Reducing inequalities

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RECENT research, not just in Pakistan but in many other countries has highlighted the importance of reducing inequality as a critical pre-requisite for alleviating poverty. The process of economic development in mixed economies invariably creates a certain degree of inequality, but the extent to which such inequality leads to serious social and political consequences depends not only on the initial distribution of land and other productive assets, but also on the nature and direction of fiscal and other policies that affect income distribution over time.

In Pakistan, the initial pattern of land distribution was very skewed, largely due to the allocation of large tracts of newly irrigated lands to loyal nawabs, sardars, khans and jagirdars by the British in pre-partition India. The land reforms carried out by Ayub Khan in the 1960s and then Zulfikar Ali Bhutto in the 1970s did resume about 10 to 15 per cent of the total land area for allotment to landless tenants, but that did not reduce the feudal stranglehold on the economic and political levers of the rural economy.

The pattern of income distribution is even worse in the industrial sector. The benefits of high growth of the 1960s were not distributed evenly and led to the large scale concentration of incomes, epito-

ment. But this is not likely to happen because the proportional benefits of growth for the poor will continue to be less than those that accrue to the rich.

The other three pillars of the PRSP (i) improved governance and devolution, (ii) investment in human capital and (iii) targeting the poor and the vulnerable, are statements of intent and not blueprints for policies or budgetary allocations. For example, despite the emphasis on education in the text, public spending on education, even if targets are realized, will increase from 2.2 per cent in 2003-2004 to only 2.5 per cent of the GDP by 2007-2008 (compared to Iran's 4.4 per cent, India's 4.1 per cent, and Nepal's 3.7 per cent and the Unesco target of 4 per cent).

Similarly the expenditure on health is projected to rise to only one per cent of the GDP "in the long run". The average for other developing countries is already 2 per cent and even some of the least developed countries like Nepal and Bangladesh are spending

> The present structure of the Pakistan economy, as a result of the initial pattern of land distribution and compounded by the reckless pursuit of market-oriented policies in the recent past, is now so skewed that any growth in per capita incomes automatically leads to greater inequality. Out of every increment of one rupee in the GDP, a recent SPDC study shows, 48 paisa accrues to the richest 20 per cent of the population and only seven per cent to the poorest 20 per cent.

Employment Programme, under which Rs45 billion (or $1 billion) will be allocated every year through 200,000 village level organizations (panchayats) for local infrastructure.

In this way substantial funds will flow regularly and directly to the poor and provide additional employment opportunities for 7.5 million households at a cost of Rs6000 per household. At the same time, elected institutions at the village level will be able to strengthen their capacity to prepare and implement projects and determine their priorities.

In Pakistan, on the other hand, the decentralization of development functions to district governments is not accompanied by the social mobilization of the poor or a substantial transfer of resources to the grassroots level. As a result only a small proportion of development benefits will accrue to the poor.

The in-depth analysis of the determinants of inequality and options for poverty reduction can lead to an alternative framework for poverty reduction with four main pillars: a) Accepting the principle of "right to food" for everyone; b) A pro-poor growth strategy with a focus on agriculture and other sectors which directly benefit the poor; c) Reducing inequality through redistribution of incomes and assets on a substantial scale; d) Sustained human and social development of the poor segments of the population.

The principle that everyone has a right to adequate food was formally adopted at the 1966 World Food Summit in 1996. An intergovernmental group set up by the FAO has adopted in September 2004, "voluntary guidelines to supcentration of incomes, epitomized by the new infamous finding that 22 families controlled two-thirds of the country's industrial assets. In the 1970s, the growth of inequality was moderated to some extent, largely by the inflow of remittances from the Middle East, but the fiscal and other economic policies followed in the past two decades have accentuated inequalities in the urban sector.

The inequality in incomes and consumption can be redressed gradually, partly through fiscal policies and partly by diverting a larger share of credit and public services in education, health and housing to low income households, but this has not happened. The present structure of the Pakistan economy, as a result of the initial pattern of land distribution and compounded by the reckless pursuit of market-oriented policies in the recent past, is now so skewed that any growth in per capita incomes automatically leads to greater inequality. Out of every increment of one rupee in the GDP, a recent SPDC study shows, 48 paisa accrues to the richest 20 per cent of the population and only seven per cent to the poorest 20 per cent. In the face of such glaring inequalities in incomes and in income-earning opportunities, a higher rate of economic growth, though necessary, will not be sufficient to reduce poverty in Pakistan.

The poverty reduction strategy formulated by Pakistan, for the period 2001-2007, is in fact focused on growth and macro-economic stability and does not include any policies or programmes to reduce inequality and promote greater equity in providing economic opportunities to the poor. Even the acceleration of economic growth is perceived largely through the prism of stabilization measures.

Seven out of 11 components of the first pillar of the PRSP (accelerating economic growth) correspond directly with the main elements of the IMF's structural adjustment programme and assume that macro-economic stability will automatically lead to accelerated growth, and that will somehow trickle down and reduce poverty and unemploy-

1.6 and 1.5 per cent of the GDP respectively on health services.

Micro-credit is a very effective instrument of providing self-employment opportunities to the poor. Pakistan has two complementary micro-credit programmes through the Pakistan Poverty Alleviation Fund (PPAF) and the Khushali Bank (KB) but their scale of operation is relatively limited. PPAF has disbursed Rs4 billion in the past five years and KB Rs3 billion in three years.

Thus the annual rate of disbursement is Rs1.8 billion, reaching approximately 100,000 beneficiaries each year. That means only one per cent of the 10 million households categorized as extremely poor in Pakistan. A one-time loan of Rs20 or 30 thousand can provide only temporary relief but cannot lift a poor household out of the trap of chronic poverty.

Similarly, if all the new employment opportunities created through the public sector development projects are aggregated, they would not exceed 200,000 or two per cent of the target group. The number of unemployed has already increased from one million to four million in the past 10 years. The projected employment of 200,000, even if achieved, will re-employ only about five per cent of the pool of unemployed for a limited period.

The real challenge facing Pakistan is in scaling up useful initiatives like micro-credit or employment intensive infrastructure projects, and at the same time, evolving a series of policies that can reduce inequality and empower the poor to claim their due share in national resources.

In drawing up an alternative policy framework, it will be useful to look across our eastern borders where the platform of 'Shining India' supported by a growth of over six per cent over six years was not sufficient to guarantee the BJP's success in the 2004 elections. Congress which won the election largely by winning the votes of the rural poor, has now formulated several pro-poor policies and programmes including a Guaranteed

voluntary guidelines to support the progressive realization of the Right to adequate food in the context of National Food Security." Pakistan has to carefully study the conceptual, legal and political issues in implementing the principle of right to food through a comprehensive strategy for food security with a focus on three main elements: direct impact of agricultural growth on real farm incomes, off-farm employment opportunities and a policy of stable food prices.

The concept of pro-poor growth is no longer confined to academic discussions but has moved to a full-fledged strategy under which a favourable strategic framework consisting of pro-poor policies and pro-poor support organizations are given operational meaning through strategic interventions at national, state and local levels to ensure the participation and empowerment of the poor.

Under such a strategy, the process of growth gives special attention to sub-sectors on which the poor depend for their livelihood, namely crop agriculture, livestock, fisheries, forestry and small-scale rural industries. The infrastructure necessary for accelerated development is developed largely through a decentralized governing structure, but decentralization is accompanied by social mobilization of the poor, to ensure that decentralization does not end up creating opportunities for vested interests to monopolize power and resources for their own advantage.

Similarly, macro-economic stability, so necessary for accelerated development is achieved by cutting out non-essential current expenditures and not by reducing development expenditures that lead to employment and other benefits for the poor. The temptation to raise the cost of utilities and services for the poor is also curbed to the maximum possible extent.

(To be concluded)

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