

To Eliminate Poverty, Better Understanding Needed

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As the United Nations' Second Decade for the Eradication of Poverty (2008-2017) came to an end, more self-congratulation is likely. Claims of victory in the war against poverty will be backed by recently released poverty estimates from the World Bank, entrusted by the UN system to monitor poverty.

Mismeasuring poverty

The latest Bank data on global poverty suggests that 767 million people, or 10.7% of the world's population, live in extreme poverty, compared to some 42% of the world's population in 1981. Earlier figures suggested that most progress was due to East Asia, especially China.

The Bank's international poverty line was revised from a dollar a day in 1985 to \$1.08 in 1993, \$1.25 in 2005, and \$1.90 in 2011. Poverty estimates for 2011 are available using both \$1.90 and \$1.25 per day poverty lines. Global poverty has fallen from 14.5% of the world's population (or 1,011 million people) using the \$1.25 poverty line or 14.2% (or 987 million) with the new \$1.90 line! Global poverty has thus declined more using the new yardstick, confounding those who expected a statistical explosion in the number of poor with the 52% increase during 2005-2011!

Echoing an earlier complaint, economics Nobel Laureate Angus Deaton believes that the World Bank has an "institutional bias towards finding more poverty rather than less" to 'keep itself in business' leading the fight against global poverty. No wonder the World Bank faces a serious credibility problem when it comes to its poverty role.

The World Bank's poverty estimation methodology is problematic, as admitted by Martin Ravallion who pioneered its dollar-a-day measure. Doubts remain, even after several adjustments. The Bank's poverty line appears arbitrary as it has not been consistently anchored to a broadly accepted specification of basic human needs.

Asian progress exaggerated

The Asian Development Bank (ADB) argued that the World Bank's \$1.25 yardstick was not representative of Asia, the continent that has supposedly contributed most to the decline in global poverty according to the Bank. There were only two Asian countries, compared to 13 African countries, in the sample with which the World Bank set its \$1.25 benchmark.

The ADB deems other factors more relevant, such as *living costs* for Asia's poor, *food costs* rising faster than the general price level, and *vulnerability* to natural disasters, climate change, economic crises and other shocks. Its estimated extreme poverty rate for Asia in 2010 thus increased by 28.8 percentage points to 49.5% while the estimated number of poor jumped by 1.02 billion to 1.75 billion people!

It is now widely agreed that poverty is multidimensional while the Bank still uses 'money-metric' measures. The UN Development Programme's *Human Development Report* (HDR) publishes its Multidimensional Poverty Index (MPI) considering multiple deprivations across three dimensions – health (nutrition, child mortality), education (years of schooling, school enrolment) and living standards (cooking fuel, toilet, water supply, electricity, flooring, assets).

About 1.5 billion people in the 102 developing countries currently covered experience such acute deprivations. Close to 900 million people are vulnerable to falling into poverty

following setbacks due to financial crisis, natural disaster and other factors.

Globalization reduced poverty?

With little convincing evidence, *The Economist* (30 March 2017) attributed the world's "great progress in eradicating extreme poverty" to globalization.

In the *Globalization and Poverty* book, 15 economists considered whether globalization has helped spread wealth, as often claimed. They conclude that the poor benefit from globalization when appropriate complementary policies, such as investments in human resources, infrastructure, credit promotion, technical assistance and supportive institutions, are in place.

Most supposed evidence is indirect, suggesting poverty reduction is mainly due to growth attributed to globalization. But recent globalization has also seen sharply increased inequality and volatility, including more frequent and deeper financial crises.

Other policies associated with globalization and liberalization, such as privatization, financial sector deregulation and pro-cyclical macroeconomic policies, have also harmed the poor. The efficacy of programmes, such as microfinance and governance reforms, in significantly reducing poverty is now very much in doubt.

Rethinking poverty

The United Nations' Report on the World Social Situation 2010 – Rethinking Poverty, and our accompanying volume, *Poor Poverty*, affirmed the urgent need to abandon the market fundamentalist thinking, policies and practices of recent decades in favour of more sustainable development- and equity-oriented policies appropriate to national conditions and circumstances. Such new thinking on poverty and its eradication can be summarized as follows:

- Dominant mainstream perspectives have led to poor, ineffectual policy prescriptions.
- Poverty reduction is helped by sustained growth of output and decent jobs.
- Growth helps raise incomes and fiscal resources for social spending.
- Growth needs to be more stable, with consistently counter-cyclical macroeconomic policies and better capacity to deal with exogenous shocks.
- Progressive structural change and inequality reduction are crucial for development.
- Social provisioning accelerates development and poverty reduction.
- Social protection can better mitigate negative shocks, prevent people becoming much poorer, and help generate economic activities and livelihoods.
- A basic social protection floor is affordable in most countries, although poorer countries will progress faster with donor support.