Rethinking Poverty:  
*Progress, Measurement, Policy Prescriptions*

20 June 2011
MDG 1: Halve Poverty, Hunger

Progress on poverty reduction uneven, threatened, but achievable

- WB’s $1/day poverty line: 1.4bn people living in extreme poverty in 2005, down from 1.8bn in 1990
- But without China, no. of poor actually went up over 1990-2005 by @ 36m
- 92m more poor in SSA over 1990-2005
Money measures

- Poverty mostly measured in money terms: per capita or household income or spending
- Extreme poverty – those living on less than US$1/day (in 1993 prices)
- Using this measure, global extreme poverty has become less severe over last two decades, but with significant regional variation
Changing definition

WB $1/day line probably under-estimates actual extent of poverty (Townsend):
- Shifting goalposts: $1.25/day based on average poverty line of poorest 15 countries
- different from earlier definitions

- Income or spending yardstick does not tell whole story
- 1995 World Social Summit poverty definition considers deprivation, social exclusion and lack of participation
→ if so, poverty situation graver (Townsend)
<table>
<thead>
<tr>
<th>Poverty Line</th>
<th>Poverty Line Equivalent</th>
<th>Poverty Line Equivalent</th>
<th>Poverty Headcount</th>
<th>Millions of People Below Poverty Line</th>
</tr>
</thead>
<tbody>
<tr>
<td>US$ per person/day</td>
<td>US$ per person/month</td>
<td>Rupiah per person/month</td>
<td>(% population below poverty line)</td>
<td></td>
</tr>
<tr>
<td>0.27</td>
<td>8.38</td>
<td>62,870</td>
<td>9.75</td>
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<td>0.29</td>
<td>8.80</td>
<td>66,021</td>
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<td>0.32</td>
<td>9.64</td>
<td>72,309</td>
<td>17.40</td>
<td>37.6</td>
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<td>0.33</td>
<td>10.06</td>
<td>75,452</td>
<td>20.18</td>
<td>43.6</td>
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<td>0.34</td>
<td>10.47</td>
<td>78,596</td>
<td>23.03</td>
<td>49.7</td>
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</table>
Poverty line lowered?

- Poverty line catchy, convenient, but misleading
- New WB $1.25/day line (2005 PPP) earlier: $1.08/day (1993 PPP)
  original: $1/day
- If US inflation considered, line would be $1.45 in 2005, NOT $1.25

But Bhalla unfair ("WB exaggerates poverty to keep itself in business")
Not enough food?

- Poverty line mainly defined as money income to avoid hunger, but huge discrepancies between poverty + hunger measures

- **FAO**: 963m. **hungry world-wide** – up by 142m. since 1990-92

- Attributed to changing definition, faulty methodology
WB estimates

- No. of poor fell from 1.9bn in 1981 to 1,399m. in 2005: >40% increase over earlier 986m. ("bottom billion") for 2004!
- From 52.0% to 25.7% of world population
- But if China left out, global extreme poverty number higher
- Without China, extreme poor up from 1.1bn in 1981 to 1.2bn in 2005
Where are the poor?

- Highest share of poor changed from E Asia to S Asia + SS Africa
  - 57% of world’s extreme poor lived in E Asia + Pacific in 1981, down to 23% in 2005
  - S Asia share increased from 29% in 1981 to 43% in 2005
  - SS Africa share more than doubled from 11% to 28% in this period
Market liberalization?

- Economic liberalization since 1980s
  - slowed growth, poverty reduction
  - increased inequality, vulnerability + volatility in most countries
- Slower growth (except 2003-2008)
- Reduced policy space
- Less growth + revenue -- due to liberalization, tax competition -- have reduced fiscal means
- Reduced policy + fiscal space → adverse effects for poverty + destitution
Poverty magic bullets

No evidence of IFI/donor favoured special poverty programs significantly reducing poverty without sustained growth + job creation, e.g.

-- good governance
-- micro-credit
-- property rights (e.g. land titling)
-- ‘bottom of the pyramid’ marketing
• ‘Good governance’ indicators reflect development status – not prerequisite for development
• Most developing countries do not have fiscal means for comprehensive ‘good governance’ reform
• Market failures likely to remain
• ‘Pro-poor’ governance reforms claim to improve service delivery to poor. But neither theory nor evidence support this
• Instead, focus on ‘good enough’ alternative development-enhancing governance capabilities to address “key” development bottlenecks
Thank you

Report on the World Social Situation 2010
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