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Where the Line is Drawn. *A Rejoinder to Ravallion*

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Martin Ravallion's "One Pager" No. 66 focuses on two key issues: the level of the World Bank's international poverty line (IPL) and its conversion to other currencies and years.

IPL level in 2005-dollars	1990 baseline (millions of poor)	2015 target reduction of 27.5% (millions)	Annual reduction needed to reach target	Reduction needed to be "on track" in 2005 (millions)	Actual reduction achieved 1990–2005 (millions)	How are we doing in regard to MDG-1? (100% = exactly on track)
$1.00/day	1303.2	358.4	1.28%	228.7	424.2	185%; far ahead of schedule
$1.25/day	1817.5	499.8	1.28%	318.9	417.9	131%; ahead of schedule
$2.00/day	2753.6	757.2	1.28%	483.2	155.8	32%; far behind schedule
$2.50/day	3076.6	846.1	1.28%	539.9	-63.6	-12%; regressing

Having written on conversion before ("One Pager" No. 54), I can be brief. The purchasing power parities the Bank uses to convert its IPL into other currencies at best preserve purchasing power equivalence relative to the pattern of international household consumption. Similarly, the consumer price indices the Bank uses to convert the results to other years at best preserve purchasing power equivalence relative to each national household consumption basket. Such conversions are unsuitable within a poverty measurement exercise because the prices of necessaries play a much greater role in the lives of the poor than in general consumption expenditure.

For example, the UN Food and Agriculture Organisation (FAO) reports that food prices have more than doubled since early 2006, with devastating effects on the poor. The IPL will not record these effects. It assesses a poor person's income against her country's general consumer price level (which has risen much less) rather than against the prices of what she absolutely needs to buy.

The political role of the Bank's IPL makes crucial where this line is drawn. At the 1996 World Food Summit (WFS) in Rome, 186 governments promised to halve, by 2015, the number of people in severe poverty. In the first UN Millennium Development Goal (MDG-1) they then promised to halve the "proportion of the world's people" living in poverty. Later reformulations of MDG-1 backdate its baseline from 2000 to 1990 and also replace "world's people" with the population of the developing countries.

So there were three successive targets: (1) the WFS target: to halve, over *19 years*, the *number* of poor worldwide, which implies a 3.58 per cent annual reduction in this number; (2) MDG-1 as adopted: to halve, over *15 years*, the *proportion* of poor in *world population*, which implies a 3.40 per cent annual reduction in the number of poor; and (3) MDG-1 as reformulated: to halve, over *25 years*, the *proportion* of poor in *the developing world*, which implies a 1.28 per cent annual reduction in the number of poor worldwide. The last and now official target is so much less ambitious because—thanks to 1990–2015 population growth of 45 per cent in the developing world —the number of poor needs to be reduced by only 27.5 per cent.

Are we on track to achieving at least this modest 27.5 per cent reduction over 25 years? The answer depends dramatically on how high or low the IPL is set. The Bank initially fixed its IPL at 1.02 1985-dollars, noting that the domestic poverty lines of eight poor countries were close to this amount. It later reset its IPL to 1.08 1993-dollars, noting that this was the median of the ten lowest domestic poverty lines. This August the Bank has reset its IPL again to 1.25 2005-dollars, noting that this is the mean of the domestic poverty lines of the 15 poorest countries. The rationale behind this variable "anchoring" of IPLs in domestic poverty lines (many of which are themselves fixed by the Bank) is obscure. Converted into 2008-dollars, the three IPLs come to $2.08, $1.63, and $1.40 respectively. If you live in the US and your consumption in all of 2008 costs more than $512, you are not poor by the World Bank's latest standard.

How about setting the IPL at a higher level? Chen and Ravallion (2008) give data—summarized in the table—for four different poverty lines. The data show how decisively the achievement of MDG-1 depends on where the IPL is fixed. The Bank's choice of $1.25 (2005) per day allows us to celebrate being 31 per cent ahead of schedule. Were the IPL set at $2.00 (2005) per day, we would be 68 per cent behind schedule.

If $1.25 is too low, Ravallion asks, how does much of India's population manage to survive on even less? Indeed, they "manage to live." But to count people as non-poor, more should be required: that they can afford sufficient food, clean water, basic health care, adequate clothing and shelter.

Adopting a more adequate IPL, could we still afford a commitment to eradicate poverty? If the Bank defined poverty in terms of $2 (2005) per day, it would count as poor 2.6 billion people whose 40 per cent average shortfall would amount to 1.3 per cent of global income (ibid., 23). Getting everyone to this very modest level—$819 per person per year in the US today—is not an extravagant goal when all it would take is a 1.3 per cent shift in the global income distribution. With its new IPL of $1.25 (2005), the Bank is counting as poor 1.4 billion people who, on average, live 30 per cent below this line. Their collective shortfall is 0.33 per cent of global income (ibid.). And we are grandly aiming to repair half of this problem over 25 years!

Reference:

Shaohua Chen and Martin Ravallion (2008). "The Developing World is Poorer than We Thought, but no Less Successful in the Fight against Poverty," World Bank Policy Research Working Paper WPS 4703. Available at <http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2008/08/26/000158349_20080826113239/Rendered/PDF/WPS4703.pdf>.

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