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Difficulty of making meaningful estimates of poverty; [ASIA EDITION]

Financial Times. London (UK): Nov 19, 2007. pg. 10

Abstract (Summary)

Sir, Albert Keidel notes ("The limits of a smaller, poorer China", November 14) that new data on price levels prevailing in China suggest that it has a smaller economy than widely believed until now, and that levels of poverty are higher than had been thought.

Full Text (310 words)

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From Prof Sanjay G. Reddy.

Sir, Albert Keidel notes ("The limits of a smaller, poorer China", November 14) that new data on price levels prevailing in China suggest that it has a smaller economy than widely believed until now, and that levels of poverty are higher than had been thought. This comes as no surprise to many of us who have argued that the World Bank's use of outmoded and inappropriate purchasing power parity conversion factors to assess poverty and to estimate the relative size of national economies should be viewed sceptically, especially in the case of those countries such as China and India that have not participated in comprehensive price surveys for a very long period of time, if ever.

However, Mr Keidel fails to note two other crucial points.

First, the appropriate purchasing power adjustment (or PPP) to use depends on the purpose at hand. There cannot be such a thing as a single such adjustment for all purposes. For example, the appropriate adjustment to use to convert an international poverty line into local currencies is that based on the relative cost in different countries of purchasing those commodities needed in order to avoid poverty, whereas an entirely different adjustment may be required to determine the relative capabilities of different countries to develop and project military power.

Second, the problems with poverty estimates go well beyond the inappropriate nature of the conversion factors used to make such adjustments across currencies, and ultimately reside in the failure to specify an international poverty line (or national poverty lines) that are meaningful in the sense that they correspond to the real cost of achieving basic human requirements (as argued extensively by Thomas Pogge and myself in various published articles).

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