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Shared Prosperity: A Technical note on measuring and monitoring growth with equity

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Shared Prosperity

A Technical Note on Measuring and Monitoring Growth with Equity

This note has been prepared by the World Bank's Development Data Group as a background paper for the Expert Group Meeting on the indicator framework for the post-2015 development agenda held in New York on 25-26 February, 2015. It is not intended to promote the use of a specific indicator in the SDG monitoring framework, but to provide additional technical information relating the World Bank's chosen method of monitoring one of its principal goals: that of promoting shared prosperity. This is a new institutional goal, and the rationale for the choice of goal, indicator, and monitoring framework may be helpful for the Expert Group. The note draws largely from a 2014 report titled "A Measured Approach to Ending Poverty and Boosting Shared Prosperity: Concepts, Data, and the Twin Goals" (see references).

Background

The World Bank recently adopted two principal goals to guide its work: (i) to end global poverty, reducing the share of people living in extreme poverty to 3 percent of the global population by 2030; and (ii) to promote "shared prosperity": a sustainable increase in the income and well-being of the poorer segments of the population – namely the bottom 40 percent – in every country. Although the World Bank alone does not have the capacity to realize these global goals, it has pledged to place them front and center in the institution's work going forward. Articulation of and commitment to global development goals can help build momentum toward their achievement. The goals seek to provide the global development community with a unified sense of purpose and to galvanize action around clear and easily communicable objectives.

Ending global poverty and boosting shared prosperity will require not just a focus on overall levels of growth, but particular attention to the nature and patterns of growth. Although the incomes of the poorest have tended to be correlated with average income growth in the past, there are also notable exceptions, where overall growth has not translated to effective poverty reduction or has taken place alongside increased inequality. This suggests that it is not just growth, but also the type of growth (growth that benefits the poor) that will be important to achieving the two goals.

Formulating the goal

Instead of assessing and measuring economic development in terms of the overall average growth in a country, the shared prosperity goal places emphasis on the bottom 40 percent of the population. Improvements in shared prosperity require both a growing economy and a consideration for equity; good progress is judged to occur not merely when an economy is growing, but, more specifically, when that growth is reaching the least well-off in society. Thus, the shared prosperity goal seeks to increase sensitivity to distributional issues, shifting the common understanding of development progress away from average per capita income and emphasizing that good growth should benefit the least well-off in society. This discussion is relevant in developed as well as developing countries, since, notwithstanding the substantial progress that has been made in reducing absolute poverty in recent decades, in many middle- and high-income countries there is a concern that the relatively poor are being left behind. When poverty is viewed as an inability to participate and prosper in society, it remains a pervasive problem, even in developed countries.

Choosing a measure

The decision to measure shared prosperity based on income or consumption was not taken to ignore the many other dimensions of welfare. It is motivated by the need for an indicator that is easy to understand, communicate, and measure—though measurement challenges exist. Indeed, shared prosperity comprises many dimensions of wellbeing of the less well-off, and when analyzing shared prosperity in the context of a country, it is important to consider a wide range of indicators of welfare. Nonetheless, the shared prosperity goal—to boost the incomes of the bottom 40 percent of the population—provides a measure of inclusive growth, and paves the way for a focus on inequality, not only of opportunity but also of final outcomes. Prosperity also needs to be shared across individuals over time, requiring forms of sustainable development that fully account for environmental degradation and natural resource depletion as well as, crucially, their close interrelation with poverty.

The shared prosperity goal is not an inequality goal in and of itself. Measuring the income growth of the bottom 40 percent of the population provides no information on how that compares with the income growth of the rest of the population. However, an impression of inequality can easily be obtained by comparing the shared prosperity indicator with mean income growth (or income growth of the top 60 percent of the population). In this sense, the shared prosperity measure implicitly places emphasis on changes in inequality in society. Unlike the global poverty goal, the shared prosperity goal is a country-specific goal, which does not have an explicit endpoint. It is unbounded, in that boosting shared prosperity requires a positive growth rate for the average incomes of the bottom 40 percent of the population, but there is no target (or limit) for what that growth rate should be.

Data sources and computation methodology

Unlike GDP per capita, which is measured from national accounts data, the shared prosperity indicator needs to be measured from household survey data. This is because national accounts data only provide aggregated information on economic performance, not the disaggregated information on people living on different levels of income or consumption, which is needed to measure the income of the poorest 40 percent of society. To generate measures of shared prosperity that are reasonably comparable across countries, the World Bank Group has a standardized approach for choosing time periods, data sources, and other relevant parameters. A new Global Database of Shared Prosperity is the result of these efforts. Its purpose is to allow for cross-country comparison and benchmarking, but users should consider alternative choices for surveys and time periods when cross-country comparison is not the primary consideration.

Other indicators

The Global Database of Shared Prosperity also includes additional shared prosperity measures. While the goal is measured directly using annualized growth of the average per capita real income or consumption of the bottom 40 percent, other indicators provide important additional comparative information: average per capita real income or consumption of the total population, average per capita real income or consumption of the bottom 40 percent, and annualized growth of average per capita real income or consumption of the total population. Related information, such as survey years defining the growth period and the type of welfare aggregate used to calculate the growth rates, are provided in the footnotes.

Update frequency and data limitations

The World Bank is committed to updating the shared prosperity indicators every year. Given that new household surveys are not available every year for most countries, updated estimates will be reported only for a subset of countries each year. Currently, the World Development Indicators database includes estimates of shared prosperity for 72 developing countries. While all countries are encouraged to estimate the annualized growth of average per capita real income or consumption of the bottom 40 percent, only a subset of countries meet certain data quality criteria.

The first important consideration is comparability across time and across countries. Household surveys are infrequent in most countries and are rarely aligned across countries in terms of timing. Consequently, comparisons across countries or over time should be made with a high degree of caution. The second consideration is the coverage of countries, with data that are as recent as possible. Since shared prosperity must be estimated and used at the country level, there are good reasons for obtaining a wide coverage of countries, regardless of the size of their population. Moreover, for policy purposes it is important to have indicators for the most recent period possible for each country. The selection of survey years and countries needs to be made consistently and transparently, achieving a balance among matching the time period as closely as possible across all countries, including the most recent data, and ensuring the widest possible coverage of countries, across regions and income levels. In practice, this means that time periods will not match perfectly across countries. This is a compromise: While it introduces a degree of incomparability, it also creates a database that includes a larger set of countries than would be possible otherwise.

Statistical capacity

Measuring progress toward ending poverty and boosting shared prosperity requires increased capacity at the national level, where improved data are most relevant for policy. Strengthening the capacity of national statistical agencies to collect these data should not be neglected in favor of data collection by international organizations. Data system architectures at the country level are needed not only to support credible measurement of the twin goals, but also for effective national development policy.

References

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World Development Indicators: Table 2.9.2 and database (http://wdi.worldbank.org/table/2.9.2).