

The Future of Global Poverty

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A set of recent papers has sought to make projections of global poverty into the future. These have significant policy implications because it is only by understanding both the future scale and anticipated locations of poverty that properly informed debates can be had on the scale and objectives of future international aid. In a new paper we add to the debate by introducing a long-term model of poverty, inequality and growth.

We have three conclusions

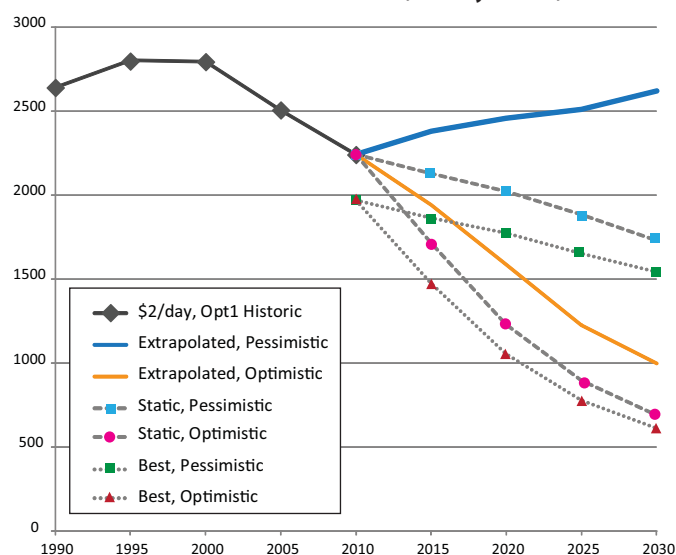
First, across 12 scenarios with different assumptions and methods we find that it is plausible that global poverty measured using poverty lines of \$1.25 and \$2/day will reduce substantially by 2030. However, this is by no means certain. Different methods of calculating and forecasting poverty numbers give very different results, as do changes in inequality. Uncertainties over future, and even current, poverty levels are especially high for India and China. While it is likely that poverty in those countries will reduce dramatically by 2030, it is difficult to have much certainty over just how large those reductions will be. Because of these uncertainties it is possible to conceive, under different growth scenarios and different assumptions about future inequality, that \$2 poverty could be eradicated in India and China by 2030 or that it could be at or above current levels.

Second, looking at countries by income classification, most poverty is currently in middle-income countries (MICs), and even when China and India are removed from the picture poverty is still more or less evenly divided between MICs and low-income countries (LICs). Even with those two countries excluded the forecast poverty reductions in the remaining MICs are not so large, nor so certain, as to justify in themselves the view that poverty in the future will be a matter for LICs primarily. In fact, once recategorisations are taken into account, it seems that poverty outside India and China will remain roughly evenly distributed across MICs and LICs in 2030.

And looking at other possible classifications that might guide aid policy, there is some sign that the fragile classification is useful, as it seems to identify a set of countries where poverty reduction may well prove difficult. However, we find little sign that this problem will be confined to low-income fragile states—poverty reduction seems equally unlikely in the middle-income fragile states. It may be that the World Bank's shorter list of fragile states that emphasises conflict/post-conflict countries is more useful, but even then the UN's widely used Least Developed Countries (LDCs) categorisation might be just as useful or more so.

Third, it is startling just how much difference changes in inequality could make to global poverty in 2025 and beyond—to both the numbers of poor people and the costs of ending poverty. Forecasts of global poverty in 2025 and beyond are sensitive to assumptions about inequality. In one scenario (pessimistic growth and survey means) we estimate that the difference between poverty estimated on current inequality trends versus a hypothetical return to 'best ever' inequality for every country could be an extra 1 billion poor people (at \$2/day) in 2030.

\$2 Headcount (millions), by Pessimistic/optimistic Growth and Three Distribution Scenarios, Survey Means, 1990–2030



Source: Edward and Sumner (2013).

Notes: Survey means; optimistic/pessimistic = growth at IMF WEO/half IMF WEO forecast; extrapolated/static/best = current inequality trends/static inequality/'best-ever' distribution.

Taking the scenario of optimistic economic growth, \$2 poverty could fall from around 2 billion today to 600 million people by 2030—if every country returned to 'best ever' inequality. However, if recent trends in inequality continue, it could rise so that (based on survey means analysis) there could be an extra 400 million poor people at \$2/day in 2030 than today.

In sum, we argue that, despite all these uncertainties in the modelling, there is evidently benefit in using the available data to attempt to estimate global poverty in the future as long as one's approach recognises these uncertainties and the wide range of possible estimates that might be derived from the various different ways of allowing for them.

This means that, while we must always treat the outputs from such a modelling exercise with caution and scepticism, we should not only strive to make models that are as robust as we can but also use those models to develop a range of possible outputs that reflect the inherent uncertainties and assumptions involved. That way, even if we have doubts over absolute poverty figures, we should be able to better understand the significance of differences, the overall direction of trends and the robustness of any results that are feeding into policy deliberations.

Reference:

Edward, P. and A. Sumner (2013). 'The Future of Global Poverty', *IPC-IG Working Paper*, No. 111. Brasília, International Policy Centre for Inclusive Growth.

