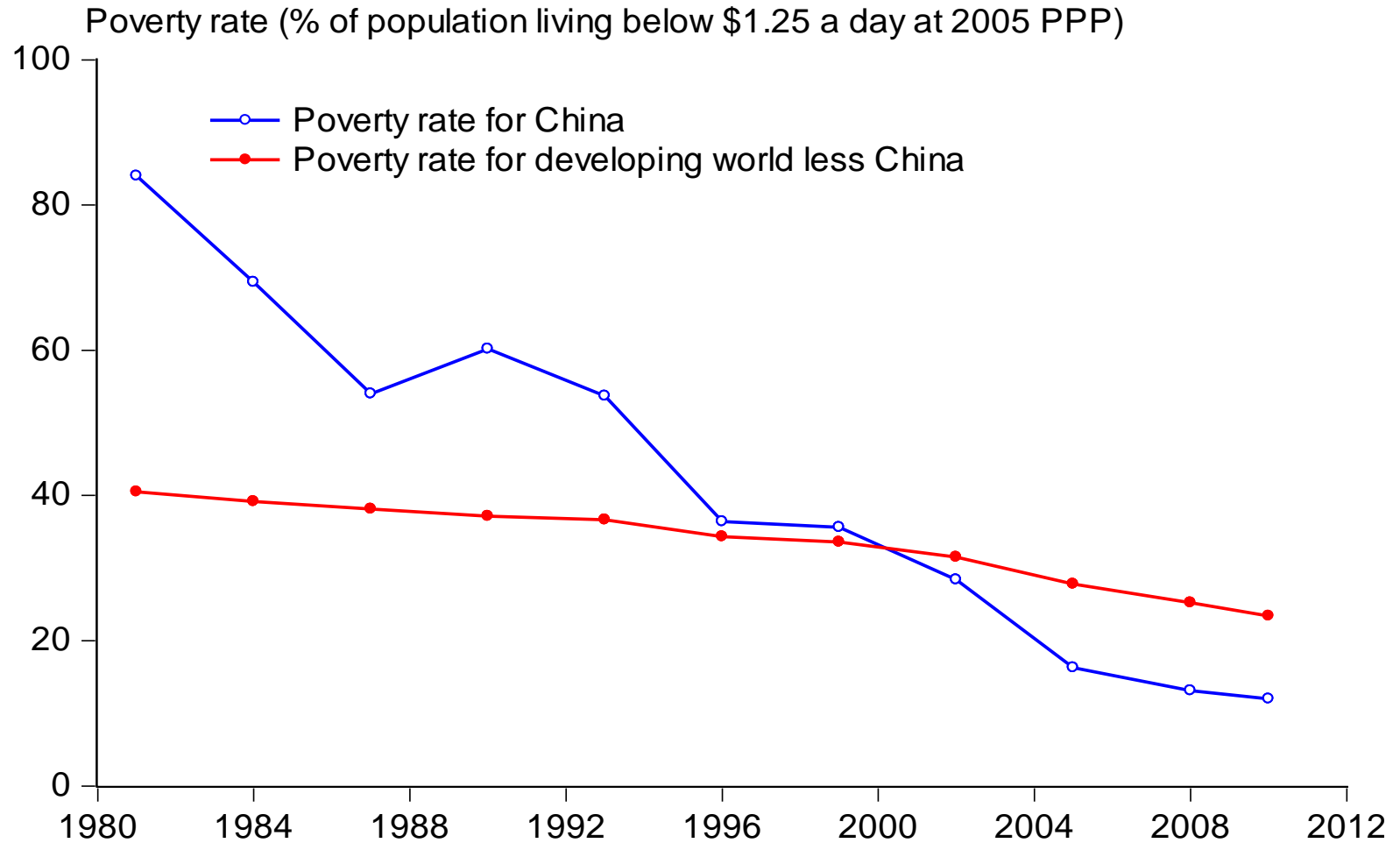
Looking back 200 years

- 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

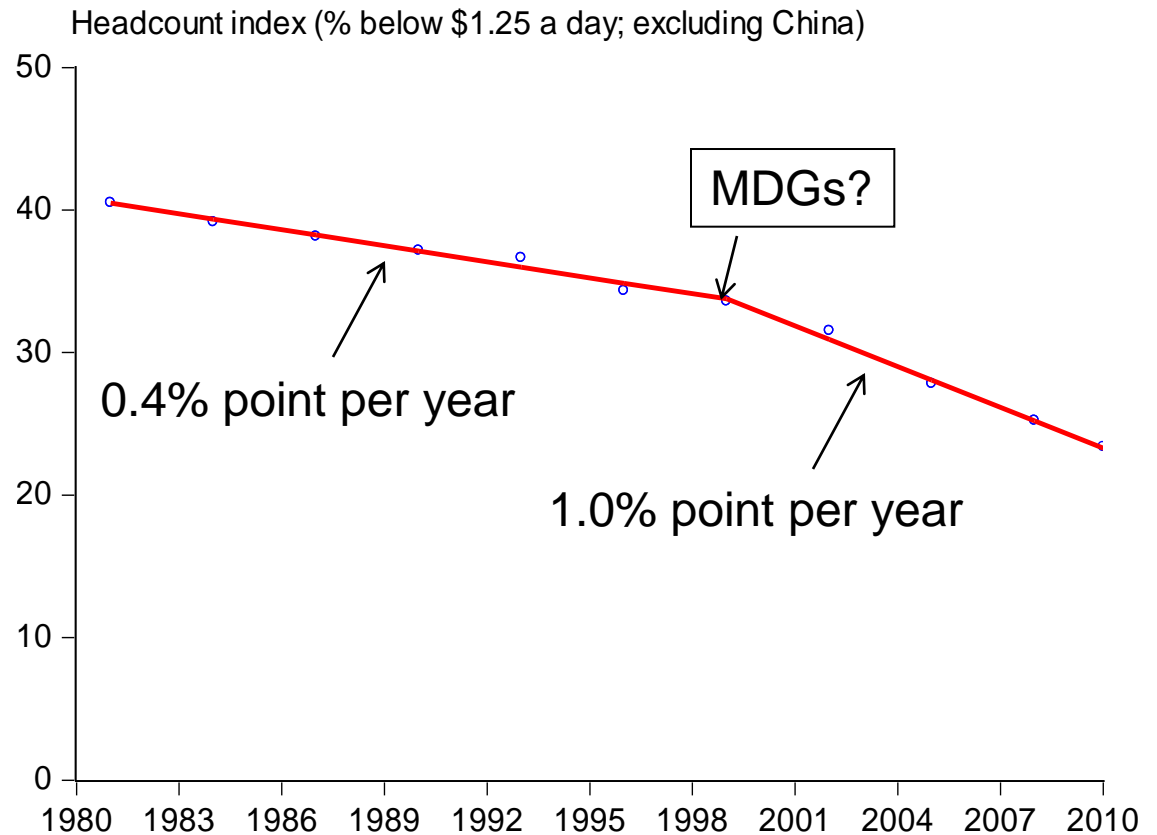


Uneven but huge overall progress against absolute poverty in China since 1980



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

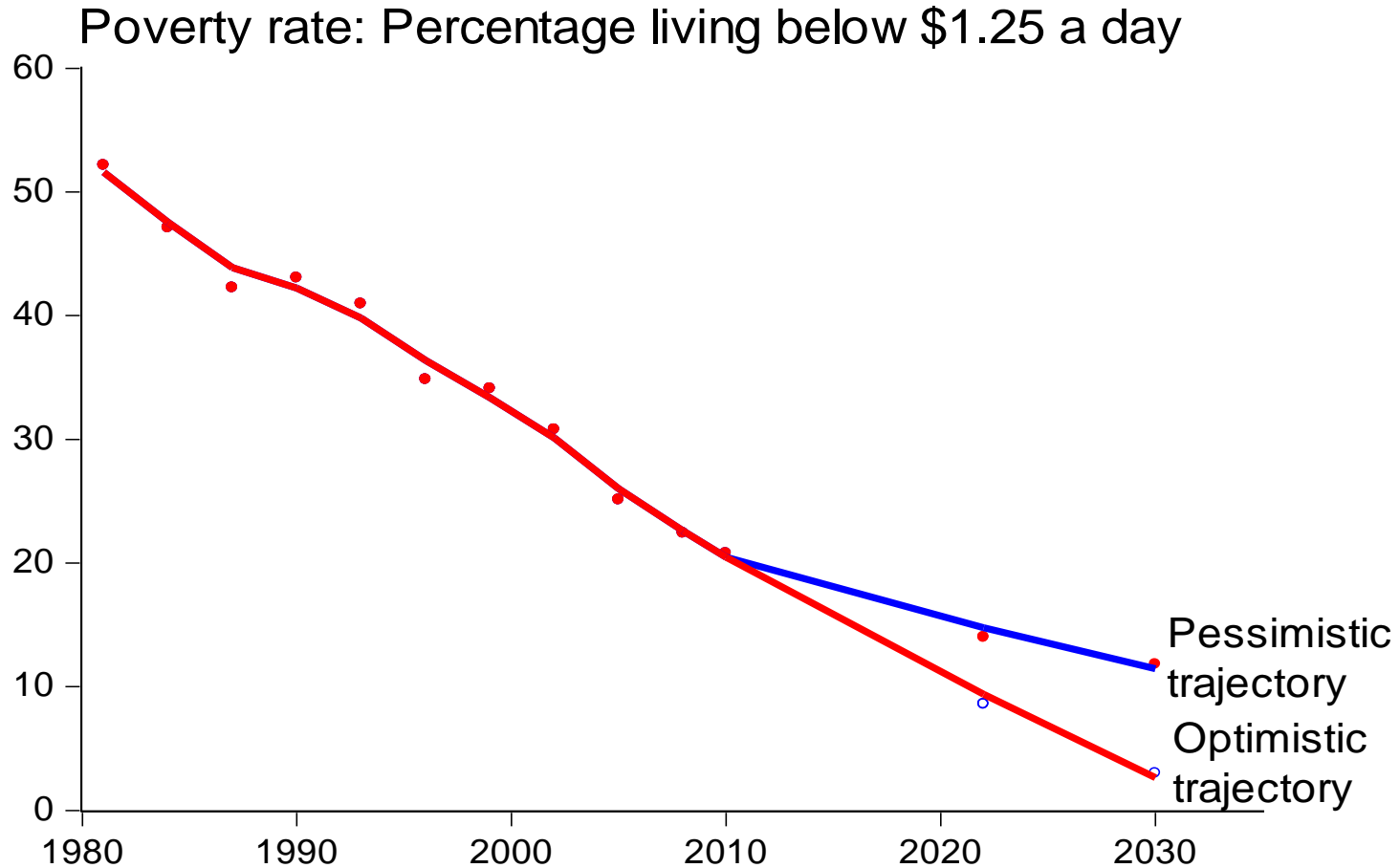
Looking forward: the **pessimistic** benchmark for absolute poverty

- 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



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

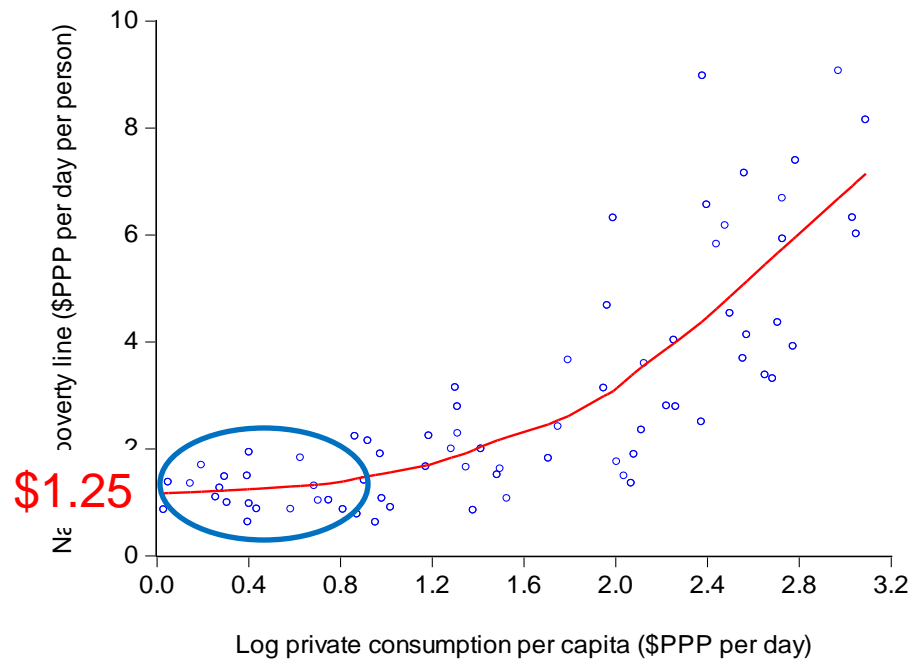
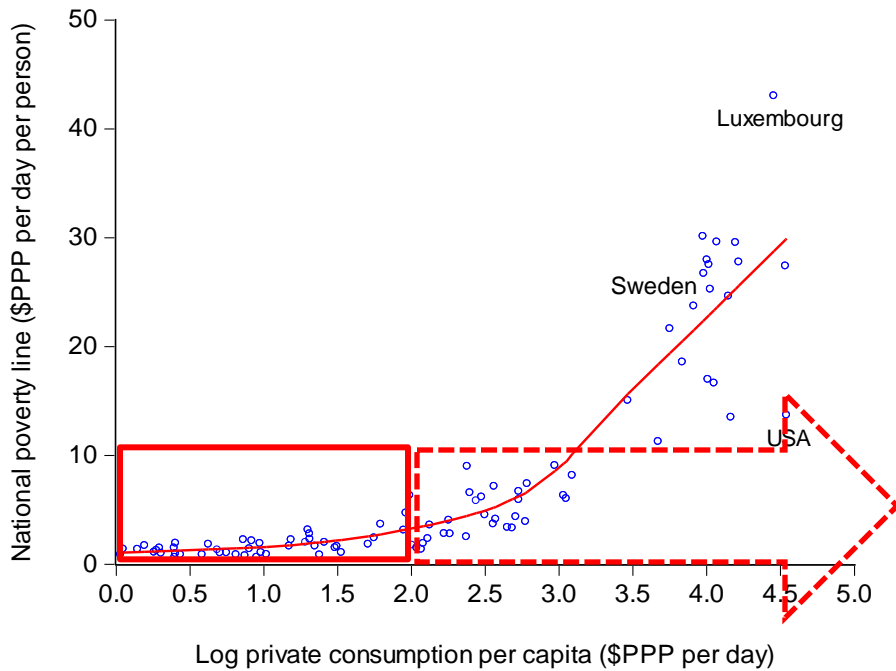
- Fostering the conditions for continued economic **growth**.
- Avoiding major **crises**—financial and agro-climatic.
- Assuring that poor people are able to participate fully in that growth.
- This will require that they have access to schooling, health care, water and sanitation, labor-market opportunities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

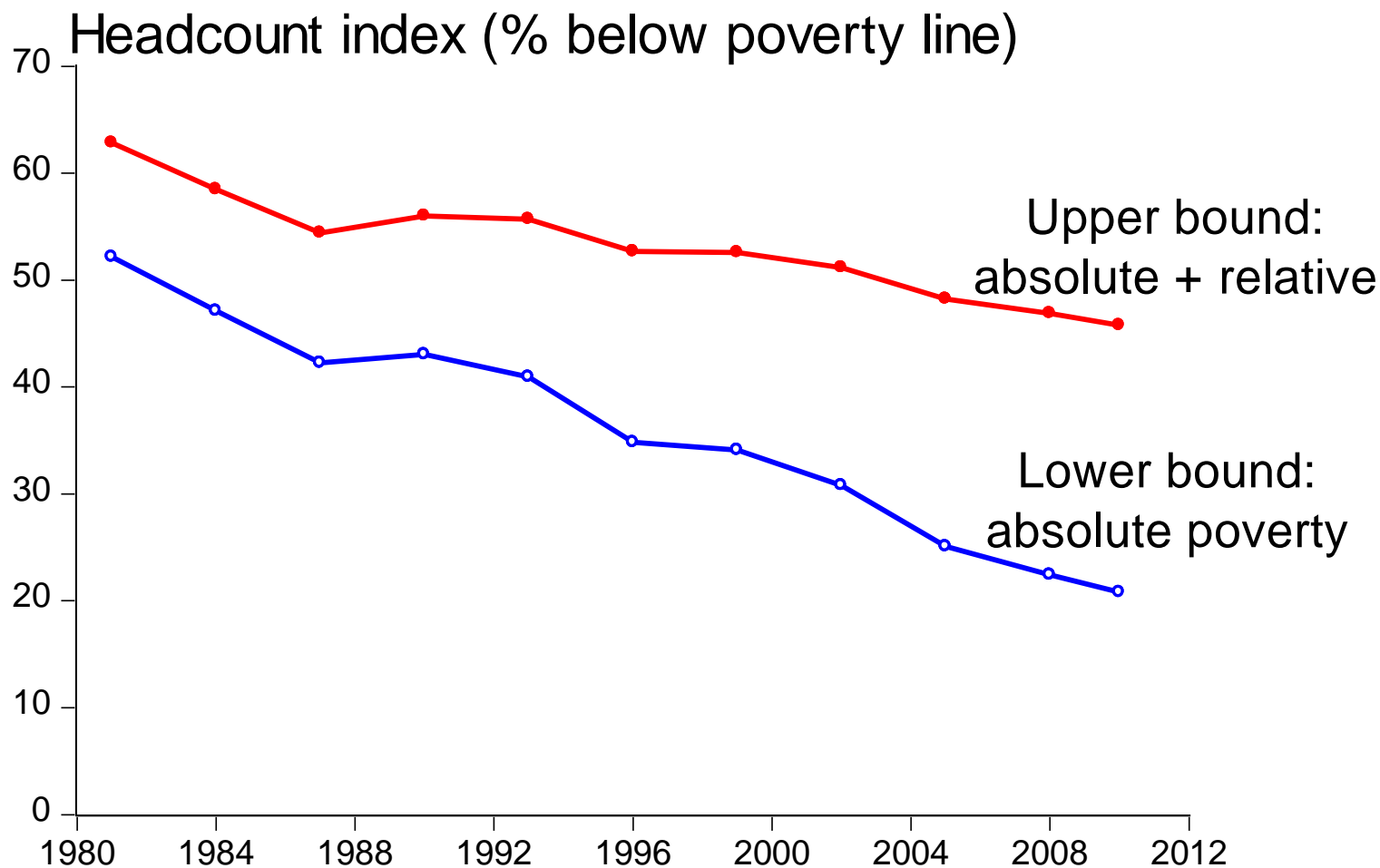
(*) Martin Ravallion and Shaohua Chen (2011), “Weakly Relative Poverty,” *Review of Economics and Statistics*, 93(4): 1251-1261.

Two poverty goals

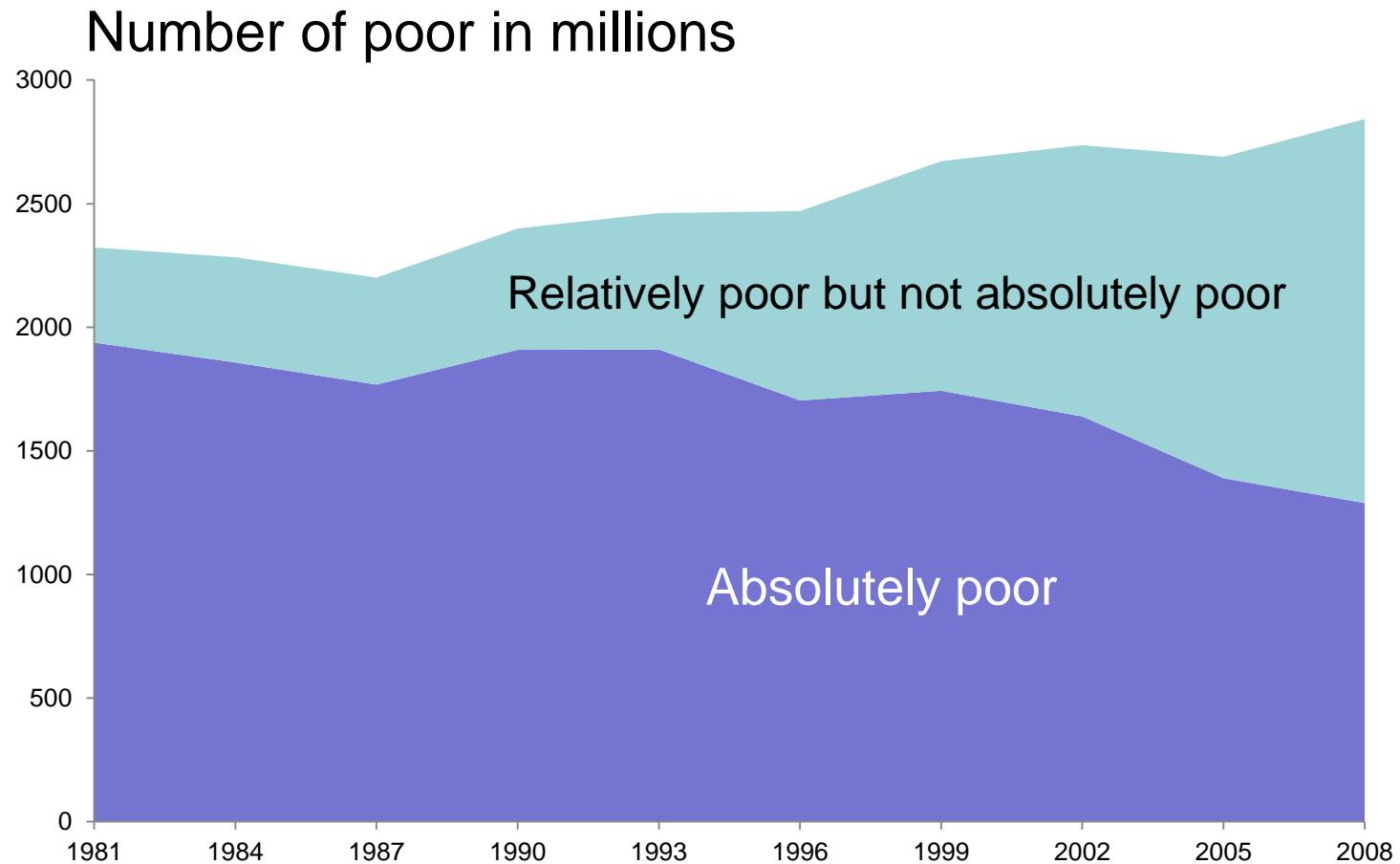
I suggest we think about monitoring two poverty goals going forward:

- **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



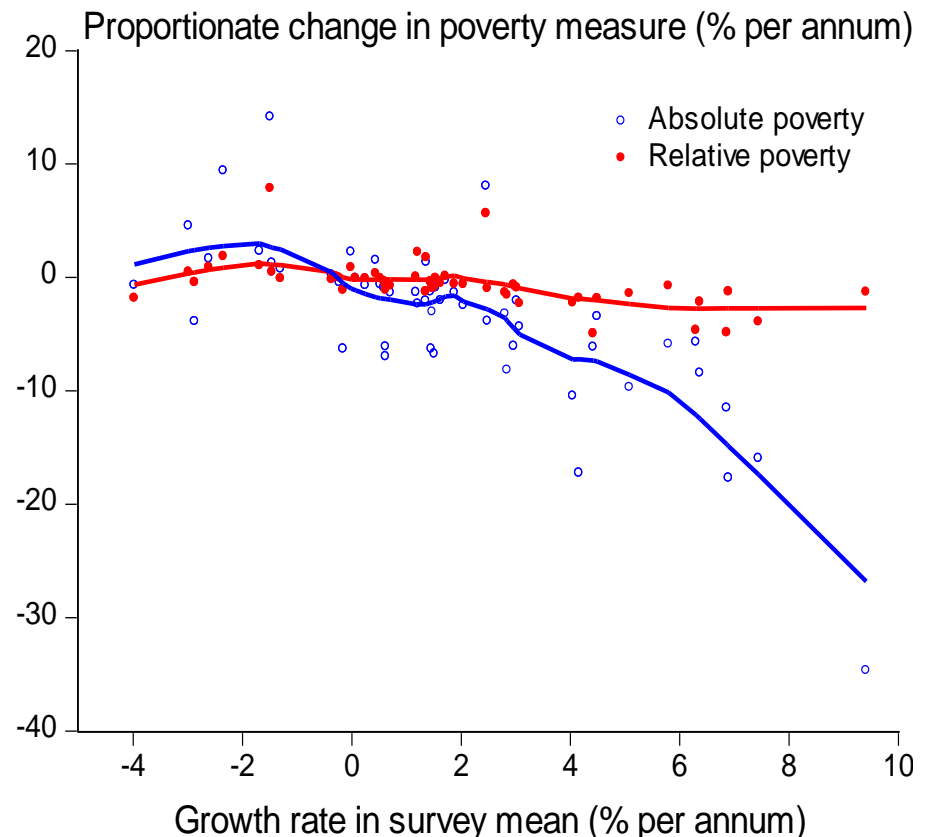
Numbers of absolutely and relatively poor



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!