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Which Poverty Line? A Response to Reddy

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Some years ago a consensus emerged in the development community on the idea of an international poverty line of around $1 a day at purchasing power parity. This became the focus of the first Millennium Development Goal (MDG), which calls for halving the 1990 $1 a day poverty rate by 2015.

In a recent IPC One Pager, "Are Estimates of Poverty in Latin America Reliable?", Sanjay Reddy asserts that this poverty line is "arbitrary" and "unreliable." He feels that the line is too low to reflect well the cost of not being considered poor in Latin America.

Reddy neglects to point out that the $1 a day line is not intended for measuring poverty in Latin America by the standards most Latin Americans would consider appropriate. The $1 a day line was explicitly designed to be representative of the poverty lines found in the poorest stratum of countries, none of which are in Latin America. While the latest available estimates indicate that about one fifth of the population of the developing world lives below $1 a day line, the figure is less than 10 per cent in Latin America (although that is still a lot of very poor people).

In measuring absolute income poverty in the world as a whole, there is a compelling case for treating any two people with the same real income the same way, even when they live in different countries. We need a common yardstick.

It is explicitly acknowledged by the World Bank that $1 a day is a frugal line. One could hardly argue that those people who are poor by the standards of the poorest countries are not in fact poor. This gives the $1 a day line a salience in focusing on the world's poorest that a higher line would not have. At the other extreme, suppose instead that one judged poverty in the poorest countries by (say) US standards. Learning that 95 per cent or more of the population is poor by this standard is unlikely to have much relevance in a poor country, given that US standards of living are not within most people's foreseeable reach.

Reddy claims there is a better approach, though he does not say much about the details. He refers to his paper with Thomas Pogge, which in turn cites Reddy et al. (2006), where one finds details on the preferred "capability approach." This entails calculating the cost of a country-specific food bundle for the poorest stratum of households in that country whose diets are deemed to be nutritionally adequate. To this food poverty line he adds an allowance for non-food spending consistent with the spending patterns of those near the food-poverty line. The key feature for Reddy is that a common nutritional cut-off point—he uses 2100 calories per person per day— should be used for all countries.

But hold on, this is sounding very similar to how most countries currently measure poverty. Indeed, it is the method used by 80 per cent of the country-specific poverty assessments summarized in Ravallion et al. (2008). The resulting national poverty measures are compiled in the World Bank's *World Development Indicators*, side-by-side with the international "$1 a day" numbers. It seems that Sanjay Reddy has reinvented the wheel.

Reddy also ignores an important problem: the purchasing power over commodities of the poverty lines generated by his preferred method is demonstrably not constant across countries. The reason is clearly not different nutritional cut offs, which do not vary much, but rather that there are multiple ways of reaching 2100 calories, implying very different standards of living. Unsurprisingly, people in richer countries tend to consume more expensive calories, and this is reflected in poverty lines. Across countries, the real income elasticity of the food poverty lines is 0.5; the elasticity of the non-food component of the poverty line is even higher, at 0.9 (Ravallion et al., 2008).

Thus two people with the same real income but living in different countries will not be treated the same way by Reddy's proposed method; typically the person living in the poorer country will be less likely to be deemed poor.

All this just brings us back to the key question: by which definition should we measure poverty in the world as a whole? The first MDG is implicitly saying that we should start with the definition found in the poorest countries, and give priority to bringing everyone in the world up to that standard. Once that is (hopefully) done, we can move to the task of bringing everyone up to the level of living needed to escape poverty in Latin America, by Latin American standards. We have a long way to go.

References:

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