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Lecture 3

Papal infallibility, global poverty, and the mystery of global inequality



APOSTOLIC EXHORTATION

APOSTOLIC EXHORTATION
EVANGELII GAUDIUM
OF THE HOLY FATHER
FRANCIS
TO THE BISHOPS, CLERGY,
CONSECRATED PERSONS
AND THE LAY FAITHFUL
ON THE PROCLAMATION OF THE GOSPEL
IN TODAY'S WORLD

Given in Rome, at Saint Peter's, on 24 November, the solemnity of Our Lord Jesus Christ, King of the Universe, and the conclusion of the Year of Faith, in the year 2013, the first of my Pontificate.

Franciscus

From “The Joy of the Gospel”

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- While the earnings of a minority are growing exponentially, so too is the gap separating the majority from the prosperity enjoyed by those happy few.
- This imbalance is the result of ideologies which defend the absolute autonomy of the marketplace and financial speculation. Consequently, they reject the right of states, charged with vigilance for the common good, to exercise any form of control. A new tyranny is thus born, invisible and often virtual, which unilaterally and relentlessly imposes its own laws and rules. Debt and the accumulation of interest also make it difficult for countries to realize the potential of their own economies and keep citizens from enjoying their real purchasing power. To all this we can add widespread corruption and self-serving tax evasion, which have taken on worldwide dimensions. The thirst for power and possessions knows no limits. In this system, which tends to devour everything which stands in the way of increased profits, whatever is fragile, like the environment, is defenseless before the interests of a deified market, which become the only rule.
- *No to a financial system which rules rather than serves*

From “The Joy of the Gospel”

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From “The Joy of the Gospel”

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Summary of the exhortation

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1. Global inequality is rising
2. Prosperity is only enjoyed by a few: poverty stagnant?
3. Inequality undermines democracy in the interests of the very rich
4. Unpleasant arithmetic of debt dynamics can undermine living standards
 1. Note reference to “real purchasing power”=PPPs?
5. Unregulated financial systems cause rising inequality
 1. Perhaps a reference to Piketty’s patrimonial society?
6. The market takes no account of externalities, of which climate change is the most important
7. I shall focus on 1 and 2, leaving the other issues for another day

Start with global poverty

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- Global poverty was first measured by Ahluwalia, Carter and Chenery in 1979
- Took an Indian poverty line using 45th percentile in India
 - ▣ Consistent with official and academic Indian lines of the time
 - ▣ Converted it to other currencies using PPPs from Penn published in 1978 (most of which interpolated): similar results with exchange rates
 - ▣ \$200 PPP in 1970 prices (\$1.40 per person per day at 1985 prices)
- Calculated number of people in the world below that line by applying gini coefficients to GDP per capita in each country
 - ▣ If you have the mean from the national accounts, and a measure of spread, then with assumptions you can calculate the number below a line
 - ▣ More than a half of people in LDCs were poor
- Like the Pope today, in spite of rapid growth in developing countries, poor benefited “to a very limited degree”

Later lines

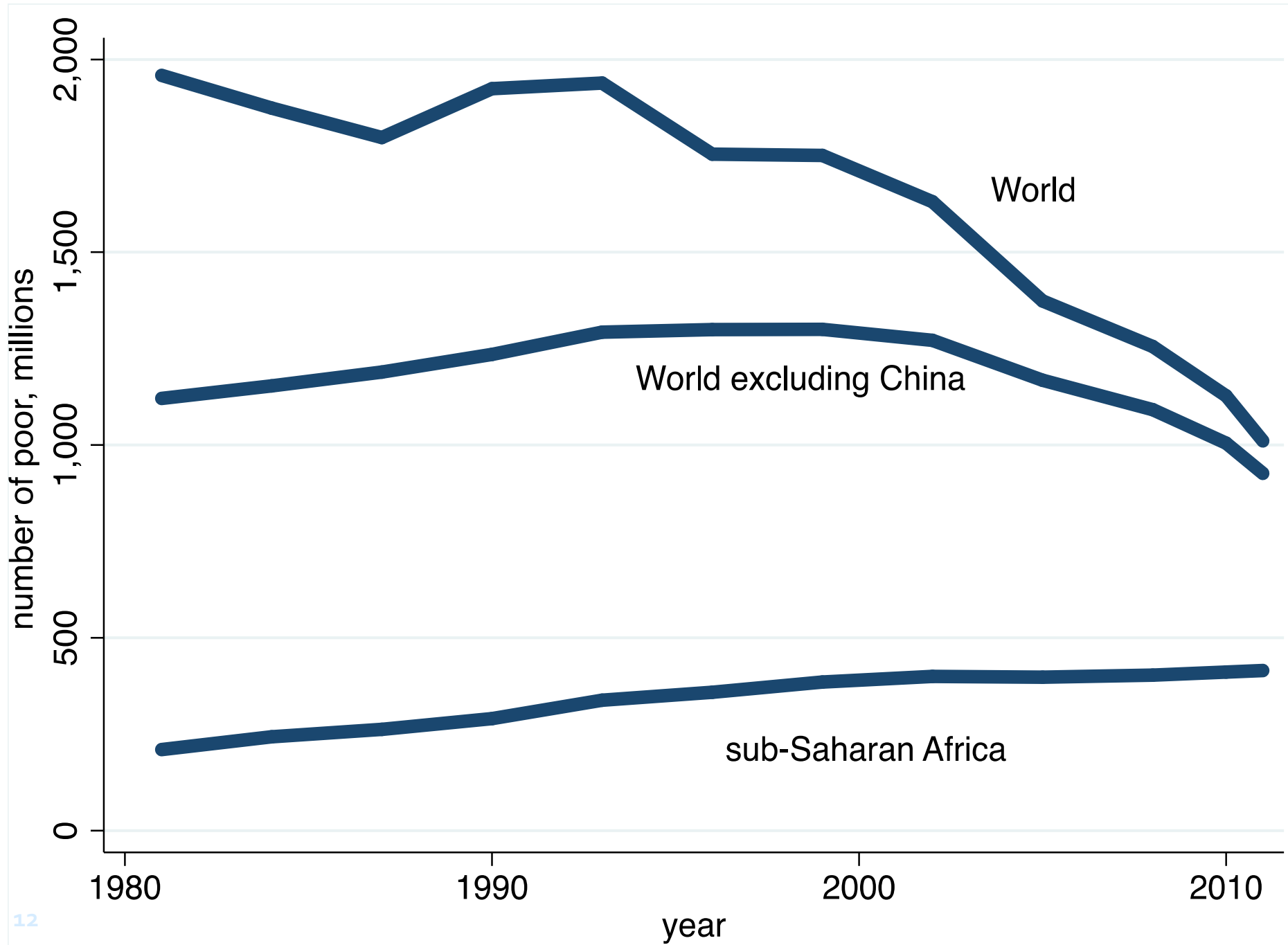
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- Later measures updated and improved this method, starting with World Development Report 1990
- Used only household survey data, with expanding number of surveys over time
- Moved away from India and took poverty lines from a range of countries
- PLs in PPP terms are lower in poorer countries: take average of poorest countries as a measure of total destitution
- Started out as \$1 a day in PPP terms in 1985 dollars, became \$1.08 in 2000, and then \$1.25 in 2005.
 - ▣ Revisions because PPPs change, because of inflation
 - ▣ The group of poverty line countries changed for 2005 numbers

Current World Bank counts

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- \$1.25 numbers are shown in the next slide.
- Rapid decline, much of it driven by China, then India, then some SSA recently
 - ▣ Though at least some of SSA decline is projected from GDP growth
- ICP and procedural uncertainties certainly affect the level
 - ▣ Direction of change is robust
 - ▣ In China, all data are suspect, subject to political manipulation
 - ▣ In India, national accounts are weak, and given the political importance of high growth, little attempt to “improve”
 - My guess is that Indian growth rates are too high
 - But the Bank doesn’t use them anyway, only household survey data



Effects of revisions

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- The revision from 1985 to 1993 PPPs made sub-Saharan Africa much poorer relative to LAC and South Asia
 - ▣ LAC fell from 23.5 to 15.3 percent HCR in 1993
 - ▣ SSA rose from 39.1 to 49.7 percent HCR in 1993
- The idea of SSA as the home of poverty comes from this period
 - ▣ Though there are certainly other reasons

ICP 2005 revision

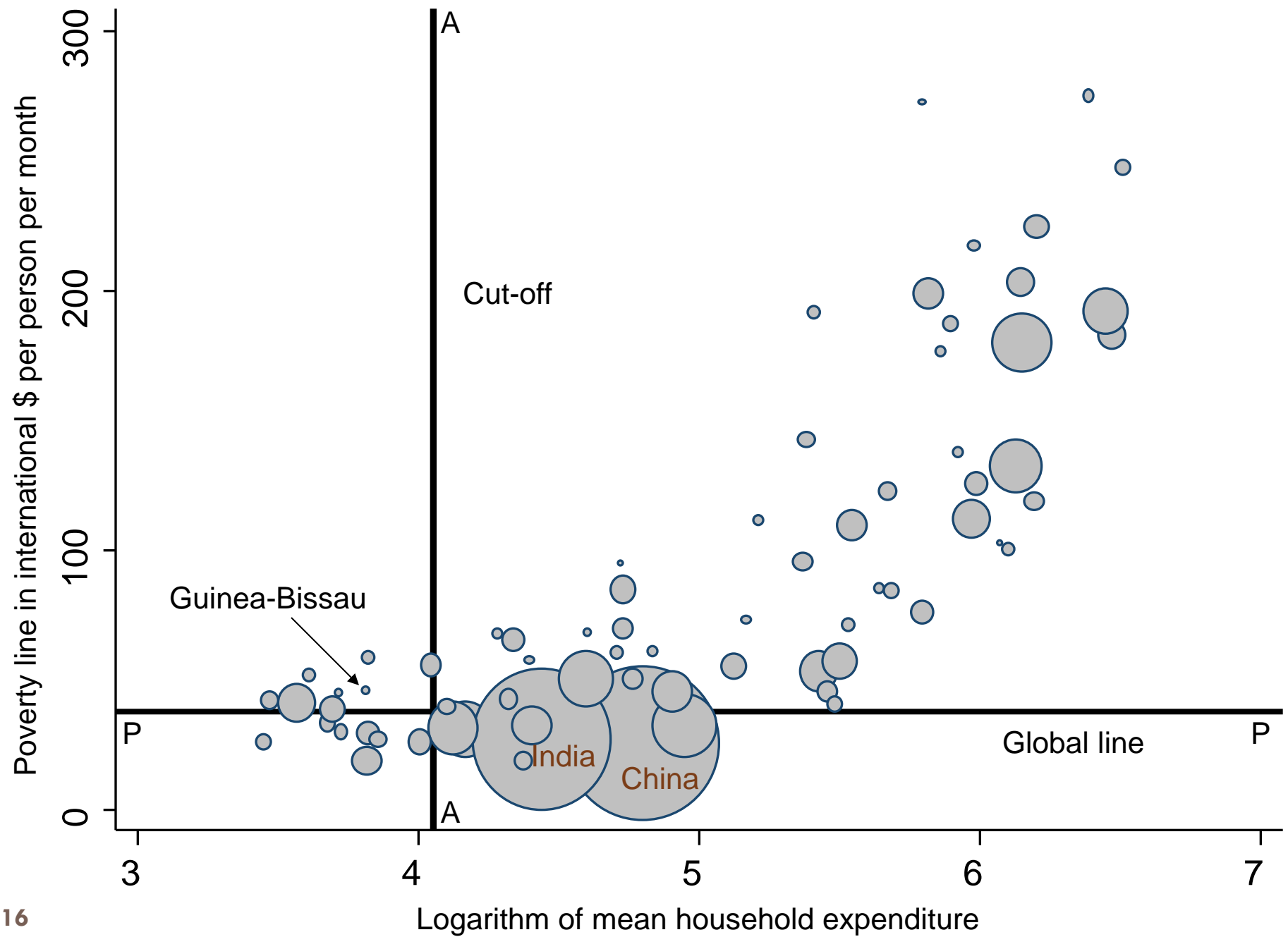
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- The revision from 1993 to 2005 together with the Bank's change in the poverty line had much larger effects. Again for the year 1993
 - ▣ EAP from 25.2 to 50.8 percent
 - ▣ SSA from 49.7 to 56.9 percent
 - ▣ World poverty increased by a third
- Overall trends are robust, regional distribution of poverty less so, country distribution even less so
 - ▣ Numbers not used in Bank or other agency work
 - ▣ Public discussion of global poverty is shaped by numbers

The 2005 ICP and poverty

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- ICP 2005 made poor countries poorer relative to the US, or rich countries richer relative to India or SSA
- This would not in itself change global poverty count which is defined in terms of a poor country poverty line
 - ▣ PPPs for poor countries relative to rich countries are irrelevant
 - ▣ If India was whole poor world, global line would be Indian line, and number poor would be Indian poor, which does not change
 - ▣ Value of Indian poverty line is now less in USD
- However, Bank changed the list of countries defining the global line
 - ▣ New set had relatively higher poverty lines
 - ▣ So line was increased in poor country terms
 - ▣ Which increased global poverty by about 30 percent



Interpretation

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- Bank attributed increase to ICP rather than to change in poverty lines
- Bank has accusers who claim that it does such things to increase its relevance by inflating poverty numbers
 - ▣ Not true, certainly not consciously
 - ▣ Yet chief economist noted “the sobering news—that poverty is more pervasive than we thought—means that we should redouble our efforts, especially in sub-Saharan Africa”
 - ▣ Just as true to say, “richness is more pervasive than we thought”
 - ▣ Other international organizations have done much worse using even weaker data
 - FAO and hunger and pushed by UN
- What were the effects?

Global politics and 2005 revision

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- Reducing global poverty (by World Bank count) is MDG 1
- The Bank increased poverty line and poverty count in the middle of this process
- Deafening silence from development community
- Compare this with Newt Gingrich and the US CPI
- These are NOT important numbers
 - ▣ Except for Angelina Jolie, Bono, and the Pope
 - ▣ Nothing hinges on them, neither Bank nor countries use them
 - ▣ We do not have a world government with transfers
- If they were more important, there would be more international supervision of their production
 - ▣ As there is in national statistical agencies
 - ▣ Collective, not individual, responsibility

The 2011 revision

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- Recall that 2011 ICP undid much of the revision in 2005, so that poor world became richer relative to rich world
- If we hold the \$1.25 poverty line, global poverty will fall by more than a half
 - ▣ The corresponding response would today be “the inebriating news—that poverty is less pervasive than we thought—means that we should halve our efforts, especially in sub-Saharan Africa”
 - ▣ The World Bank will certainly NOT say this. Why the asymmetry?

Options for the future

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- If we hold global poverty constant, line will have to be increased to more than \$2.
 - ▣ Even with this, there will be major changes across countries and perhaps regions
- World Bank has not decided what to do and is unlikely to issue new poverty numbers for some time
 - ▣ They may even just denounce the new ICP and ignore it
- No indication that those designing SDGs understand that the poverty measures are in such turmoil
 - ▣ Or that they would care if they did
 - ▣ Nothing is tied to achievement of these goals, and no one is held responsible if they do not happen

Politics of 2011 revision

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- More reaction this time
 - ▣ CGD was active in noting the changes and their consequences
 - ▣ Both USAID and DFID are concerned about the process
 - ▣ USAID is now committed to a poverty reduction target after Obama's 2013 SOTU speech committing to eradicate extreme poverty in the next two decades
- So perhaps if it matters more, the production of the numbers will be taken more seriously
- A global line that is the average of poorest country lines is broken and needs to be replaced
 - ▣ Recall the arbitrariness of the Indian lines and the political (I mean expert) fixes
 - ▣ Do we really think line for Guinea-Bissau is better?

What about global inequality?

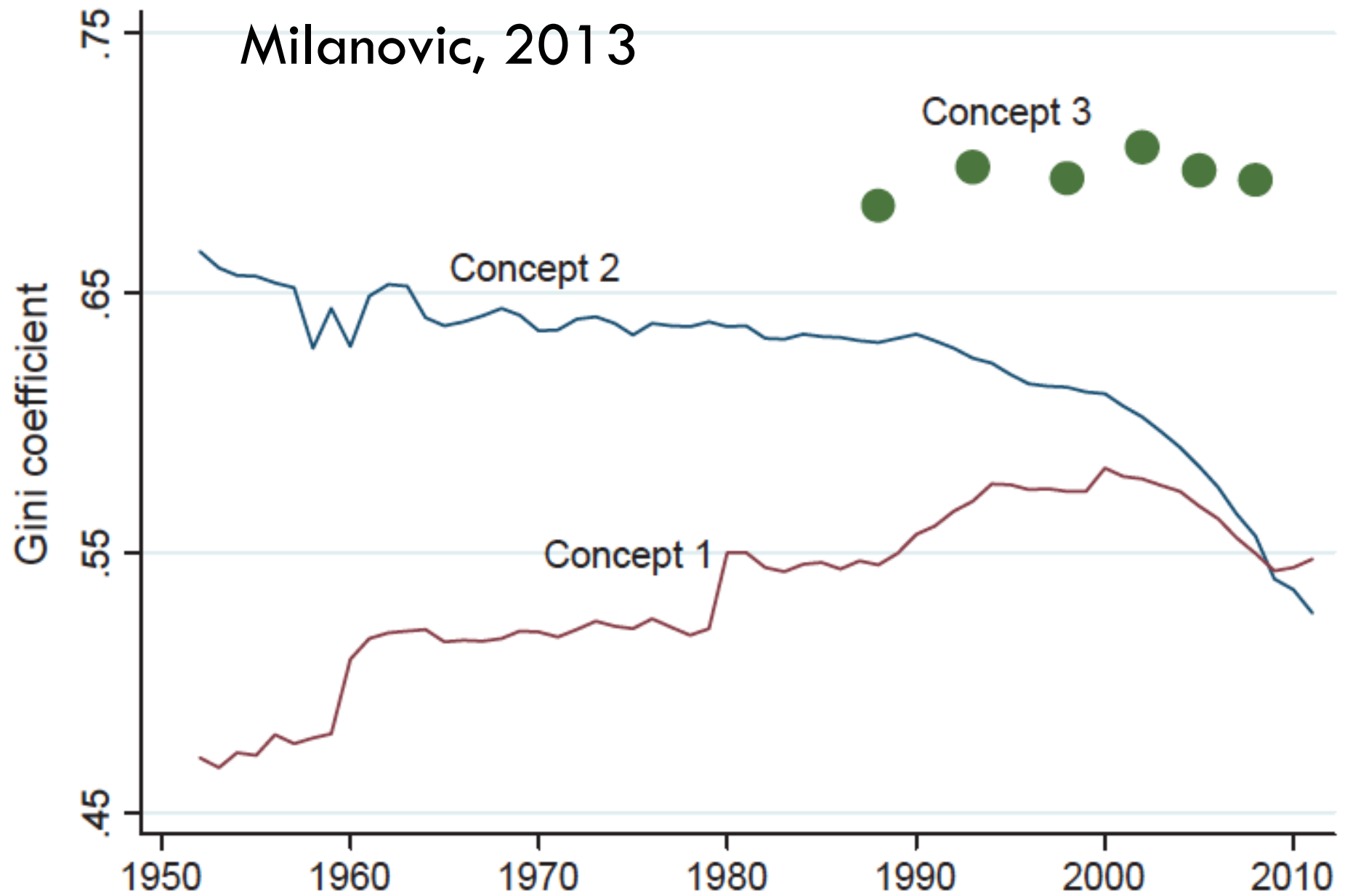
Compared to this, measuring global poverty is easy!

Three measures of inequality

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- Classification by Branko Milanovic
- Concept 1
 - ▣ Inequality between countries as units
- Concept 2
 - ▣ Inequality between countries weighted by population
 - ▣ Hypothetical world income distribution if no income inequality in countries
- Concept 3 (cosmopolitan inequality)
 - ▣ Inequality between all of the “citizens” of the world
 - ▣ Milanovic has pulled together surveys to make this possible
- NB All of these involve income per capita
- Other possibilities, e.g. inequality between *total* GDP
 - ▣ particularly of interest to US and China
 - ▣ Relevant for international relations, power, CIA, and so on

Milanovic, 2013



Modifications

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- Milanovic has recently calculated what would happen if gap between surveys and NAS is attributed to top incomes
- Gini goes up to close to 75 percent (Type III)
- Not clear, again, that there is any decline in Type III
 - ▣ Increasing inequality at the top offsets the effects of India and China joining the middle class
- This is entirely speculative
- These graphs use ICP 2005 and ICP 2011 changes things
 - ▣ Yet again

s.d. of log income per capita

1.3
1.2
1.1
1

WDI, ICP 2005

WDI, ICP 2011

WDI, ICP 1993

Concept 1 inequality
Each country as a
unit

COUNTRIES PULLING APART, UNTIL V RECENTLY

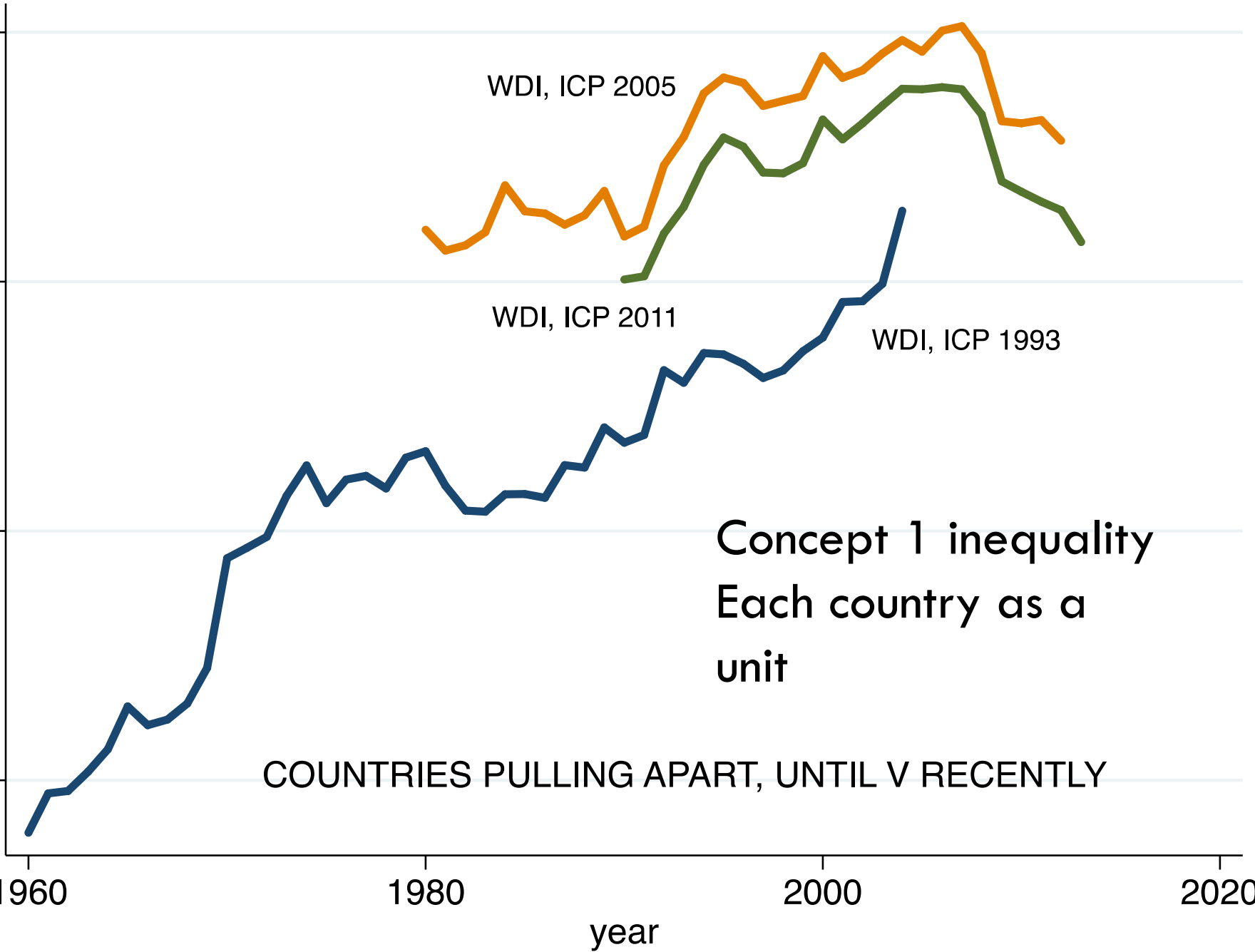
1960

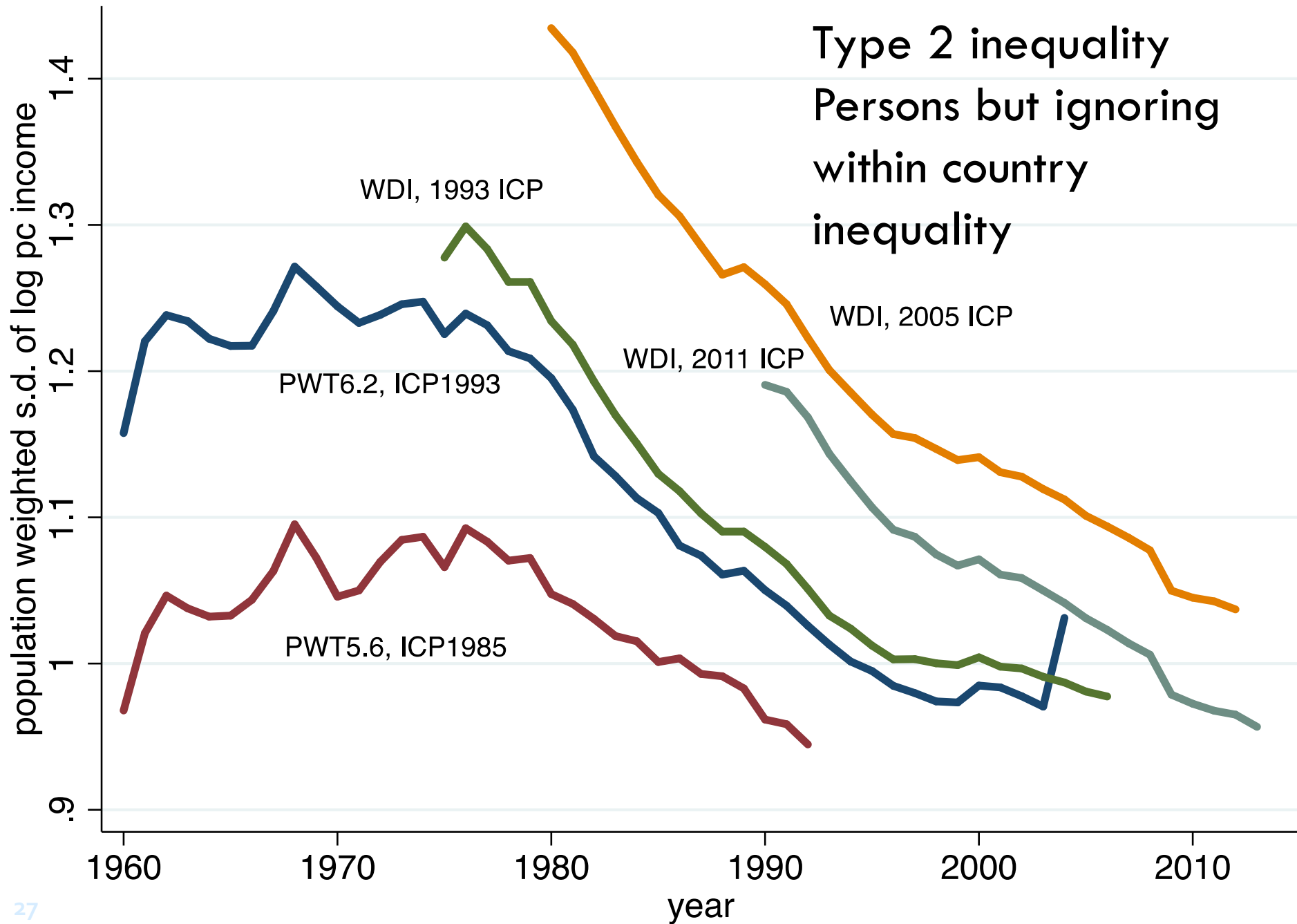
1980

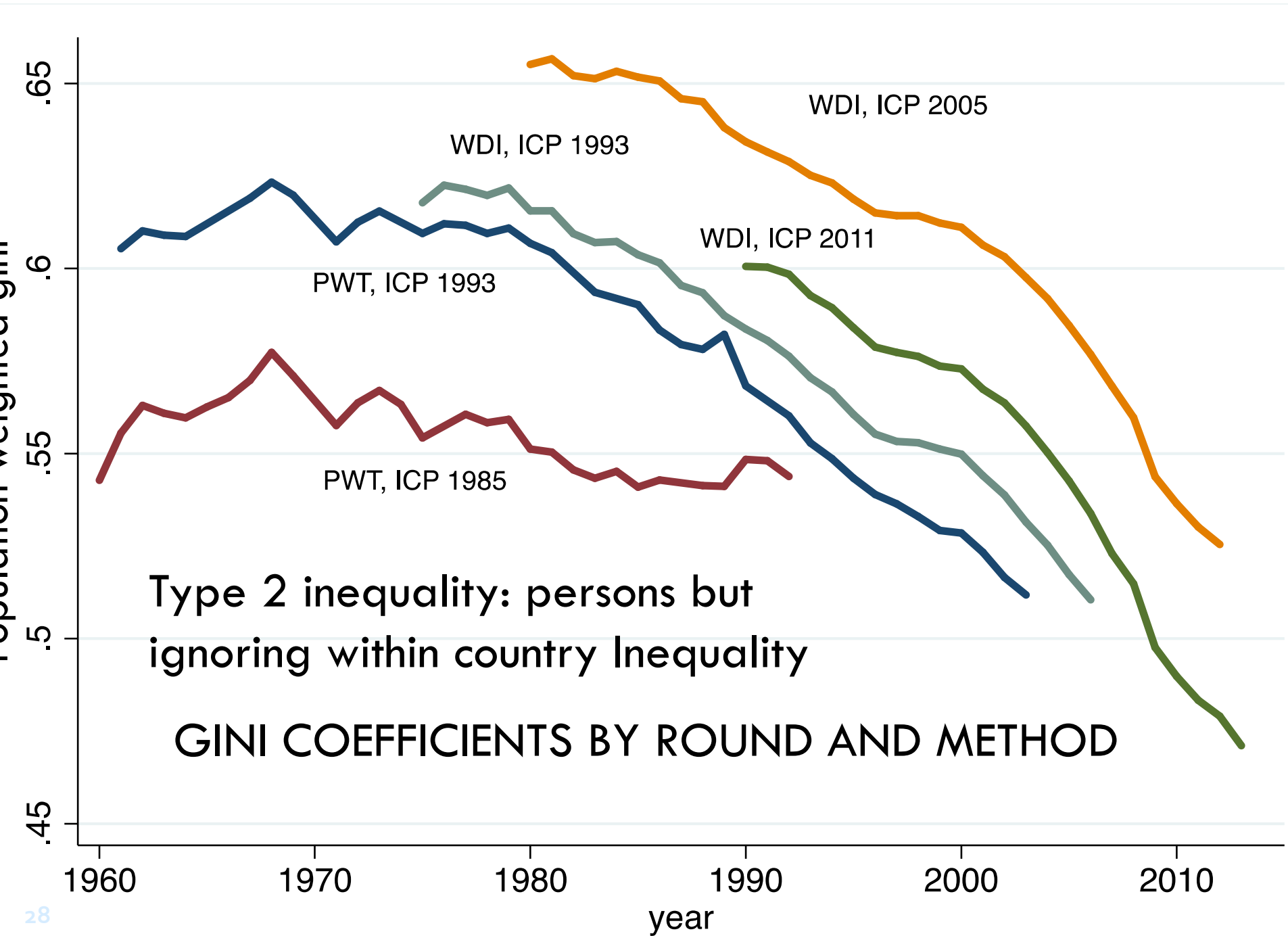
2000

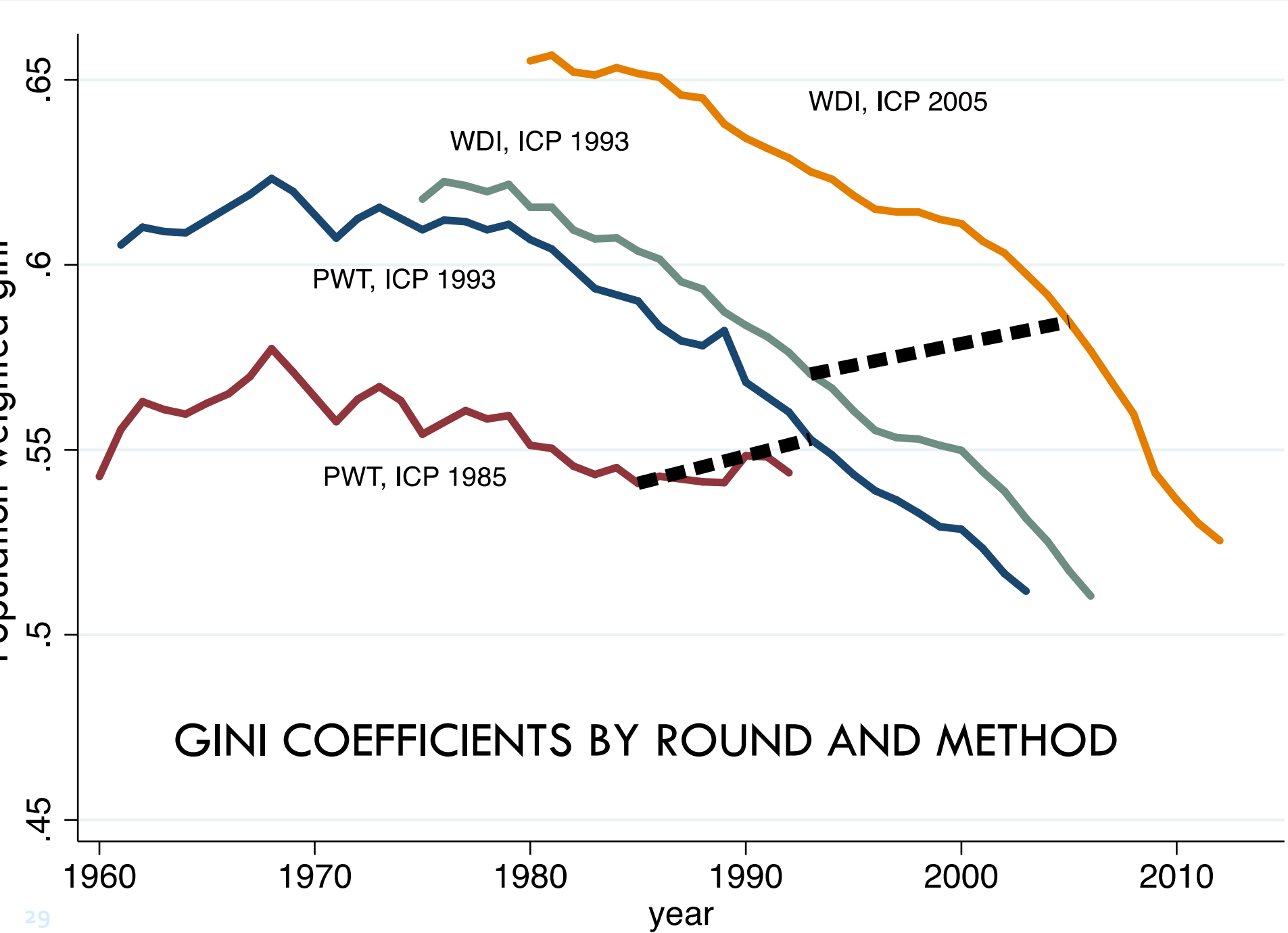
2020

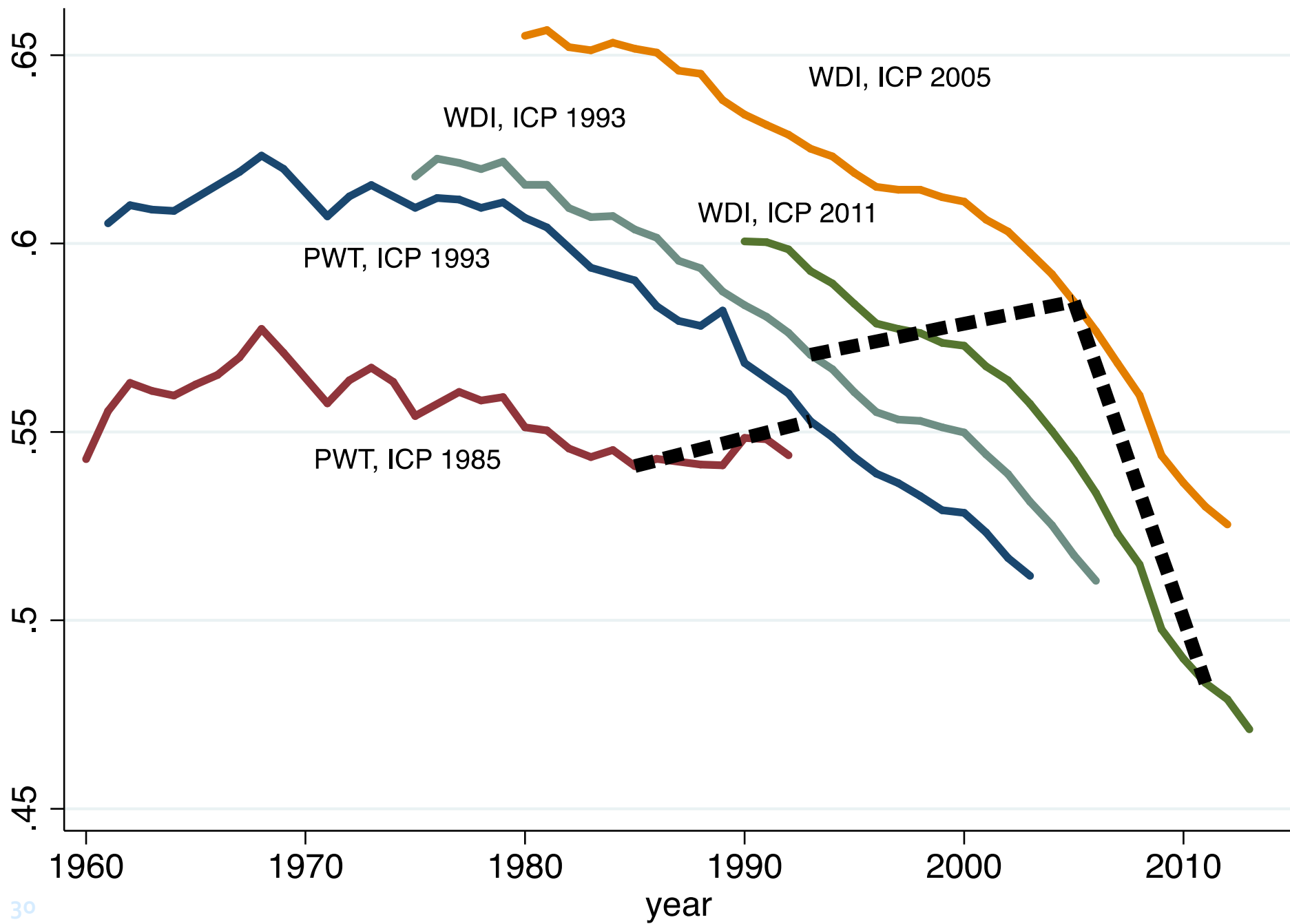
year











Concept 3, global inequality?

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- Given the sensitivity in the Milanovic slide
- And the crucial role played by growth in India and China
- Can we really make sensible statements about global inequality when the standard errors of the China and India PPPs are 15 percent?
- Looks better with 2011 numbers, than before
- And the value of domestic growth in India and China is uncertain in any case
 - ▣ Deliberate upward bias in the case of China
 - ▣ Inattention and poor data in the case of India, and political economy
- And household surveys do not show as much growth as NAS

Inequality v poverty

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- MUCH more sensitive for calculations of global poverty
 - ▣ Because hundreds of millions of people live near the global lines of \$1.25 or \$1.00, small changes in PPPs take them in and out of poverty
- Not sure that this, either, is a feasible task to acceptable precision

Richard Stone's view

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- Reminiscent of Richard Stone (1949)
 - ▣ “I do not expect a very rapid resolution of the intellectual problems of making welfare comparisons between widely different communities”
 - ▣ “Why do we need to compare the U.S. with, say, India or China? Everybody knows that one country is very rich and another country very poor, does it matter whether the factor is thirty or fifty or what?”
- Why indeed? What is the purpose here?
 - ▣ Except for the Pope, perhaps?

Why do we need PPPs anyway?

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- No domestic relevance within countries
- Not used by World Bank for concessional aid
 - ▣ Though their use stopped UNDP exaggerating depth of world poverty
- Minor role in determining IMF quotas
- Global poverty counts and inequality measures
 - ▣ Do these have policy relevance?
 - ▣ Used by activists and IFIs to argue for more money for aid
 - ▣ Part of MDGs or new SDGs
 - If we think that those do have any effect, or at least poverty goal
 - ▣ Seems like a bad idea for the WB to monitor its own success via its own poverty and inequality measures
 - It is easy to make mistakes and get this wrong
- Pope Francis in *Evangelii Gaudium* seems to have got his information from somewhere else anyway

Political economy

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- Does it matter if we are out by 50 percent in measuring relative income of US and China, or France and Mali?
 - ▣ It matters within Europe, because of the EC that makes transfers
- There is no international government
 - ▣ “Cosmopolitan” philosophers argue that the WB or other IFIs should somehow assume that role
 - ▣ Hard to believe this is feasible
 - ▣ Others (Rawls, Nagel, etc.) argue that this is concept of justice is wrong & that an international government would be tyrannical
- Why do we need to know?
 - ▣ CIA? Pentagon?

Conclusions

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- Maybe Stone was right
 - ▣ We have made less progress than we might think
- Maybe Pope Francis is right
 - ▣ Or as good a guess as any
- Accurate estimation of global inequality is possibly out of reach
 - ▣ PPPs are subject to substantial error
 - ▣ Much of which is conceptual and not resolvable
 - ▣ Even so, market exchange rates are much worse for living standards & greatly exaggerate global inequality in living standards

More conclusions

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- Do not automatically reach for PWT if you don't need it
 - ▣ Better to use real lcu magnitudes when possible, e.g. growth analysis
 - ▣ Why are US weights relevant to Kenyan or German growth rates?
- Customize PPPs to purpose
 - ▣ Don't mess up Canada v US through Tajikistan, or even Kenya
 - ▣ Use regional estimates when at all possible
 - ▣ Parities and weights are readily available and coding is trivial

Better measures of global poverty?

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- ICP cannot be avoided though we could minimize effects of its instability
 - ▣ The ICP needs to be on some sort of rolling basis, like Eurostat
 - ▣ But cost and relevance
 - ▣ We cannot make comparisons of living standards without prices of comparable items of some sort
- For poverty consider Bob Allen's work
- Allen has collected data on wages of various occupations back to 14th century, as well as across space
 - ▣ London, Amsterdam, Vienna, Florence, Delhi, Beijing, and other cities
- Needs a price index, or better, a reference basket

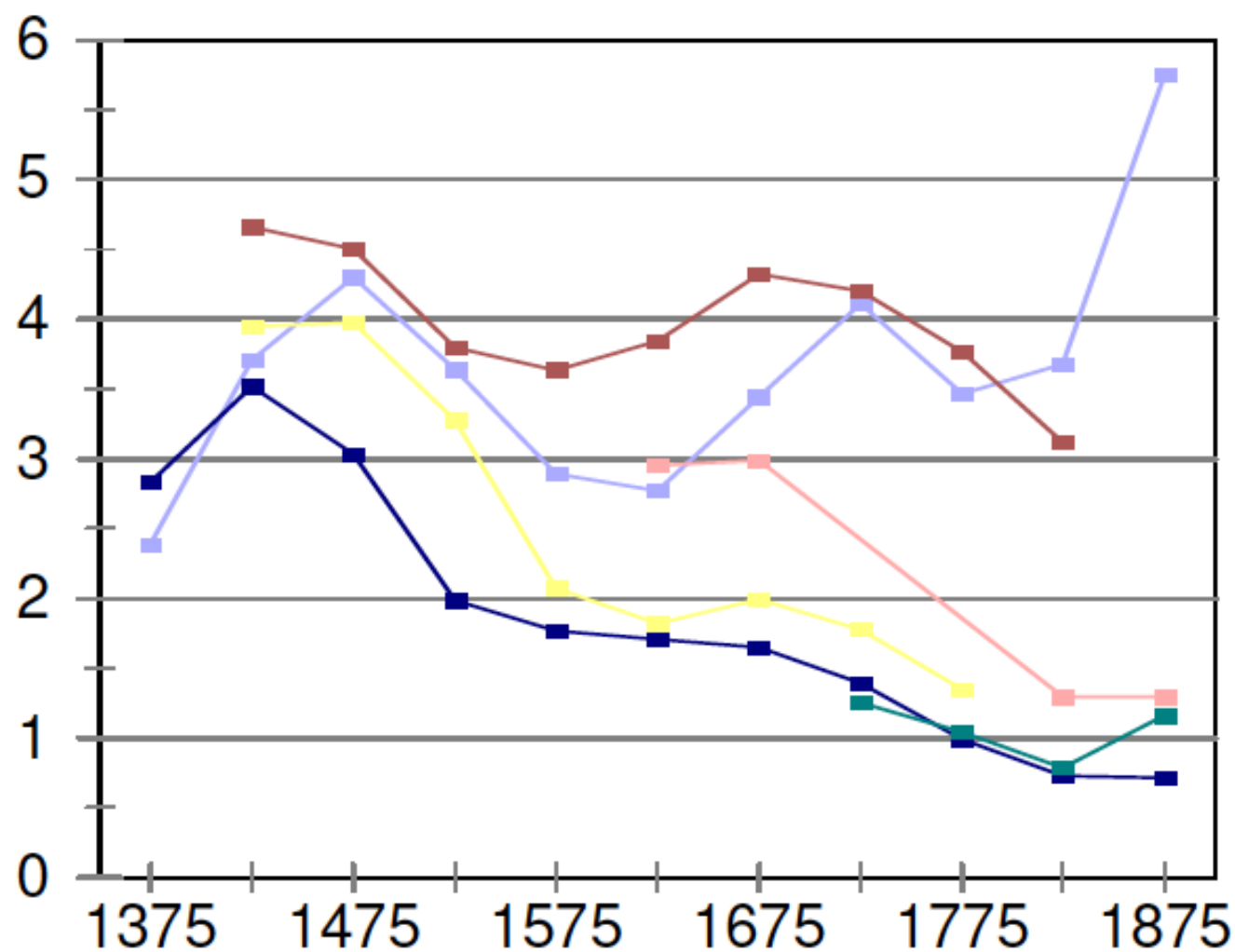
Allen's lines

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- Using the budget studies of Davies and Eden in 1790s, constructed various baskets
 - ▣ Including a “respectability” basket and a “subsistence” basket
- Baskets work across space and time with obvious substitutions for local staple, wine for beer, olive oil for butter, and so on
- Calculates “welfare ratios” = numbers of baskets can be bought with earnings
- “Great divergence”: Holland and Britain won the age of empire: higher wages
 - ▣ Accounted for Industrial Revolution
 - ▣ Accounted for different settlement patterns in N and S America
 - ▣ Not institutions, not culture, but relative prices

Subsistence Ratio for Labourers

income/cost of subsistence basket



Bringing history to today?

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- Allen has recently suggested these be used today to document global poverty
- NB we still need prices of each of the goods in the bundle
- But that is all: no education, health, government services, or other difficult
 - ▣ Because the basket is so stripped-down: drawbacks too
- No need to use poverty lines whose derivation is obscure
- Very clearly transparent, unlike ICP or current poverty line setting, which confuses even their creators
- Still got quality problems, but relatively contained and trying to price something like a “customary” bundle for a poor person
- One test is whether this would work even in US today
 - ▣ Allen suggests so

Allen's subsistence bundle at US 2011 average prices from ICP

Item	Annual amt	Price unit	Total
Rice	185kg	\$1.96	\$610.50
Dried Beans	20kg	\$3.40	\$68.00
Beef	5kg	\$8.00	\$40.00
Butter	3kg	\$10.80	\$32.40
Veg oil	3 liters	\$4.40	\$13.20
Soap	1.3 kg	\$5.48	\$7.12
Candles	1.3 kg	\$2.40	\$3.12
Lighting oil	1.3 liters	\$8.80	\$11.40
Cotton cloth	3 sq m	\$9.40	\$28.20
Propane	2 m BTU	\$78.00	\$156.00*
Total incl 5% rent allowance			\$1018.44
Per person per day			\$2.79*

*If hooked up, mains gas would be \$24, reducing total to \$2.41 a day

Does this make sense?

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- Latest Indian line for 2011 by latest Expert Group
 - ▣ \$2.67 per person per day urban and \$1.78 per person per day rural
 - ▣ Cf \$2.79 to \$2.41 for the US on previous slide
 - Rough but fairly robust on the main items
 - Does not depend on very doubtful poverty lines from around the world
- Gains in transparency from what it lacks in sophistication
 - ▣ And bypasses many of the thorniest problems of the ICP
- A real possible way forward that might resolve the mess that we are currently in
- Or we could focus much less on income poverty, period.

Finally. . .

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- It is important to think about the “political lives of numbers”
 - ▣ Data choices, even in details, reflect interests
 - ▣ But science too: not true that anything goes
 - ▣ Better science and cleaner measurement limits the role for political manipulation
- Lots of other examples other than poverty and inequality
 - ▣ Census counts of population
 - ▣ Estimates of life expectancy
- So the examples here are just that, not the final word