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Dollar a Day Revisited

Recent price survey results imply marked upward revisions to the purchasing power parities of the poorest countries

The original “\$1 a day” poverty line, introduced by the World Bank’s *World Development Report* 1990, was aimed at assessing poverty in the world as a whole by the standards of what poverty means in the poorest countries. In a recent paper Ravallion, Chen, and Sangraula revisit that idea armed with a new set of national poverty lines for low- and middle-income countries. To arrive at these, the authors draw on the World Bank’s country-specific Poverty Assessments and the Poverty Reduction Strategy Papers prepared by the governments of the countries. They then convert these national poverty lines to a common currency using the new set of consumption purchasing power parities (PPPs) estimated from the 2005 round of price surveys done by the International Comparison Program.

The authors find that, across countries, national poverty lines tend to rise with mean consumption above a critical level, but below that level the relationship is quite flat (figure 1). This pattern is consistent with their interpretation of a national poverty line as a “social” subjective poverty line, defined as the level of consumption below which people in that country tend to think they are poor and above which they do not. In very poor countries standards of living are generally so low that there

is little scope for personal feelings of relative deprivation.

The results of the 2005 round of price surveys imply marked upward revisions to the PPPs of the poorest countries. There were substantial revisions to the PPPs in the 2005 round relative to 1993. Probably the most important difference for the authors’ purposes is that the 1993 round is believed to have used less rigorous standards for specifying the quality of goods in poor countries, so that the goods priced were of a lower quality than would have been found in the U.S. market.

Because of these PPP revisions, simply updating the old international poverty line for U.S. inflation gives a poverty line well above those found among the poorest countries at 2005 PPP. The authors propose a new international poverty line of \$1.25 a day for 2005 (equivalent to \$1.00 a day in 1996 U.S. prices), the mean of the lines found in the poorest 15 countries. This poverty line is quite robust to the choice of the poorest 15 countries. Focusing on the poorest 15 makes sense, since these correspond closely to the critical level of consumption above which the poverty line tends to rise.

This basis for measuring global absolute poverty is clearly conservative. One could hardly argue that the people in the world who are poor by the standards of the poorest countries are not in fact poor. This gives the global poverty line a salience in focusing on the world’s poorest that

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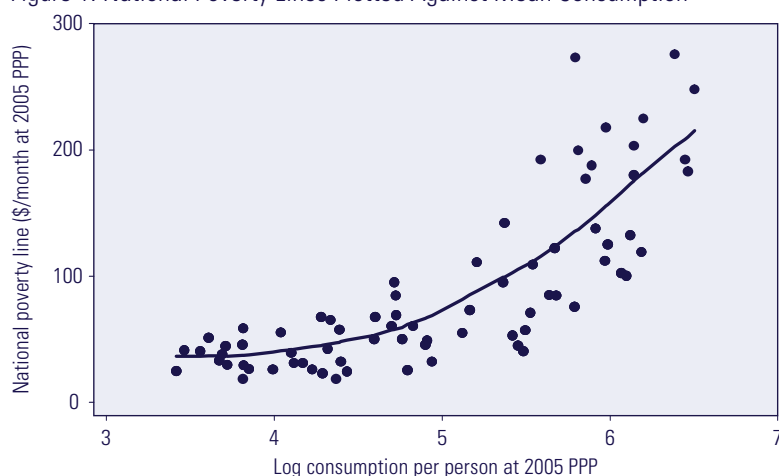
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Figure 1. National Poverty Lines Plotted Against Mean Consumption



Note: Fitted values use a lowess smoother with a bandwidth of 0.8.

a higher line would not have. At the other extreme, suppose one judged poverty in developing countries by, say, U.S. standards. Learning that perhaps 95 percent or more of the population is poor by such a standard is unlikely to have much relevance, since U.S. standards of living are not within the foreseeable reach of most people in a typical developing country.

The results suggest that relative poverty is a more important concern in developing countries than it was 20 years ago. More countries are found in the region where the poverty line rises with mean consumption. Across the sample of developing countries the elasticity of the poverty line to mean consumption is around 0.7—close to the values for developed countries.

The authors propose a parsimonious schedule of relative poverty lines,

consistent with the data on national poverty lines. These have a lower bound of \$1.25—which applies to the reference group of 15 countries—but then rise according to mean consumption with a gradient of one-in-three. This offers a very good fit with the data on national poverty lines.

In ongoing work the authors are applying their absolute and relative poverty lines to their data set of more than 500 household surveys spanning more than 100 countries to estimate aggregate poverty measures for the developing world and its main regions. The new series of poverty measures will span 1981–2005 at three-year intervals.

Martin Ravallion, Shaohua Chen, and Prem Sangraula. 2008. "Dollar a Day Revisited." Policy Research Working Paper 4620, World Bank, Washington, DC.

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