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Emerging Challenges in Measuring Poverty and Inequality in the 21st Century

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Snapshot of Poverty & Inequality in Asia (2)

In addition:

- In 2008, 857 million of the 1289 million extremely poor people in the world live in Asia
- In 10 out of 15 Asian economies, the poorest children are at least twice as likely to die before the age of 5 years old than richer children
- In 15 out of 23 Asian economies, the poorest children are at least twice as likely to be underweight
- 795 million people in Asia have no access to toilets and 505 million live in slums

Source: Asian Development Outlook (2012)

Static Poverty Measurement (1)

'Dashboards' versus Multidimensional Poverty Indices

- Nearly everyone accepts that poverty is multi-dimensional. The question is how such multidimensional should be measured.
- To date two main approaches have been proposed:
 1. A 'dashboard' approach: in which resources are concentrated on developing the best possible distinct measures of the different dimensions of poverty
 2. Multidimensional poverty indices: in which up to ten dimensions of poverty are combined into a single index

A recent paper by Ferriera and Lugo argues convincingly for greater use of alternative approaches (such as Venn diagrams, stochastic dominance analysis, and copula functions) for analysing the correlation and joint dependence of the different dimensions of poverty.

Static Poverty Measurement (2)

Urban Issues

- Increasing urbanisation poses several challenges to poverty measurement in the 21st Century. These include:
 1. The standard CBN method for setting national poverty lines was designed for rural populations with high food expenditures shares
 2. Incomes may be preferable to expenditures as a uni-dimensional welfare measure in urban areas
 3. Poverty is multi-dimensional. Urban poverty has a number of important non-monetary dimensions (water and sanitation, pollution, transportation costs, crime) which are not well-captured in existing multi-dimensional poverty measures
 4. In most countries, household surveys have difficulty capturing recent migrants to urban areas (especially) in countries with household registration systems and/or large informal settlements

Measurement of Poverty Dynamics & Vulnerability

- In middle-income countries, concern about poverty dynamics and vulnerability is replacing concern about extreme poverty
- There are no universally accepted summary measures of vulnerability and chronic poverty
- The measurement of poverty dynamics and vulnerability requires investing in panel data (with serious attention given to the issues of attrition and tracking)
- Measurement error pervades all studies of poverty dynamics and vulnerability but there is no commonly accepted method of adjusting for it
- Methods for analysing poverty (and income/household) dynamics are still under-developed

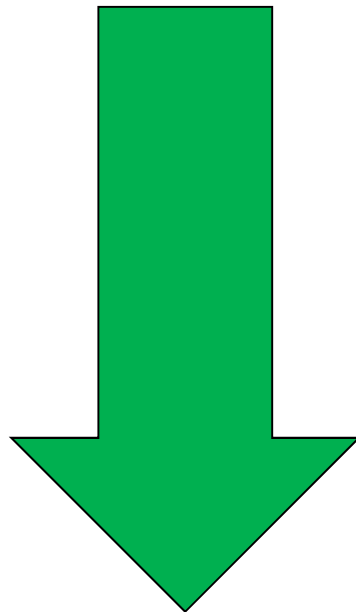
Snapshot of Poverty & Inequality in Asia

According to the Asian Development Bank, between 1990 and 2009:

Poverty

(headcount at \$2/day, 2005 PPP)

81%



49.8%

Inequality

(Gini coefficient based on incomes)

0.46



0.39

Source: Asian Development Outlook (2012)

Inequality Measurement

- Standard inequality measures tend to be stable over time and do not reflect popular concerns about the rising gap between the 'rich-poor'
- The reasons for this include
 - Standard measures of inequality (Gini, Theil T) give most 'weight' to the 'middle' of the distribution
 - When expenditures are used as the welfare measure, this tends to understate both inequality and its volatility
 - Even when income are used as the welfare measure, sample surveys will not capture the incomes of the ultra-rich and may also not capture the ultra poor
- Do polarisation measures (Wolfson, Duclos Esteban & Ray) correspond more closely to the popular conception of inequality?
- Inequality of outcomes versus inequality of opportunity

A Prioritised 'Wish List'

- Greater analysis (and transparency) of the interdependence between the different dimensions of poverty
- An accepted methodology for measuring urban poverty
- Better statistics on clean water, energy and sanitation
- Greater understanding and use of polarization and mobility measures
- A cross-country, cross-methods study of the impact of measurement error on poverty dynamics

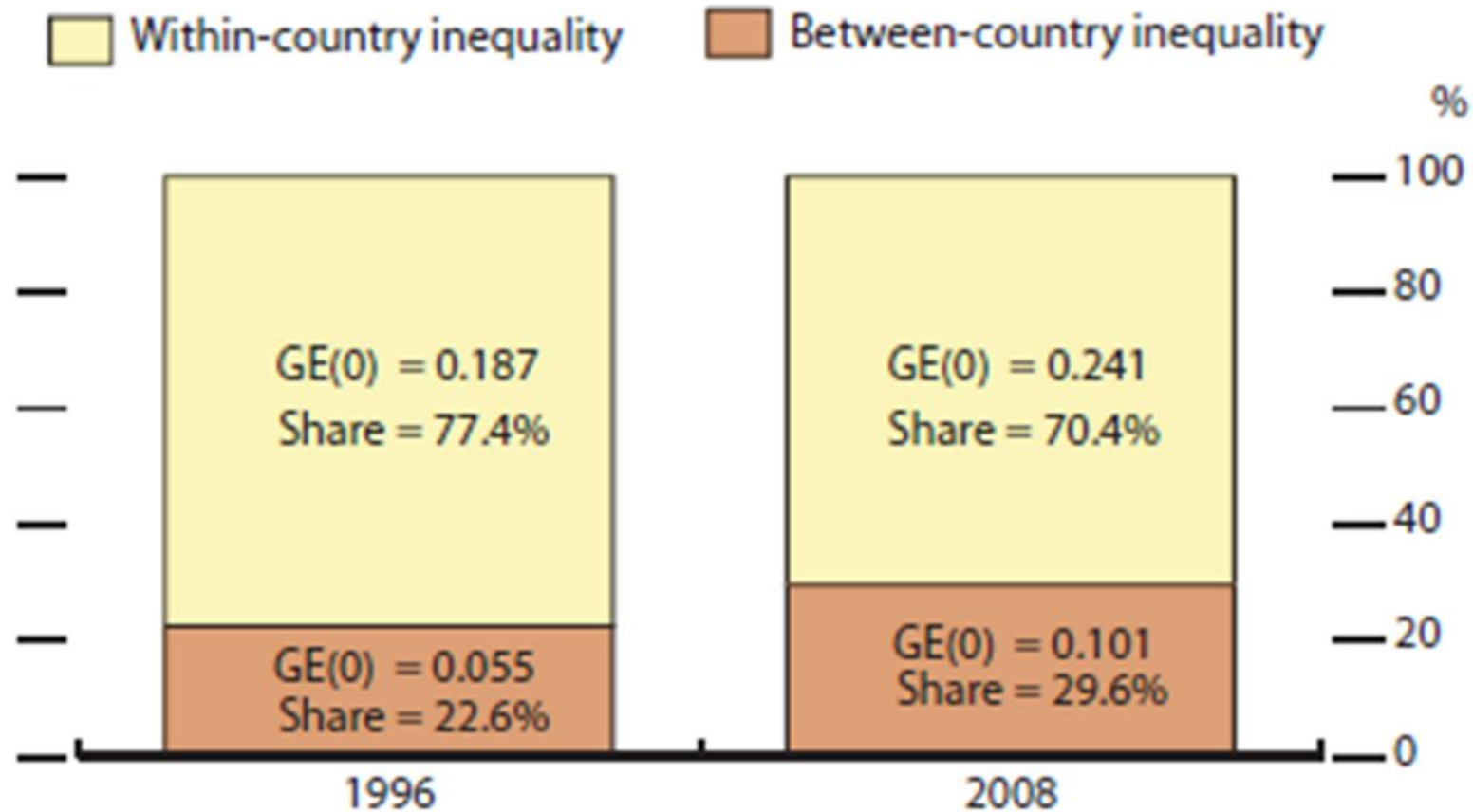
Some References

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- Baulch, B. (2001) *Why Poverty Persists: Poverty Dynamics in Asia and Africa* (Edward Elgar)
- Esteban, J. ,J.Y Duclos and D. Ray (2005) 'Polarization: Concepts, Measurement, Estimation', in C. Barrett (ed.), *The Social Economics of Poverty: On Identities, Groups, Communities, and Networks* (Routledge)
- Ferriera, F. and M. Lugo (2012) 'Multidimensional Poverty Indices: Looking for the Middle Ground', Working Paper 251, Society for the Study of Economic Inequality
- Mitlin, D. and D. Satterthwaite (2013) *Urban Poverty in the Global South: Scale and Nature* (Routledge)
- Ravallion, M., S. Chen and P. Sangruela (2007), 'New Evidence on the urbanisation of global poverty', Policy Research Working Paper 4199, World Bank

Additional Slides

(not for presentation)

2.2.6 Decomposition of Asia-wide inequality

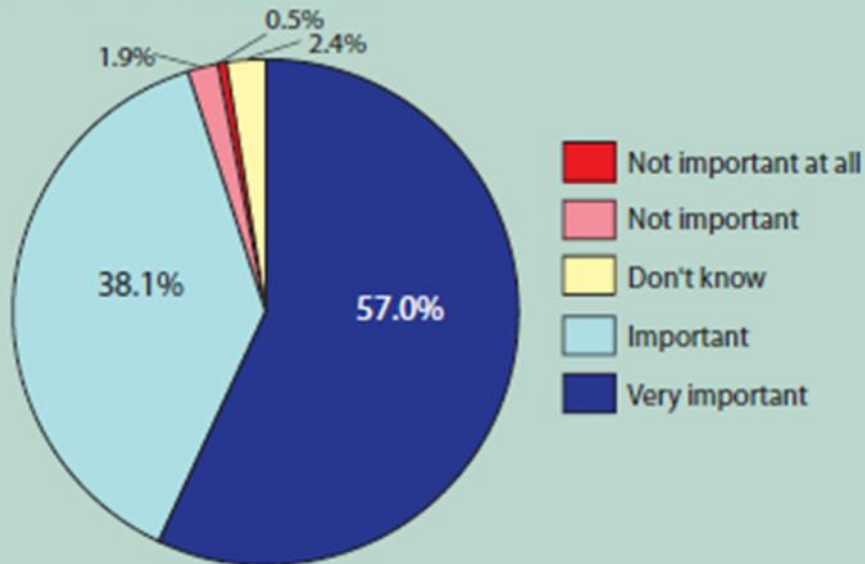


Note: Asia-wide inequality pertains to 23 countries where comparative data are available for 1996 and 2008 or closest available.

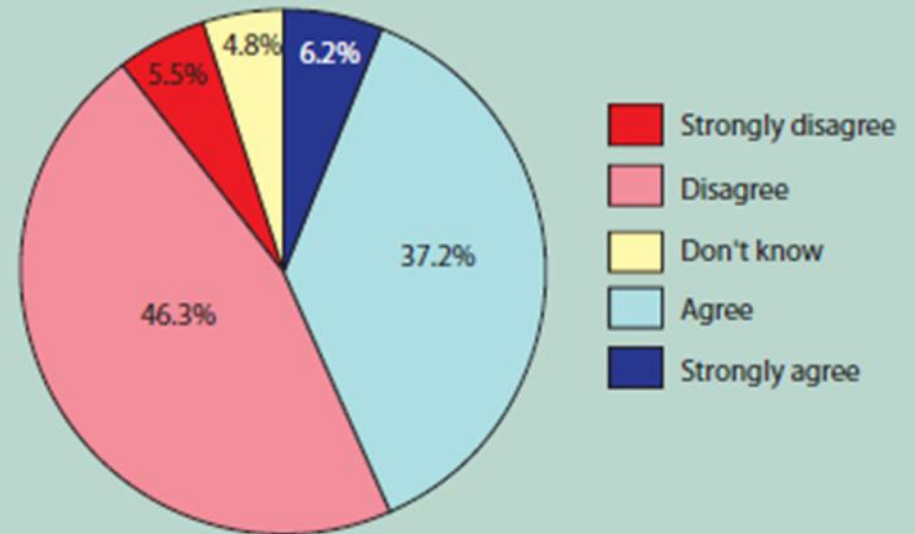
Source: ADB estimates using grouped expenditure data from PovcalNet (accessed 9 March 2012).

Policy Makers Perceptions of Inequality

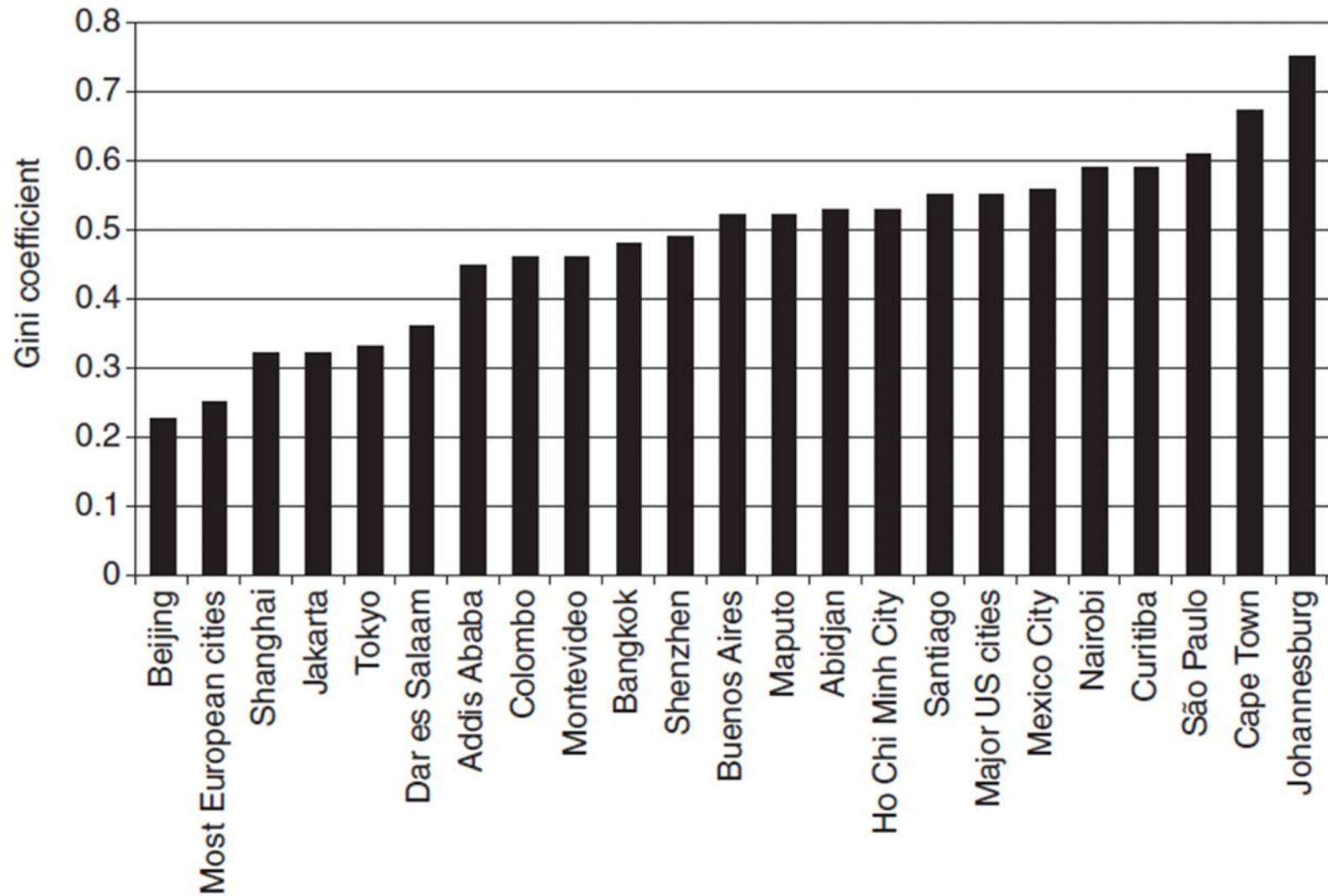
E. How Important do you think it is to have policies in place to prevent rises in inequality in order to maintain stability and sustain growth in your country?



F. Would you agree with the statement that higher income inequality is acceptable so long as poverty is declining?



Income Inequality in Cities



Mitlin & Satterthwaite (2013)