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More Relatively-Poor People in a Less Absolutely-Poor World

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Abstract: There is mounting evidence of significant social effects on individual welfare, such as concerns about relative deprivation and social inclusion. By this view, individual welfare does not depend solely on the individual's own consumption and characteristics but also varies with the circumstances of relevant social groups. The lecture will argue that such social effects call for a significant reconsideration of how we assess global poverty, to embrace weakly-relative measures. New estimates of global poverty will be presented drawing on 850 household surveys spanning 125 countries over 1981-2008. The absolute line is \$1.25 a day at 2005 prices, while the relative line rises with mean consumption or income with a gradient of 1:2 above \$1.25 a day. These parameter choices are consistent with cross-country data on national poverty lines. The new evidence will show that the incidence of both absolute and relative poverty in the developing world has been falling since the 1990s. Numbers of absolutely poor have also been falling, but there has been no such progress against relative poverty. Looking at the period as a whole, the rising numbers of relatively poor people in the developing world can be interpreted as the "other side of the coin" to falling absolute poverty.