

# *Discussion*

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## **1. General Discussion**

Discussion on improving our knowledge of changes in global poverty and inequality focused on three main questions. First, should international comparisons of living standards across countries use PPP estimates, or market exchange rates to compare the purchasing power of citizens in different countries? Second, if PPP estimates are used, is a single national measure of aggregate PPP adequate to compare poverty across countries? Third, is the (often) high level of income inequality we observe in developed and developing nations bad, in and of itself?

The question of whether to compare living standards across countries using PPP-adjusted, or exchange-rate adjusted data, sparked some disagreement, although the basis for the disagreement appeared to be differences in the *purpose* of the comparison. One participant argued that market exchange-rate comparisons were legitimate for some purposes: for example, to analyse foreign debt repayments, or the purchase of imported investment goods, since these transactions were conducted at market exchange rates. While this point was acknowledged, other participants pointed out that, if the aim was to compare the living standards of people in different countries, then PPP estimates, which were constructed using the prices of representative baskets of goods and services across the whole economy, were the conceptually appropriate estimates to use.

Following this general discussion of the relative merits of PPP and exchange-rate adjusted data, there was a more technical discussion about whether a single measure of prices within an economy was adequate when investigating the incidence of poverty and inequality across countries. One participant argued that in estimating the number of people in poverty in a particular country, it would be preferable to use a cost of living index that included only those goods and services purchased by the poor, rather than an index based on purchases made by everyone in the country. Furthermore, in principle, this index would be different depending on whether the poor lived in rural or urban areas. As an example of the general point, the relative price of a motor vehicle in a developing country should not be included in a PPP index used to determine the incidence of poverty, if the purchase of a motor vehicle is out of reach for the poor in that country. Another participant responded by suggesting that we do indeed know quite a lot about the consumption basket of the poor in developing countries, and that it should therefore be possible to calculate a PPP index for the basket of goods and services relevant to the poor.

Tim Smeeding's paper encouraged further discussion on the nature of income inequality within countries, and in particular, on the difficulty of determining what level of inequality should be looked upon unfavourably. One participant argued that high levels of income inequality might not be a cause for concern if there was a reasonable degree of mobility within the income distribution. Another, however, while agreeing in principle with this point, remarked that mobility had fallen in the

very country (the US) that had experienced one of the largest increases in inequality over the last 20 years. It was also argued that there were circumstances where policies aimed to reduce inequality might be harmful to the poor. For example, raising the wages of the unskilled may narrow the income distribution, but also generate higher levels of unemployment, which is suffered disproportionately by the unskilled.

There was also some discussion about income distribution in Latin America. One participant remarked that Latin America's high level of income inequality was almost entirely the result of extremely high incomes for people in the top decile of the distribution, with the distribution across the other nine deciles much more like those in other countries. It was then argued that such concentrations of income and wealth (particularly in countries with high concentrations of political power) could harm growth by undermining investment in public goods, and generating political conflict over the appropriate extent of income redistribution.

Several participants expressed interest in the programs now underway to improve the quality of PPPs, and the principles for conducting better (and more internationally comparable) household surveys of income or expenditure, which are central to estimating national and international inequality indicators.