

97 Coping with poverty

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The decade of the 90s has been quite difficult for most people in Pakistan. Growth rates have been low, employment generation has consequently been slower, and with the government and private sector going through downsizing and rightsizing, unemployment rates have increased significantly. And there are pockets, like the educated youth as well as geographical areas where unemployment is much higher than the national average. Inflation rates remained in double digits for many years and consequently purchasing power, for most people, went down. With slack economic performance wage rates remained stagnant, even those who managed to keep their jobs have had trouble maintaining their standards of living. Poverty, researchers say, has 'returned to Pakistan with a vengeance', and has reportedly gone well above the 30 percent mark. This translates into a massive 35 million plus poor people.

The question of why growth slowed down is difficult to answer. Economists have many hypotheses and empirical support, but there seems to be more going on. Falling investment, political climate, structural adjustment, law and order, international order, agricultural problems, water issues, and market distortions, all have had a role to play, but attributing causality and proportional responsibility with care is not an easy task. Furthermore, working out the interaction effects between the variables is not easy. This is quite a research agenda in itself. But we are going to focus on a different issue. What happens when your income faces a secular decline (due to inflation) or a sudden possible permanent one (due to job loss). How does a family cope? What institutional and other arrangements do people opt for?

For any income level, as long as one is above the absolute starvation/deprivation levels, there is a possibility of shifting expenditure and consumption or create institutions that can help cope with declining income and purchasing power. The impact of declining income is not negated, but it is managed and if possible minimized to keep sustainability. But of course poverty can very well reach levels where the debilitating effects are so strong they leave a permanent mark on the affected person(s). If a body is starved for long, the physical and mental deterioration might not be totally eradicable if inputs are increased even beyond the optimal level later.

People are likely to have a lexicographic ordering of needs and wants, or some goods are going to be preferred. Food is obviously going to be a basic product not to be touched. But that does not ensure the quality of food. We can have downward shifts there with sufficiently large income drops.

But first things first. As income drops we are likely to see products with high elasticities and products that are less essential being cut out completely, being replaced with cheaper alternatives, or their consumption being restricted. We are likely to see 'entertainment' expenses go first, while there might even be a 'dis-saving' for some period in the sense that the household might try to continue consuming at the same level by running down their savings. But of course saving is finite, and not very large for most poor people, and will run out rather quickly. Then the effect will start coming on the consumption and expenditure side. Economic theory predicts that if the household perceives the negative income shock to be temporary, they are more likely to use their savings to cope with the shock than if they perceive it to be permanent. If it is expected to be a permanent adjustment, or a long

term one, they are more likely to also change expenditure and consumption patterns to accommodate the change, with the use of their savings. Provided of course that there is that slack available in expenditure in the first place.

How do people adjust their expenditure. Non-essentials are cut, non-crucial essentials might be delayed and the quality of products might deteriorate. The change in patterns start to bite when the short term starts to be traded against the medium and the long-term. If small ailments are not being treated and they have a certain chance of getting exacerbated, families court disaster. It is costlier and harder to deal with hepatitis than it is to deal with jaundice. The same is true of a lot of other ailments. It is easier to deal with a cold or a cough than it is to deal with bronchitis or pneumonia. But one can easily conceive a situation where a person is forced to ignore a cold even though he/she might

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Suppose the treatment of the cold, inclusive of doctor's fees and all, costs Rs. 100. If it is not treated now there is a 50 percent chance that it will go away by itself, and a 50 percent chance that it will deteriorate into a graver ailment that costs Rs. 500 in a month's time. What should the person do? If a person is so constrained that the alternative use of Rs. 100 now is so important that it cannot be spared, the person will 'choose' to ignore the cold and run the risk of a graver problem later. This is not as when a person does not have Rs. 100 now risks the larger problem. In both cases of poverty, relative and absolute, the outcome is the same but the reasons are distinct. Nonetheless, in both cases we ignore the stitch in time and then face a possible nine or ninety.

What has been described above can be repeated in any number of situations and conditions. The trade-offs are going to be infinite. The choice could be between feeding yourself so that you can keep earning meagre amounts and feeding your children. Again the short term wins, but by constraining and limiting the potential choices in the long

run. Your children might never be able to escape poverty because of your choice. But what option is there?

All of the choices need not be as drastic, but many families in Pakistan are facing these too now. If the choice is between education for your boy or girl and you choose the boy, research in economics shows that you hurt the society more than if you had chosen otherwise. But your perceived interest might dictate the choice. Declining income can create many such choices where one is forced to take the short over the long term, and personal interest over societal interest. One can easily fall into 'traps' that might be hard to escape, if at all, even if income increases later. And this is beyond the sheer fact that declining income reduces the quality of life directly too.

There are institutional ways of coping as well. One can resort to 'committees', Rotating Savings and Credit Associations (ROSCAs) in other words, to raise more funds, and to raise 'chunks' of funds.

But this still depends on one having enough to pay for the monthly installment. If that is not the case, ROSCA cannot be of any help. ROSCAs might also depend on the availability of 'social capital', the ability to 'trust' others in the community, and the ability to have reciprocity relationships with them. If there is trust, the reciprocity relations can provide a certain degree of insurance to the households, but if not, all such community based insurance mechanisms will fail. One also has to bear in mind that as incomes fall trust and reciprocity relationships come under greater strain and defaults occur as people are forced to take the short term over the long term. Furthermore, as income falls it becomes harder and harder to keep up ones side of the bargain, and if the shock is permanent and long to medium term, reciprocity will start to breakdown.

The option of looking for help from Non-Governmental Organizations (NGOs), government and private welfare and charity programmes gets exercised more often. But this might involve a serious decline in the quality of service or product. If you move from private schooling to public one, or hospitals, you are likely to see a serious decline in the quality that you receive, though the cost might be lower too. Private and NGO provision might be better quality, but it is not present everywhere, and the

provision might have other strings attached to it. So one would expect to see more people enrolling in the Zakat system, the food stamps or food support programme (where it is available), more rush on the public health and education providers, and the demand for NGO and private welfare systems. The government cutbacks in such areas over the last decade have thus doubled the hurt to the people.

Given the significant changes in the economy in the last 10 years, detailed studies need to be done to see how people who are falling into severe poverty, are coping with the new conditions. It is very possible that apart from depending more on coping institutions and state, NGO or private provision of subsidized services, some poor might be falling into traps that will not allow them to escape unaided. These traps might not only hurt these poor, but their children too, and have significant externalities for the society. We need to be aware of these. From a policy perspective it is necessary to know about the coping mechanisms so that we can design appropriate institutions, incentives and interventions.

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