

I propose printed corrections to the errors below.

The errors are significant in two senses: firstly because of the extent of distortion, and secondly because of the importance to policy decisions and goal-setting in the future. The significance is increased by the fact that global goals will be agreed over the next year or two, if the framework in current intergovernmental discussions are followed, for the period to 2030.

Accurate interpretation by readers of the Economist newspaper and website of the facts on World Bank methodology, and related matters, is important not just for setting goals which are humane and wise, but also for judgements as to what has worked and what has not.

The Economist states in one of the articles:

*"A dramatic fall in poverty requires rethinking official assistance."*

These are therefore matters of significant public interest, as also implied by the Economist's use of the words "the world's next great leap forward".

A further argument for correcting descriptions of statistical methods and claims stems from **the intellectual background to the financial crisis**. The crisis occurred in the context of people, including professional economists, thinking that GDP per capita showed prosperity rises, without looking at its limitations – notably that consumer spending cannot be an indicator of wealth if you do not look at debt levels.

Similarly, **without looking at asset levels, debt levels and needs for expenditure, it is not clear what the fact that someone spends more than \$1.25 a day in international dollars says about their prosperity.**

It would be a shame if goals or policies are still decided using the same thinking as that underlying the crisis. It would be worse if that outcome were aided through the public and/or public servants receiving misleading information from the media.

All correspondence will need to be by email.

The relevant articles are:

*Poverty: Not always with us*

June 1, 2013

From the print edition

<http://www.economist.com/news/briefing/21578643-world-has-astonishing-chance-take-billion-people-out-extreme-poverty-2030-not>

*The world's next great leap forward*

June 1, 2013

From the print edition

<http://www.economist.com/news/leaders/21578665-nearly-1-billion-people-have-been-taken-out-extreme-poverty-20-years-world-should-aim>

*How did the global poverty rate halve in 20 years?*

June 2, 2013

<http://www.economist.com/blogs/economist-explains/2013/06/economist-explains>

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1. *"Nearly 1 billion people have been taken out of extreme poverty in 20 years"*

and

*"almost 1 billion people"*

in the article *"The world's next great leap forward: Towards the end of poverty"*

appear to significantly distort the World Bank claim, correctly reported by the Economist in *"Not always with us"* as:

*"1.9 billion in 1990 to 1.2 billion in 2010".*

2. The statement

*"the Millennium Development Goals....expire in 2015"*

in *"The world's next great leap forward"* is inaccurate.

The words give a misleading impression of the relationship between those goals and the proposed new goal. MDG1 is in fact to eradicate extreme poverty and hunger. It has no target date.

<http://siteresources.worldbank.org/DATASTATISTICS/Resources/MDGsOfficialList2008.pdf>

Related inaccuracies are in the passage,

*"Although many of the original MDGs...will not be met [sic], the aim of halving global poverty [sic] between 1990 and 2015 was achieved five years early".*

There is no "aim to halve global poverty".

Similarly, in the article *"Not always with us"* is the following:

*"...worthy aims enshrined in the United Nations "millennium development goals" (MDGs). Many of these aims...have not been met. But the goal [sic] of halving poverty [sic] has been. Indeed, it was achieved five years early."*

The same article states *"the heads of 147 governments pledged that they would halve the proportion of people on the Earth..."*. ~~It is in fact the proportion of people in "developing" countries.~~

Why are these things important? For one things, because the public associate "goal" with the idea of eight goals, not the subsidiary targets.

### 3. "adjusted for differences in purchasing power"

is a significant distortion of this aspect of the research methodology. In reality the researchers did not look at prices faced by the "poor".

The following link is to the global monitors Chen and Ravallion's longer version of the methodology paper, "The developing world is poorer than we thought...":

[http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2010/01/21/000158349\\_20100121133109/Rendered/PDF/WPS4703.pdf](http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2010/01/21/000158349_20100121133109/Rendered/PDF/WPS4703.pdf)

The Economist's version is likely to give a significant proportion of readers, including people whose first language is not English, the impression that the purchasing power adjustments were for items needed or bought by those at the \$1.25 level. It is not clear why anyone would conclude otherwise. But that is not what the research looked at.

The misleading impression is made more likely in the context of a) the reference to how much people lack, and b) the journalists' general use of the word "poverty" in relation to these statistics.

The correct position is as follows, according to the Chen and Ravallion

methodology papers for the global claims and the work by Deaton and Dupriez on "PPPPs" for prices of items relevant to the "extremely poor" :

a) The World Bank global claims make use of no data on prices faced by the "extremely poor" for any year.

b) Angus Deaton of Princeton and Olivier Dupriez of the World Bank carried out research on reweighting national price data for patterns of purchases by the "extremely poor", but only for the single year of 2005. They specifically stated that they did not look at prices faced by the poor themselves, only the reweightings of the national prices. The World Bank researchers for the global claims, Shaohua Chen and Martin Ravallion, refer to the Deaton and Dupriez research in their methodology papers. While the latter report no great difference between national and poverty-weighted "purchasing power parity" rates for 2005, they did not look at other years.

c) Chen and Ravallion used national price indices for all years prior to those for 2005 (more precisely, assigned by the researchers to the nominal survey date of 2005, since surveys are not carried out every year). They made some adjustments for urban-rural price differences, and food price rises, but only from 2005 onwards.

d) The World Bank researchers therefore *assumed* what prices "poor" people faced in all years.

e) For the years 1981-2005 the basis of the assumptions for both inflation rates faced by the "poor" and country price level differences was entirely from, respectively, national consumer price indices and national price levels compiled for the International Comparison Programme.

The article's words "*adjusted for differences in purchasing power*" are therefore likely to mislead a significant proportion of the readership, including some whose first language is not English, into believing wrongly that the World Bank team researched inflation faced by the poor.

#### 4. Misleading presentation of the statistics as relating to "consumption"

The journalists' use of the words "consumption" and "consume" is likely to mislead a significant proportion of the general readership.

The problem, similarly to that above about purchasing power, is that a significant proportion are likely to conclude that the World Bank has statistics on what

people *consumed*. In reality the statistics are on

a) what they *spent*,

b) the monetary value of own consumption *assigned by researchers* on the basis of no research on actual prices faced by the poorest,

and/or

c) income.

The "*Not always with us*" article reads:

*"distribution of consumption (how many people consume \$1 a day, \$2 a day and so on)"*

The article "*How did the global poverty rate halve in 20 years?*" reads:

*"The threshold for dire poverty in developing countries is set much lower, at \$1.25 a day of consumption (rather than income)".*

The data are not on consumption in the normal sense of the word. We cannot know what people consumed from these statistics.

It would be possible to find out what people said they consumed by mining the original surveys. It would be possible by that method to find out what prices they said they paid. But that has not been done. Instead, the researchers looked at the money levels, then adjusted them by national price data for years prior to 2005 to infer consumption amount.

5. The following quotations are likely to give a significant proportion of readers an inaccurate impression that the Chen and Ravallion methodology shows what people lacked in different years and in different countries.

From the "*World's next...*" article:

*"people below that level live lives that are poor, nasty, brutish and short. They lack not just education, health care, proper clothing and shelter—which most people in most of the world take for granted—but even enough food for physical and mental health. Raising people above that level of wretchedness..."*

the various references to "*misery*";

*"The number of the destitute";*

the general use of the terms *"poverty"*, *"extreme poverty"* and *"absolute poverty"* throughout the articles;

the categorical statement *".. people out of extreme poverty. Between 1990 and 2010, their number fell by half..."*;

and in the *"How did the global poverty rate halve in 20 years?"* article the categorical statements:

*"Between 1981 and 2001 China lifted 680m people out of poverty"*

and

*"Since 2000, the acceleration of growth in developing countries has cut the numbers in extreme poverty outside China by 280m".*

Apart from the problem that an inflation rate is merely inferred (see above), there is no adjustment underlying any of the World Bank global claims for what people need.

The adjustments are based on *price* indices, **not** indices of **cost** (price x **need**).

It is therefore impossible for the journalists to know, or even to come to an informed opinion on, what people lacked from these statistics.

This is perhaps illustrated if we ask questions. For example, in each country or year: How much did people need to spend on **transport** to work? How many people were there to each unit of accommodation, increasing **economies of scale**? How much **food** do they need? None of these kinds of question is answered by the data, which are based on fixed amounts of spending (or income, and/or monetary amounts assigned by researchers to own-produced items and/or non-monetary benefits) per person.

The journalists' word "poverty" would clearly be taken by readers to convey information to readers about consumption *lack* relative to needs ("did they consume more adequately?"), and not simply about a consumption *level* irrespective of need ("did they consume more?").

As above, the statistics do not tell us even consumption level, because of the prices issue.

The journalists' specific use of terms related to poverty, or lack, in the context of

World Bank statistics clearly depends on the prior assumption that the statistics reflect consumption inadequacy. But that is not what the statistics refer to.

There is a range of philosophical questions that might be asked about the extent to which it is justified to talk of comparing poverty in different circumstances, and a range of problems involved in any effort to find a standard across circumstances which may vary greatly. Inevitably, there are value judgements involved in, for instance, giving a money value to a rural home owned by the family, where rental markets may be non-existent, compared to a shack in the city or a rented comfortable place in the city.

As with other problems described in this complaint, a reader might be justified in thinking, on reading an article in the newspaper of similar length to these articles, that in fact the researchers had considered needs and, since they are making claims about poverty, that they must have considered and dealt with them in ways which are clearly acceptable.

But the use of money statistics per person does not look at needs even for food.

The Chen and Ravallion methodology paper "The Developing World is Poorer...." mentions **economies of scale**, which is supposed to be something that economists adjust for. They merely say that it cannot be assumed that it is an unimportant issue, and leave it at that. That is on top of the problem about food needs per person.

The Economist's statements are significantly misleading.

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6. The Economist's words quoted in the previous section above, in cases where they are used to imply changes in welfare levels, ignore the multiple sources of uncertainty arising from non-comparability of survey questions, survey coverage in past years, and so on.

The simple **repetition of World Bank claims about halving poverty rates as if they must be true** is not a realistic approach to statistics from decades ago from poor countries, and thus misleads readers as to the factual basis of the claims about poverty changes.

Some such problems are mentioned by the World Bank researchers themselves, and/or in the United Nations' official information on the MDG indicator – the paragraphs beginning:

"The reliability of the poverty estimates may be affected by the quality of the PPPs and price indexes used."

"Similarly, the quality of consumer price indexes around the world varies widely"

"Comparisons of countries at different levels of development also pose a potential problem because of differences in the relative importance of consumption of nonmarket goods. "

"There is also a problem with comparability of across surveys [sic]."

<http://mdgs.un.org/unsd/mdg/Metadata.aspx?IndicatorId=1>

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7. The following is inaccurate:

"Mr Ravallion calculates that the acceleration in growth outside China since 2000 has cut the number of people in extreme poverty by 280m"

in the article "Not always with us".

The web version of the Economist article links to Professor Ravallion's working paper, "How Long Will It Take to Lift One Billion People Out of Poverty?" of January 2013. The link is from the words "took 900 such surveys".

The calculation was based on the "trend rate of poverty reduction", and not as the Economist states, "growth". Professor Ravallion wrote:

" the developing world ....outside China has moved to a steeper trajectory of poverty reduction since 2000.... there was a marked positive change in the trajectory for the developing world outside China around the turn of the century....up to the late 1990s, the trend rate of poverty reduction....outside China was  $-0.4$  percentage points per year... If the pre-2000 trajectory had continued, then...an extra 280 million people who would otherwise have lived below \$1.25 a day."

There is no mention of "growth" in the context of the figure of 280 million. He may have *presumed*, or the journalists may have presumed, that GDP per capita changes caused a statistical difference. But he did not calculate it.

Not only is the Economist's claim inaccurate, but it may be impossible. It is not

clear how he could have done such a calculation, since it would have been asking a hypothetical question about, for one thing, the extent to which correlation proved causation in an unusual period of economic history.

It may be relevant that he also wrote in the context of prospective simulation,

*"A constant [growth-distribution] elasticity is not assumed, as this is unlikely to hold."*

Both quotations from Martin Ravallion are from:

[http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2013/01/22/000158349\\_20130122091052/Rendered/PDF/wps6325.pdf](http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2013/01/22/000158349_20130122091052/Rendered/PDF/wps6325.pdf)

8. *"Not always with us"* misleads that the fact that many people are near the line provides a "sweet spot" in real life.

The following unreasonably imply that the journalists know there is something of special importance for real life about people crossing the \$1.25 line in "developing" countries generally:

The heading *"The sweetest spot"*;

*"At the moment the world is at a unique sweet spot. More people are living at \$1.25 than at any other level of consumption."*

Those are significantly misleading. Firstly, it is not clear what changes in the statistics tell us about real-life economic welfare (see above on prices and needs; also they say nothing about assets or debts.)

Secondly, the observed phenomenon of a fast fall in numbers below this line clearly has an element of statistical artifact resulting from the level chosen.

It could only be a "sweet spot" in the sense implied, to those who believe that there is more value to real people from increases at the \$1.25 level than other levels.

The newspaper gave no reason to believe that that is true, other than its own claim that below the line, people lacked various things, which seems inconsistent with the methodology actually employed (see above sections on prices and needs).

The researchers intended the line to be representative of the very poorest countries' national lines, not lines in "developing" countries as a whole. The researchers stated that the median of national lines is at the \$2 level.

By using the concept of a "sweet spot" the newspaper misrepresented the fact that there was a bulge near the \$1.25 line as if it were somehow clear that this was important for real people, rather than just for the statistics.

Changes to the number below the line are not representative of "poverty" generally - even to those who accept without question the idea that if people spend more, they must be better off.

9. Misleading use of the more general term "poverty" in the context of the \$1.25 line, rather than using the term "extreme poverty".

To understand the significance of this discrepancy, it is useful to bear in mind that the \$1.25 is in "purchasing power parity" dollars worth much less than real dollars, and that it is far below the median national line for "developing" countries, which Chen and Ravallion give as \$2. It is not intended as representative of national lines as a whole.

This problem occurs so many times in the articles in relation to so many claims, that it would be hard to mention all of them. Here is a small selection.

Two of the articles are headed:

*"Poverty [sic]: Not always with us"*

and

*"How did the global poverty [sic] rate halve in 20 years?"*

The article *"Not always with us"* reads:

*"This means growth will result in more people moving across the [sic, singular] international poverty line than across any other level of consumption [sic]. This is a big reason why growth is still producing big falls in poverty [sic]."*

The term *"the international poverty line"* is misleading, since there is not one official "poverty line".

The statement **"growth is still producing big falls in poverty"** is likely to give a

significant proportion of readers a wrong impression that the research conclusions making such claims are about poverty in general, or poverty as officially defined in most of the relevant countries.

Such a contention is not supported by the World Bank statements that there has been less progress against poverty at higher levels of spending, such as the \$2 line which the researchers state is the median of lines defined by countries themselves, or the logic of Professor Ravallion's own proposals, in the same paper which presented new estimates in 2012, that an "absolute" line should not be used without an additional "weakly relative" international line which rises with GDP per capita.

*"This represents the surge of people who escaped poverty in 1990-2010"*

misleads.

The statement

*"It took 20 years to reduce the number of absolutely poor people from 1.9 billion in 1990 to 1.2 billion in 2010"*

confuses absolute poverty – which is a conceptual approach, not a level - with extreme absolute poverty.

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10. The newspaper's claim that a particular number escaped poverty, or extreme poverty, **presents conjecture as fact** in another respect.

It **confuses cross-sectional statistics, for example "there are x million fewer now than before"**, with **longitudinal statistics**, for example "x million did such-and-such".

To confirm aggregate trends for real people from looking at cross-sectional data, information about birth and death rates is necessary.

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