

Mario Negre (DIE (German Development Institute)), Espen Prydz (World Bank)

Reducing Relative Poverty: The Role of Redistribution

Poverty indices measured with a strongly relative line, as are commonly used in high income countries, will only show change in poverty with changes in the distribution of incomes. This paper analyzes the relationship between relative poverty and inequality in the context of the Sustainable Development Goals which commit all countries to halve the proportion of people living in poverty according to national definitions by 2030. Using relative definition of poverty, as is common among EU and OECD countries, dramatic reductions in inequality are needed to reach the national poverty targets set under the Sustainable Development Goals.

--

Reducing poverty is at the center of the United Nations Sustainable Development Goals (SDGs). Goal number one is to "[e]nd poverty in all its forms everywhere" (United Nations, 2015:15). This does not only entail ending extreme poverty, currently measured by the \$1.90/day poverty line at 2011 international prices, but also ambitious targets of "reduc[ing] at least by half the proportion [...] living in poverty in all its dimensions according to national definitions" (United Nations, 2015:15). In contrast to the Millennium Development Goals (MDGs), which focused on development progress in poor countries, the SDGs have a global scope with rich countries also committing to make progress towards the goals, including poverty and inequality.

In rich countries, national definitions of poverty often use a relative poverty line, set a share of mean or median national income. The European Union's headline poverty indicator uses a poverty line set as 60% of median income, while the Organisation of Economic Cooperation and Development (OECD) uses a similar line set at 50% of median. Many rich countries have adopted these or similar definitions of poverty for monitoring national poverty. Increasingly, poverty lines set relative to overall income is also relevant to low- and middle income countries, which frequently revise upwards their poverty lines as they get richer (Chen and Ravallion, 2011; Jolliffe and Prydz, 2016, 2017). A relative poverty line of 50% of median is also used in monitoring the social inclusion in the SDG focused on inequality.

Although relative poverty being central to both national and international policy objectives and goals, little attention has been paid to empirical relationship between relative poverty and inequality and respective international poverty and inequality goals. Relative poverty measures are directly linked to the evolution of inequality, making goals of poverty goals also about inequality. Growth in itself will not reduce poverty if defined using a relative measure. If everyone's incomes grow at the same rate, poverty stays unchanged as the poverty line grows at the same rate as incomes. However, differential growth across the income distribution, and thereby changes in inequality, can change measures of relative poverty. People's whose income grow slower than the mean or median, will get poorer or move closer to poverty. An increase in

inequality, holding everything else constant, will lead to an increase in poverty. Thus, in rich countries, reducing poverty can be directly linked to changes in inequality.

Reducing income inequality is also a central goal for many countries, and in the SDGs. The 10th SDG is headlined "Reduce inequality within and among countries". Target 10.1 is to "achieve and sustain income growth of the bottom 40 percent of the population at a rate higher than the national average". Beyond the bottom 40% growing faster than the mean. In this paper, we illustrate both theoretically and empirically, what reducing strongly relative poverty means for required reductions in inequality. We first show analytically using parametric income distribution, how inequality and relative poverty measures are related and assess this relationship in recent data. Second, we assess the what reductions in inequality is required to reduce various forms of relative poverty to the reach the SDGs by 2030. We find that most rich countries will need to reduce inequality to a level much lower than what even some of the most equal rich countries experience today.