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Reducing inequalities-II

Need for an effective strategy

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WHILE accelerated GDP growth is a necessary condition for poverty reduction, it is not sufficient, without a measure of equity in terms of income groups, regions and gender.

The results of recent research show that high inequality is an impediment not only to poverty reduction but also to growth through reduced aggregate demand and a shrinking economic base.

A strategy to reduce inequalities can be evolved on the following main elements:

— Giving priority to poor households in the allotment of land in rural and urban areas. In Pakistan the land allotment policy in urban areas gives priority to influential and high income members of society who also have access to cheap credit for buying land or building houses. The growing demand for urban land under such a policy has increased land prices to such an extent that even middle class families can no longer fulfil their dream of owning modest dwellings.

— Ownership of livestock through micro-credit on a substantial scale, together with access to marketing opportunities for milk and meat.

— Improved agricultural terms of trade to ensure that the prices that farmers pay for agricultural inputs do not rise faster than the prices which farmers receive for their output.

— Reasonable and stable food prices. In the past five years, food prices have increased by almost 60 per cent which in turn has had an adverse impact on the growth of real wages — a very important factor in poverty reduction.

— Enhanced real wages for workers in urban and rural areas. These in turn depend on the creation of new employment opportunities in the formal and informal sectors.

Fiscal and other policies that can help reduce inequality must include the following:

— Expanding investment particularly in small and medium enterprises. A ratio of 20 per cent of the GDP or more is necessary, not only to achieve a sustained GDP growth of six per cent per annum but also to absorb the additions to the labour force by expanding employment opportunities.

— Increasing the ratio of development expenditure on social services (education and health) to at least six per cent of the GDP.

— Improving the ratio of direct to indirect taxes.

The present tax regime in Pakistan is biased against the poor because the share of direct taxes in total tax revenues (without withholding taxes) is only 22 per cent, compared to 30 per cent in India and 40 per cent in Iran. Since the lower income households carry a greater burden of regressive indirect taxes, the 10 per cent poor households contribute 16 per cent of their meagre incomes to the three indirect taxes and the richest 10 per cent contribute on the average only about 10 per cent of their incomes to the tax revenues. A decisive shift towards direct taxes in raising revenues is thus critical for poverty reduction.

Similarly, it is equally important to reduce non-development expenditures and divert the amount saved to development expenditures on social services i.e. education, health, rural roads, drinking water and sanitation. Since 2001-2002, Pakistan has additional fiscal space of Rs60 billion a year from debt rescheduling of $1 billion.

But only half of this unexpected addition to our resource pool has been diverted to the development programme. We must expand the public sector development programme by Rs60 to 80 billion a year to regain its eight per cent ratio to the GDP in the next five years.

Human development is the ultimate objective of any development process, but it also contributes to poverty reduction through strengthening skills in poor households, and improves their income earning opportunities. It also contributes to the social and economic empowerment of the poorer and underprivileged segments of the population.

The principal elements of human and social development are education, health care, social protection, and population control. These elements have direct linkages to growth, employment and poverty reduction.

In education, the overall expenditure has remained between 2.0 and 2.3 per cent of the GDP throughout the past 15 years, although as a result of the Social Action Programme, the highest growth in primary enrolment has been in 1990s (8.6 per cent per annum for females and 7.7 per cent for male students).

The period 2000-2003 stands out for record growth in the appointment of primary and secondary school teachers but hardly any growth in new enrolment (only 1 per cent for males and negative (-3.4 per cent) for female students.

In the health sector, the number of hospital beds over 30 years, from 1973 to 2002 has grown only at 3.6 per cent, or only slightly above the population growth, and that also mainly in urban areas. The growth of health services in rural areas has been much slower.

Any effective strategy for poverty reduction must ensure a quantum jump in education and health, not only in terms of raising total expenditures to four and two per cent of the GDP respectively, but also to ensure that poor households receive their due share in these services. Recent research has shown that on the average, heads of poor households lose about one-sixth of their annual earnings due to sickness and in the absence of adequate health services, have to sell their animals or other assets to tend to their sickness, thus accentuating their chronic poverty.

In terms of social protection, Pakistan has three major schemes: employee's social security and old age benefits schemes for workers in the organized sector, Zakat and Bait-ul-Mal. But their coverage is relatively limited, as all the schemes together cover only 16 per cent of the labour force.

In other words 84 per cent of the total labour force, 73 per cent of the non-agricultural labour force and 86 per cent of the population below the poverty line, is not covered by any form of social protection. Apart from the lower coverage, average benefits per beneficiary are also meagre, ranging from Rs132 to Rs585 per month, well below the official poverty line of Rs844.

It should be clear from the foregoing analysis that even if Pakistan were to maintain an average GDP growth of six per cent per annum over the next few years, it would not be able to achieve the millennium development goal of halving poverty by the year 2015 because of growing inequality in the rural and urban economy. In fact under the status quo scenario, the incidence of poverty over the next five years might increase further from 32 to 35 per cent of the population and the unemployment rate will remain constant at the socially-explosive rate of eight to nine per cent.

Now that Pakistan has said goodbye to the IMF Programme for Poverty Reduction, it is time to formulate its own 10-year strategy for halving poverty by 2015. Such a strategy to be effective will have to explore, inter alia, specific policies and programmes that can address the problem of inequality.

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