

## Chinese Boxes: whatever happened to poverty ?

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**The debate over** the scale and trend of poverty in China has been raging for some time. Some authors claim its record of poverty reduction has been even greater than official statistics show. Others maintain the official data grossly understate rural poverty but overstate the rate of poverty reduction since the late 1970s. Still others stress that lack of data on urban poverty, which has been rising since the mid-1990s, badly distorts the country's overall poverty picture. Considering that nearly one in four of the world's people lives in China, this controversy is of great consequence when assessing global poverty — including whether the world is on track for meeting the first millennium development goal by 2015.

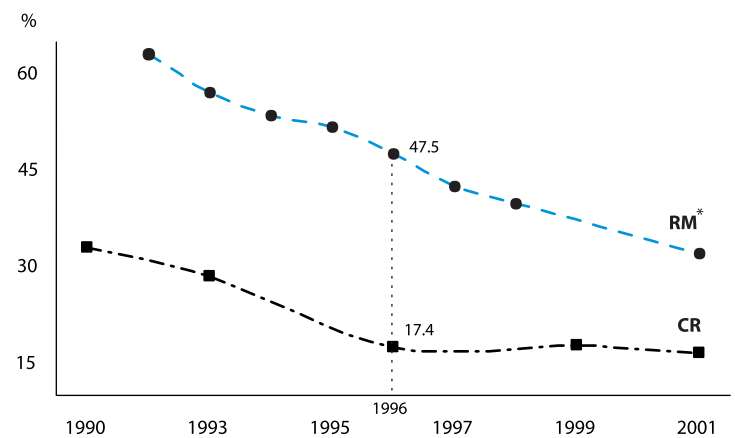
A new paper by Reddy and Minoiu (RM) gauges the extent to which China's most recent \$1/day poverty estimates are sensitive to the choice of key underlying parameters. RM construct alternative purchasing power parity (PPP) conversion factors, with their associated poverty lines, at 1993 prices. They draw on both national accounts (NA) and household surveys to translate income shares into a consumption profile for China, and express the mean consumption levels in 1993 constant prices using both the official and an *adjusted* consumer price index (CPI). The former assumes that the food and non-food shares in total expenditure are the same across the income spectrum, whereas the latter reflects more closely the prices faced by individuals at or near the poverty line.

During the 1990s, developing-country consumption figures from surveys typically grew slower than those derived from NA, while the opposite was true for income. The discrepancy between these two sources can produce large distortions in the shares accruing to different quantiles, and thus affect poverty rates. Even though expenditure is normally judged a better measure of *permanent income* than is current income, reliable consumption surveys unfortunately are not available for China. So RM had to construct a consumption profile from the country's income series. Departing from standard practice, they assess the consumption shares for *each* income decile, instead of assuming a constant share across the distribution.

Opinions differ as to the appropriate PPPs for China, which has never taken part in an official benchmark survey of the International Comparison Program. Clearly, the choice of method for converting international prices into a country's local currency will yield very different poverty lines, with potentially large implications for poverty assessments. Drawing from existing GDP estimates and using alternative consumption PPPs at the base year, RM obtain a set of poverty lines that vary enough to permit an analysis of the robustness of Chinese headcount ratios from 1990 to 2001. After obtaining the poverty lines in 1993 local prices, they proceed to test alternative deflators to account for inflation. Since the official CPI does not

capture the varying consumption patterns of different income fractiles, RM use survey data to obtain the food and non-food shares in total expenditure for each separate decile. This method allows them to better reflect the living costs faced by those at the bottom of the distribution.

### Poverty headcount ratios, China 1990-2001



RM\*: Headcount ratios based on the use of decile-specific consumption shares and survey data to scale incomes. Reddy, S. and C. Minoiu, "Chinese Poverty: Assessing the impact of alternative assumptions", mimeograph, Columbia University, 24 March 2005.

Chen, S. and M. Ravallion, "How have the world's poorest fared since the early 1980s?", WBRO, 19:2, 2004.

Regardless of the assumptions made, RM find that, on the whole, China did enjoy a remarkable reduction in consumption poverty during the 1990s, ranging from 36% to more than 50% depending on the income estimates used. But while the trend of poverty reduction is robust to the choice of poverty line, the extent of poverty is not. The headcount ratios reported by RM differ markedly from those of other authors, and are from two to almost three times as high as those by Chen and Ravallion (CR). The two series also reveal a striking contrast with regard to recent poverty trends. While RM show a continuous drop in poverty during the 1990s, CR estimates flatten after 1996 despite per capita GDP growth rates at around 7% per annum through 2001.

China's stunning record of poverty reduction is heartening, but must be interpreted with caution. Poverty measures are greatly influenced by the assumptions made, which may not only affect their magnitude but even the report trends. This, of course, still begs the question whether China's success has been matched by progress in other dimensions of well-being. In light of some credible evidence of rising urban poverty, deteriorating rural health care, and worsening nutrition among low-income groups during the 1990s, this is a question well worth exploring further.