

Poverty in Pakistan

Faisal Mehmood Mirza*

Abstract

The paper in the study of poverty in Pakistan is aimed at the analysis of macroeconomic determinants of poverty. It reviews the empirical literature on poverty in Pakistan over the last thirty years. The literature varies from published research papers to the different reports produced by the national and the international institutions. It also estimates the impact of different causes of poverty like growth rate, inflation, development expenditures, defense expenditures, foreign remittances, foreign investment, foreign aid etc. through the data made available by economic survey of Pakistan, fifty years of Pakistan statistics and the world development indicators. The paper also gives the policy recommendations on the social safety nets like micro finance and Zakat and education, health and housing facilities through which poverty can be eradicated from the country.

Keyword: Poverty, Growth, inflation, Defense, expenditure, Social, safety

1- Introduction

Even after more than half century of independence, Pakistan's most important socio-economic problem has been the same: poverty. Poverty in Pakistan manifests it self in many tangible forms and is more than just an issue of low levels of income. It also reflects in poor health and education, deprivation in knowledge and communication, inability to exercise human and political rights and the absence of dignity, confidence and self-respect. Behind these faces of poverty lies the grim reality of desperate lives without choices and often, governments that lack the capacity that lack the capacity to cope"¹. Poverty is a phenomenon, which refers either to lack of control over commodities

*- The Author is currently Student of M.Phil Economics at Government College University Lahore.

1- UNDP, Human Development Report 1997.

in general, or incapability to obtain a specific amount of consumption (food, loathing, housing etc.) most essential to constitute a reasonable standard of living. Living standard is not determined by income and consumption alone, but also by some non-economic determinants such as life expectancy, mortality, access to clean drinking water, education, health, sanitation, electricity and security. Because of the prevailing socio-economic compulsions a third of the country's population is starving for basic amenities of every day life, the situation has over the years provided basis to many social, cultural and ethnic implications and strifes. In general, the capacity of the poor in Pakistan to access public entitlements like political processes, or goods and services, which determine human development, contrasts strikingly with that of the rich. All of it evaporates the peace and tranquility in society.

Rationale Behind the Study

Pakistan is a welfare state and this is evident from every development plan and constitution document of our country. However, we have never performed very well in the field of human development so that we may be considered as a welfare state among the developed nations of the world.

The dual nature in social development of our society can be better explained by this way that at one place a person is enjoying with different kinds of food, very nice clothing, beautiful housing, a very fast access to health services, while another person is starving with no food and dying due to no access to doctor and life saving medicines, living in sewerage pipes, women being enforced to become prostitutes, children involved in child labor, thousands of people being caught by disease due to contaminated water.

The differences between these two extremes is increasing rather than decreasing. Rural and urban households in our country face substantial idiosyncratic shocks resulting in high-income variability and other social evils. As poverty is the mother of all social evils so it leads to problems like child labor, social conflicts, entering many people into the underworld mafia, being bribers to snatch their rights by unlawful means etc. causing many law and order problems for the state.

In the past, Pakistan has achieved remarkably high growth rates but these high growth rates could not be translated into human development and due to the

volatility its spill over effects, it could not trickle down to the masses. According to Planning Commission of Pakistan, “the prime reason of increase in poverty in 1990s is attributed to relatively low rate of economic growth rate (implying a slow increase in per capita income) coupled with rising unemployment and level of cost of living. Pressure of population growth on goods and services and social deprivation, which includes access to physical and social assets such as certain quantity of food, land, health care, low level of investment in human resource development has also intensified the poverty situation.¹”

**Table 1: Comparison of Various Social Indicators in Selected Asian Countries
(1997)**

	Pakistan	china	Malaysia	Bangladesh	Sri Lanka	India	Nepal
HDI	138	98	56	150	90	132	144
GDI	111	79	52	123	76	112	121
Gender empowerment Index	101	40	52	83	80	95	-----
HPI	71	30	18	73	33	59	85
GNP Per capita	500	860	4530	360	800	370	220
Life expectancy At birth							
Female	63.7	72.0	74.3	58.2	75.4	62.9	57.1
Male	63.8	67.9	69.9	58.1	70.9	62.3	57.6
Infant Mortality Rate / 1000	90	38	10	81	17	71	75
Adult literacy %	45	82.9	85.7	38.9	90.7	53.5	38.1
Access to Safe Water % Of population	52	33	22	5	43	19	29
Sanitation facilities to % Of Population	75	76	6	-----	37	71	84

Sources: 1. “World Bank 1997, World Development Indicators”
2. “UNDP 1999, Human Development Report”

1- Planning commission 2001, “three year poverty reduction program 2001-01, Islamabad: government of Pakistan.

At this time, almost every indicator of human development such as education, health, nutrition, safe potable water, sanitation and access to family planning services show that Pakistan is at a very low rank as compared to other countries with the same level of per capita income.

The situation of Pakistan as compared to other countries of the region is also evident from the following data. Bangladesh is at the higher level of human development as compared to Pakistan. HDI in case of Pakistan, is 138 while it is 150 for Bangladesh, highest among the south Asian countries. In Pakistan, only 52 percent of population has access to safe water with adult literacy rate of only 45 percent. Only 45 percent population of the country has the access to adequate health facilities.

Background Information (Literature Review)

Definition and measurement of poverty line received much attention in the early years of economic research in Pakistan. Rural-Urban differences and provincial variations in poverty line got much attention in this span of time. In late 1970's and 80 is when availability of data improved more diversified attention was given to this topic.

Nuzhat Ahmad (1998) discussed the macroeconomic causative factors using headcounts (2250 Calories) as poverty line. She took in account the extent of poverty in 1970's 1980's and 1990's separately and it affect in each province. She used standard legit model and gave the critical evaluating past government's poverty alleviation policies. The study showed that the dependency ratio, size of household, and education level of the family have a very strong impact on poverty in the country. "The regions of residence have also a very strong impact on poverty in a country as people living in rural areas are likely to be poorer than the urban" Nuzhat Ahmad (1998).

Rashid Amjad and A.R.Kemal (1997) provided a strong base for carrying out the present study. In their paper, they provided a consistent time series of poverty estimates for the period 1963-64 to 1992-93 discussing the impact of poverty in both rural as well urban areas. They for the first studied the impact of structural adjustment programs on the level of poverty in Pakistan. This paper also throws light on the major determinants of poverty in Pakistan.

Hussain et al (1997) tried to explain the trends of poverty in terms of agricultural productivity showing a strong link between the agricultural productivity and the level of poverty empirically in case of Pakistan. The main finding of this study was that the increase in agricultural productivity has alleviated poverty but not to the extent, that it could depress the negative forces of high population growth rate and increase in food prices.

Muhammad Aslam Khan (2001) discussed growth rate and poverty dynamics emphasizing the determinants of poverty and areas of intervention and public policies. He showed that pumping the financial resources is not the correct policy for poverty alleviation. According to him, poverty can only be alleviated with strong government commitment to the poverty eradication and human development.

A.R.Kemal (2001) showed a relationship between the accumulating debt and the growth rate of poverty theoretically. He showed how accumulation of debt and increase in debt servicing has a strong cut on the growth rate and enhancement of poverty.

Syed et al (1999) analyzed the long-term relationship between growth rate, poverty and income inequality by obtaining data from household income expenditure survey (HIES) for the period 1963-64 to 1994-95. They used the income poverty line calculating consistent time series and then dividing it into rural-urban areas as well. They also measured the overall income elasticity of inequality, which is very low in case of Pakistan as indicated by their study.

Asian Development Bank (2002) took out a very extensive study on poverty in Pakistan. The study included profile of poverty in Pakistan, causes of poverty in Pakistan and what should be the response of the government to poverty at the macro level. The report mainly aimed at the causes of poverty and the governance issues showing that the poor governance is the main cause of poverty in Pakistan and how the best possible strategy can be formulated to eradicate poverty.

The above literature review shows that many studies were conducted in the past to measure the extent of poverty in Pakistan at the micro or the sectoral level but very little studies have emphasized on its causative at the macro-economic level. As poverty is, a symbol of many disorders in the economic structure of a nation so it is an effect of many causes prevailing in a country.

This shows that Pakistan is facing serious socio economic problems and all the social indicators are showing that Pakistan is in a poverty trap.

Who Are The Poor?

“Poverty characteristics in Pakistan include high level of income and asset poverty, economic and social vulnerability, gender disparity and low level of human development.”

(Poverty in Pakistan, “Asian Development Bank, 2002”)

Before we start our analysis to causes of poverty in Pakistan, it is better to analyze, who are poor? There are certain characteristics, which can be attributed to poor in Pakistan. The Asian Development Bank’s report on poverty in Pakistan gives the following characteristics of poor.

- The incidence of poverty increases with the household size in urban areas. Households, with large number of children and single earning member are more likely to be poor in urban areas than in rural areas.

- Poorer the household, the more is the dependence on the women for income. But at the same time the incidence of poverty in female-headed households is slightly higher in rural areas than that of male-headed households. However, in urban areas, the incidence of poverty in female-headed households is lower compared to that in male-headed households.

- The incidence of poverty is highest (36 per cent) where the head of the household has no formal education. Poverty falls as educational attainment of the family head increases.

- Poverty is relatively higher when the head of the households is an unskilled agricultural worker, engaged in services, transport, production, and sales occupation.

- The incidence of rural poverty for those households whose heads are agriculturists, is lower than all other occupations except for those in professional, management, or clerical positions.

- There is a “U” shaped relationship between age of the household and the incidence of poverty.

- It is also observed that the families where the head of the household works and lives away from them are more likely to be less in poverty as

compared to those families where the head lives with the family. This does not mean that only migration can bring a family out of poverty trap.

Causes of Poverty in Pakistan

Growth Rate

Growth rate, the most important factor in poverty eradication hasn't been consistent in case of Pakistan. It is considered in the growth rate policy that the growth rate must be at least equal to the population growth rate to maintain the existing level of per capita income but Pakistan experienced high growth rates in 1960s, followed by low growth rates in 1970s, and then increased growth rates in 1980s followed by the lowest growth rates ever in the history of Pakistan in 1990s.

The high growth rates in the 1960s were due to highly flourishing manufacturing sector, because the agricultural sector was kept stagnant in that time period. As poverty in Pakistan is a rural phenomenon, so when the agricultural growth rates were stagnant and even negative in real terms, primarily focusing on the industrial sector development, this economic growth rate could not trickled down to the masses through its spillover effects. All this strategy led to under-utilization of tangible and intangible resources and hence low human development i-e poverty.

Population Pressure

Massive population pressure causes millions of people without formal employment and number of new entrants in the labor force. Population growth rate has been stagnant around 3% on average, which has decreased in 1990s to 2.5% per annum, but it is still very high. A large population has created enormous difficulties in fighting against poverty, in realizing the objectives of increased human welfare, in enhancing severely depressed domestic savings and in improving the already vulnerable environment. Like other underdeveloped economies, resources are limited and the users of these resources are increasing at a greater rate than the real growth rate of the economy so it has created a supply-demand gap in the economy being filled by the external resources. Thus

due to the less exploration of physical and non-physical resources, population pressure is more responsible in worsening the whole scenario.

Fiscal Imbalances

Pakistan has still to tackle with its problem of fiscal imbalances moving around the mark of 6% per year from last one and a half decade. As government can do nothing to reduce its expenditure on defense and in interest payments on debt in the short-run, so it has to reduce its expenditures from the development side to fulfill her commitments with international financial institutions for reducing its fiscal imbalances, which in turn gives rise to poverty.

Debt Servicing

Due to the existence of dual gap, Pakistan has to borrow a large amount from IFIs every year. This phenomenon is actually causing outflow of capital rather inflow of capital in the long run due to the payment of large interest on the principal amount. The donor countries now find themselves in the state of “aid fatigue” due to lack of effectiveness of foreign aid in case of developing countries including Pakistan. Moreover, according to Shahrukh Rafi Khan, in case of Pakistan a 10 percent increase in aid causes a 0.4 percent decline in GDP in absolute terms in next year¹. Therefore, debt servicing has acted as a major constraint on the economic growth causing low social development and increase in poverty in Pakistan.

Development Expenditures

The extent to which a country's public expenditures are directed towards the goal of poverty eradication is always of central importance. Development expenditures have the ability to reduce poverty in three ways.

- Provision of education and basic health facilities
- Facilitating basic infrastructure needed by poor farmers, micro entrepreneurs and labor intensive manufacturers to provide livelihood

1- See Reforming Pakistan's political economy, page 47.

- Cash and food transfers to depressed segments of the society through multiplier effects

Unless there is a reasonable amount of investment in the human and physical capital, it cannot pave its way to the long-term sustained economic development. This has not been done in case of Pakistan. There has always been a trade-off between development expenditures, defense expenditures and the debt servicing. Therefore, this major tool of poverty eradication is not being applied properly here.

Inflation

High inflation acts as a regressive tax on household income by decreasing its purchasing power. It particularly affects that part of the community that has fixed income (salaried persons) and lower income households. Inflation has played much important role in increasing the intensity of poverty in 1990's. It has been in the double figures from 1991-97. It also has a direct impact on the accumulating debt especially the internal debt, making the value of rupee very low in the real terms again playing its role in increasing the incidence of poverty.

Remittances

Remittances from overseas Pakistanis have played an important role in poverty alleviation in 1980's due to the migration of a large population to the Middle East, Europe and America. They were mostly unskilled and semi skilled people who migrated after increased demand of labor force from the Middle East countries, when these economies were building them after the oil price hikes. These people remitted back large amount of money to their families and helped them in establishing small businesses and acquiring real estates, hence making substantial improvements in their standards of living.

Remittances are considered as gamble in the monsoon and it could not be sustained for a long time due to the initiation of structural adjustment programs of "Indigenization" or "Arabization" in the Middle East countries. These

programs have resulted in decreasing the inflow of capital in the form of remittances from the Middle East.

Foreign Investment

Foreign investment is the most important force in fostering the rate of economic growth. We have the examples of East Asian countries that have achieved a very high rate of economic growth due to heavy capital inflows. Investment acts on the economic growth through its multiplier effect increasing output and employment opportunities. Amount of foreign investment in case of Pakistan has been very low throughout its history especially in 1990s due to rapid change of governments, law and order situations and very high inflation rates etc. Foreign investment is said to be like a group of doves, where there is a fire, these will not go there for a very long time. In case of Pakistan, the law and order situation in 1990s has been out of control especially in the areas of Sindh causing to a very low level of investment (both foreign direct investment as well as the foreign portfolio investment) in the country.

Taxes

Taxes have a very strong impact on increasing poverty in Pakistan. Indirect taxes especially have more stringent impact on poverty as it has to be paid by the poor making commodities more expensive and burden of these taxes is finally shifted to the poor. State always prefers to use indirect tax as a tool of revenue generation because it is the easiest way with the state to collect its revenues. The direct taxes have little impact on poverty because these have certain ceilings about income groups. Like income tax and the wealth tax.

The problem in case of Pakistan is of free riders. "According to studies, there are about 30.4 million income earners in Pakistan and out of these about 4.2 million have income above the present minimum taxable limit. The number of agriculture taxpayers is 1.1 million leaving 3.1 million taxpayers out of tax net. Due to this large tax evasion, the ratio of direct taxes to total taxes is

increasing quite regularly to meet the government spending.”¹ So it is also an important contributor to poverty in Pakistan.

Defense Expenditures

There is a tradeoff between the defense expenditures and the development expenditures. Higher the proportion of GDP inclined towards the defense expenditures, lower resources will be available development expenditures. So we will be left only with peanuts to provide the adequate infrastructure, basic health and education facilities and provision of cash and food to the depressed segments of the society.

Structural Adjustment Programs

It is generally believed that the structural adjustment program started under the aid umbrella of IMF has contributed much to poverty in 1990s. The programs like privatization aiming at increasing the functioning of private sector in the economic activity and start of the journey towards new liberalism has resulted in increasing the backlog of unemployment hence poverty. I have one question in my mind about this structural adjustment program that what will a country do with its correct balance of payment when it is being done at the expense of the human development.

Literacy Rate

Low literacy rate is another cause of economic backwardness and economic backwardness in Pakistan. In the words of Mehboob-Ul-Haq, Pakistan's per capita GDP in 1985 could have been 25 percent higher of that in 1960 if Pakistan had primary enrollment rates equal to Indonesia. The main reasons of low literacy rate are the less number of schools, not very well developed educational system as compared to the neighboring countries like Sri Lanka and Nepal. Even the educated persons have very low technical skills. The traditional education without any specialization is unable to provide them with

1- Dr. Muhammad Aslam (2001)

good jobs in the job market. Therefore, the illiterate and persons with no specialization remain unemployed leading to under employment of human resources causing poverty to the society.

Poor Infrastructure

The economic infrastructure like transportation, network of roads, railways, irrigation, etc. is either very weak or missing. The situation is worse in the rural areas as compared to the urban areas. It is very important for poor farmers to take their agricultural commodities to the market at the right time to get a good price but this does not happen due to above-mentioned reasons so they remain in the poverty trap. We can follow the example from India, where every village having population more than 500 persons will be linked with the main highway till 2007.

Unstable Political Governments

Consistency in policies is very important to achieve the objective of sustained economic development and it depends upon a stable political system but this has not been the case in Pakistan especially in 1990s. Due to rapid change of governments, foreign investors were in fix for investing in Pakistan. The creditability of Pakistani investors in the international financial market went very down and we got many problems in getting loans to finance our development projects. This aggravated situation due to change of four governments in the last ten years added much to the revival of poverty in Pakistan.

Depletion of Natural Resources and Environmental Degradation

Poverty due to depletion of natural resources and environmental degradation can be better understood with help of population, development and environment triangle. Population uses earth's resources and an excessive burden on resources particularly on non-renewable resource. Moreover, rapid population increase either slows down growth or degenerates into negative growth thereby increasing poverty level and environmental degradation.

Development and the environment are closely inter-related. The development process improves environment through eradication of poverty and result in environmental degradation particularly if not pursued with proper safeguards aimed at protection of environment.

Subsidies

Subsidies have direct impact on poverty eradication. In case of Pakistan, it is important to see the composition of subsidies. These are divided into two parts.

- Current subsidies
- Direct subsidies

Current subsidies are given on wheat; sugar and edible oil while direct subsidies are given to fertilizer industry, primarily used to reduce prices for the use of natural gases as feedstock. These subsidies are considered poverty related subsidies and are considered to constitute over 1/3rd of total household expenditures for lowest income brackets. These started decreasing from early 1990s due to the commitment of the government with IMF to reduce fiscal deficit and later in 1995, more due to WTO agreements. This has played a very important role in reviving poverty in 1990s.

Trade Imbalances

Trade imbalances in Pakistan basically due to less diversified exports, limited markets and low value added exportable goods etc. have created a foreign exchange gap which is either filled by foreign aid or cutting down of development expenditures hence causing an outflow of capital which has been an important constraint on poverty reduction in Pakistan.

Poor Governance

According to Asian Development Bank, the poor governance is the key underlying cause of poverty in Pakistan. Governance is style in which power is exercised in the administration of the country for achieving the ultimate aim of economic development. Good governance takes into account the aspects of,

management of public resources with accountability, Democracy i.e. equal rights for all the citizens, Efficient and effective administration, Ethical use of public resources and authority, Individual liberty and freedom of association, Encouragement of the general public for Participation in decision making, Rule of law and Transparency.

The lack of transparency in public sector allocation of resources in Pakistan has led to an alteration of development priorities and a propensity to safeguard the interests of the specific groups at the expense of the larger public interest. That is why the capacity and efficiency of the public sector in Pakistan is decreasing day by day. Inadequate access to justice is generally professed in Pakistan. This is the largest governance issue and it directly adds to the social vulnerability of the poor.

The Regression Model and Estimation

In order to determine the impact of different causes of poverty we need an equation of different variables containing the causes. These variables were selected during the phase of literature review.

The functional equation containing different causative determinants will be:

$$\text{Pov} = f(\text{GDP, Pop, Fiscal def, Debt Serv, Dev exp, Inf, Remit, Fore Inv, Dir Tax, Ind Tax, Def exp, G style, Subs, income Ineq, Fore aid, Unemp})$$

Where,

GDP= GDP growth rate

Pop= population pressure

Fisc def= fiscal deficit

Debt Ser= debt servicing

Dev exp= development expenditures

Inf= inflation

Remit= foreign remittances

For Inv= foreign investment

Dir tax= Direct taxes

Ind tax= indirect taxes

Def exp= defense expenditures

G style= style of government (democracy or military government)

Subs= subsidies

Income Ineq= income inequalities

Fore aid= foreign aid

Unemp= unemployment

In the equation form, we can write these variables as

$$\begin{aligned} \text{Pov} = & a_0 + a_1 \text{ GDP} + a_2 \text{ pop} + a_3 \text{ Fisc def} + a_4 \text{ debt ser} + a_5 \text{ dev exp} + a_6 \text{ inf} + a_7 \\ & \text{fore remit} + a_8 \text{ for inv} + a_9 \text{ dir tax} + a_{10} \text{ Ind tax} + a_{11} \text{ def exp} + a_{12} \text{ g style} + a_{13} \\ & \text{subs} + a_{14} \text{ income ineq} + a_{15} \text{ fore aid} + a_{16} \text{ unemp} + \epsilon \end{aligned}$$

Where,

ϵ = random term

$a_1 < 0, a_2 > 0, a_3 < 0, a_4 > 0, a_5 < 0, a_6 > 0, a_7 < 0, a_8 < 0, a_9 > 0, a_{10} > 0, a_{11} > 0,$

$a_{13} < 0, a_{14} > 0, a_{15} < 0, a_{16} > 0$

These a 's Show the theoretical signs of these variables in the regression model.

The study has used the sense of stepwise variable selection procedure and the following variables were finally selected for the model.

- | | |
|------------------------|--------------------------|
| • Inflation | Direct taxes |
| • GDP growth rate | Foreign remittances |
| • Foreign aid | Development expenditures |
| • Defense expenditures | |

Hypothesis

The variables selected can be used to verify the relation ship between poverty and 7 independent variables using the following hypothesis.

I. Null Hypothesis

H_0 = There is no significant linear relationship between poverty (dependent variable) and inflation, development expenditures, defense expenditures, direct taxes, GDP, foreign remittances, foreign aid (independent variables)

II. Alternative Hypothesis

H_1 = There is a significant linear relationship between Poverty (dependent variable) and inflation, development expenditures, defense expenditures, direct taxes, GDP, foreign remittances, foreign aid (independent variables)

Double log model was used to measure the impact of these independent variables on poverty. The results are as under.

The regression equation is

$$\text{Log Head} = 13.6 + 0.131 \log \text{Inf} + 0.276 \log \text{dev exp} + 0.541 \log \text{def exp} \\ + 0.235 \log \text{dir tax} - 2.82 \log \text{GDP} - 0.207 \log \text{remittances} - 0.194 \log \text{aid}$$

Table 2: Values of the Coefficients and their Significance

Predictor	Coefficient	Standard deviation	T value	P value
Constant	13 .613	2.673	5.09	0.000
Log Inf	0.13090	0.05934	2.21	0.039
Log Dev	0.27612	0.05752	4.80	0.000
Log Def	0.5415	0.2917	1.86	0.078
Log dir	0.23548	0.04970	4.74	0.000
Log GDP	-2.8157	0.6957	-4.05	0.001
Log Remi	-0.20705	0.02884	-7.18	0.000
Log aid	-0.19376	0.05284	-3.76	0.002

Table 3: Analysis of Variance of the Model

Source	D.F	S.S	M.S	F	P
Regression	7	0.343359	0.049051	33.76	0.000
Error	26	0.029062	0.001321		
Total	33	0.372421			

R-squared= 92.2 percent

R- squared adjusted=89.5 percent

Mean Absolute error= 0.0260681

Durbin-Watson statistics= 1.83095

Standard error of estimates= 0.038125

Since the F- Value in the ANOVA table is high, so there is a statistically significant relationship between the variables at the 99% confidence level. The

R-Squared statistic indicates that the model as fitted explains 92.1943% of the variability in Headcount ratios. The adjusted R-squared statistic, which is more suitable for comparing models with different numbers of independent variables, is 89.4623%. The standard error of the estimate shows the standard deviation of the residuals to be 0.038125. The Durbin-Watson value is greater than 1.4, there is probably not any serious autocorrelation in the residuals.

The results show that a one-unit change in inflation will cause 13.0878 percent change in the dependent variable (poverty). The positive sign with its coefficient shows that with one unit increase in inflation, poverty will increase by 1.30878 percent. Similarly, one unit increase in development expenditures will result in increasing poverty by 2.761 percent. A one-unit increase in defense expenditures will result in increasing poverty by 5.41277 percent. Direct taxes will be increasing poverty by 2.35485 percent with one unit increase in them. GDP in our model is the most important variable in poverty reduction. One unit increase in GDP will decrease poverty by 28.1524 percent. Remittances will decrease poverty by 2.704 percent with a unit increase in them. Similarly foreign aid will decrease poverty by 1.93743 percent when one unit increase in them is noticed.

One very important thing to note here is that every variable in the model has the correct signs as expected and explained by the theory except the development expenditures. The development expenditures are showing a positive relationship with poverty in Pakistan. It explains that as development expenditures increase, poverty increases. Its possible justification can be given from the Asian Development Bank's report on poverty in Pakistan and Mehboob-Ul-Haq human development center's report, "Agriculture and the rural development". According to these reports, poverty is a rural phenomenon in Pakistan. These reports show that there has been a positive increase in the human development of the urban areas of the country while the same indicators have gone down in case of the rural areas. This indicates that the development expenditures were more biased towards the urban development rather than the rural development causing a net increase in poverty due to the residence of nearly 70 percent of population in the rural areas. It means that the development expenditures could not decrease poverty due to their inclination to the urban development and policy biasness. This is the reason that the poverty has been

increased, even by increasing the development expenditures rather than decreasing.

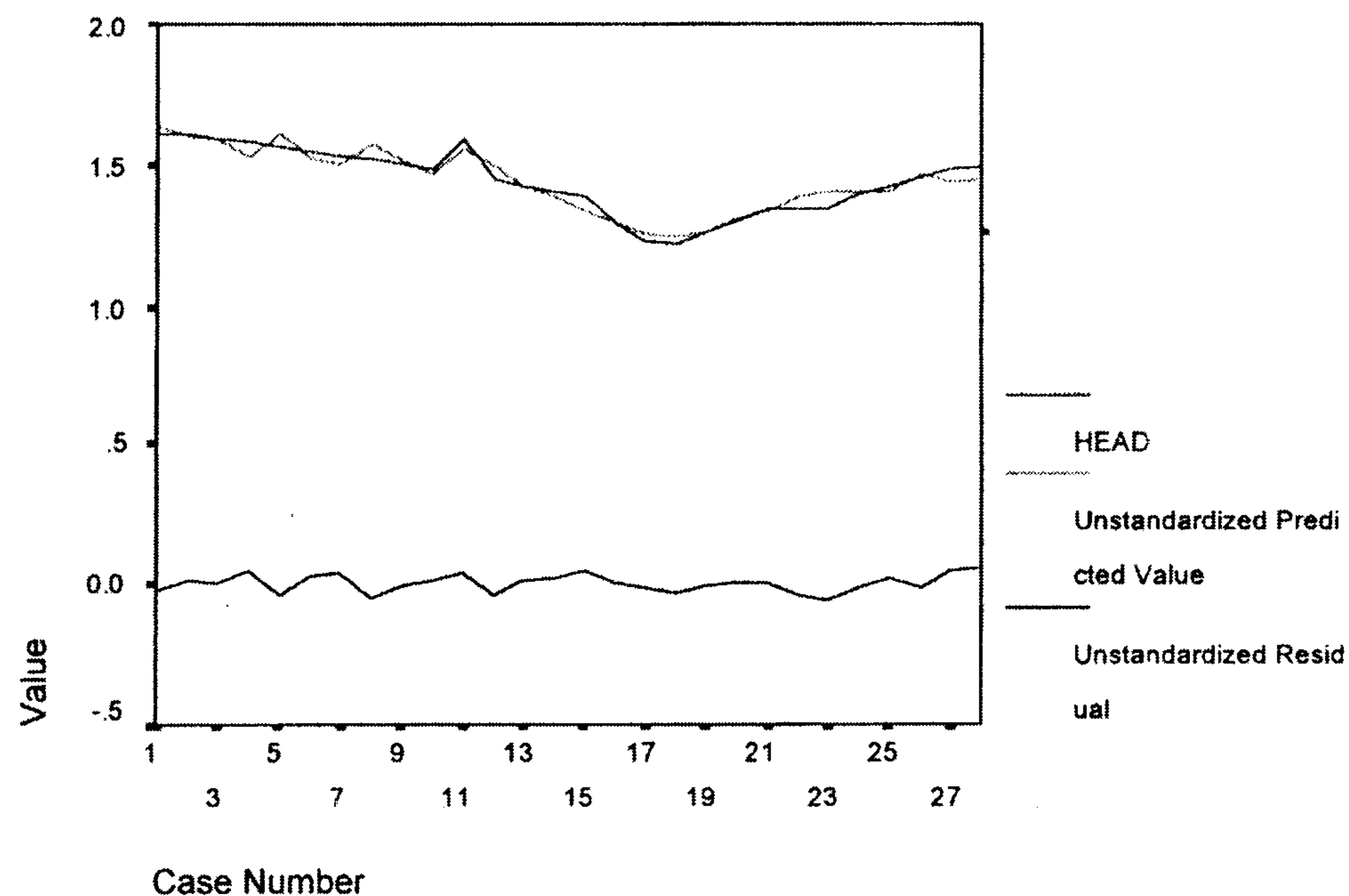


Figure 1: Predicted and Actual Value Difference Graph

The following graph shows that the predicted values are passing through the actual values. In addition, the line of residuals is showing there are very little residuals in our model and the error term is almost near zero.

Policy Recommendations

After studying the macroeconomic determinants of Poverty, it is quite clear that poverty is much more complicated phenomenon than it looks in the beginning. It is a concept, not as difficult to grasp in the abstract but at the same time, extremely complex to frame in satisfactory operational way. Keeping in view the above-mentioned causes of poverty following strategy can be very effective in reducing poverty from the country. The main ideology of this strategy includes fostering the rate of economic growth, improving social sector by different tools, and reducing vulnerability to idiosyncratic shocks.

Reviving the Rate of Economic Growth

Reviving rate of economic growth is very important in reducing poverty from the country. It is the rate of growth of the economy through which the fruits of increased income are distributed to the masses mainly by increased employment opportunities and better infrastructure. As poverty is, a rural phenomenon in Pakistan so increased growth rate of the agricultural sector will be more important in reducing rural poverty. Agricultural sector in Pakistan accounts for 25 per cent of country's GDP and employs around 45 per cent of its labor force but it has not received the importance that it deserves. Especially in 1960s and 1970s, the agricultural price policy had very negative impacts on this sector where prices of agricultural commodities were kept stagnant in relation to the industrial sector. Moreover, the diversification of agricultural products will not only increase its growth rate but will also save a large amount of foreign exchange. Foreign direct investment is another most important contributing factor to the rate of economic growth. Attracting foreign investment by creating the suitable environment for it is very important. We will have to produce an environment conducive for foreign investment by building our basic infrastructure, investing in our human resources and offering incentives to the foreign investors to invest in the country.

Creation of Income Generating and Employment Creating Activities

The key policy option to reduce poverty is the creation of income generating and employment creating activities. Small and medium enterprise sector of Pakistan has a large potential for creating employment opportunities. "According to Kemal and Masood (1993), this sector creates fourteen times the number of jobs than the rest of the economy with the same level of investment"¹. SMEDA and Small Business Finance Corporation are very important steps in this regard by provision of technical training and the micro credit for starting the new small-scale business.

Starting of the programs like "Khushal Pakistan Program" mainly emphasizing on rural works program are very important for creation of

1- Fifty Years of Pakistan Economy, pp 341.

employment opportunities. These programs have dual benefits, creation of employment activities and building of basic infrastructure for the people thereby allowing people to achieve self-reliance.

Improving Access to Micro Credit

Access to credit is the best way of empowering the poor and improving their income generating opportunities. However, due to the lack of collateral and small asset base it is very difficult for the poor to get credit from public and private financial institutions.

Micro financing by has many benefits including low cost, strict monitoring of the use of credit, low default rates and substitution of physical collateral by the social collateral etc.

In Pakistan, the banking sector has been characterized by poor targeting and high default rate and millions of rupees have been flowed to high income groups (further increasing the income inequality), the need of micro finance has become manifold. "Less than 5 percent of poor households have access to affordable micro finance and many of those who do, are not assured of quality service because of the micro finance institutions limited resource base and inadequately retail capacity"¹.

The micro finance lending should be aimed at increasing the assets of the poor. Until the assets of the people are not improved, they will be more vulnerable to shocks. For the poverty reduction from the country, the micro financing base should be widened and there should be a strict monitoring of the use of this finance.

Poverty Alleviation through Zakat² and Usher

Zakat is the most important scheme for cash transfers and a very important tool for social rehabilitation and reducing vulnerability in the Muslim world. The Zakat and Usher Ordinance calls for 2.5 percent reduction of value of all declared, fixed financial assets at the beginning of the month of Ramadan. The

1- September-October 2001 "Economic bulletin" pp 13.

2 - Zakat is a tax levied on Muslims, a way of transferring income from rich to poor.

collected amount is then disbursed among the mustahiqeen¹ (eight heads given by religion) in monthly transfers.

Zakat performs very well on the criteria of a social safety net as an automatic regulator of poverty and income distribution. Its administration costs as a whole are very low primarily because of voluntary inputs provided by members of local committees.

The most important issue in the Zakat distribution system in Pakistan is its very meager monthly transfers per month. A little change is needed in the existing system. Instead of providing this small amount to the poor, if once a large amount is disbursed to that poor is very important. This should not be in the form of money but should be in the form of an asset. The mustahiq who is provided with these assets may not be given that monthly installment again so to produce a sense of responsibility in him. Thus bringing this change in Zakat distributing policy can be very effective in poverty alleviation from the country. This will not only create employment opportunities but also result in increasing the gross national income of the country.

Conclusion

The primary objective of this paper was to explore different macroeconomic causes of poverty in Pakistan, and examining the nature of their relationship with poverty. It is found that the macroeconomic stability is very important in reducing poverty and guiding the economy towards the self-sustaining path of economic development.

We need to make our policies pro-poor. It has been quite evident that economic growth is an important factor that influences poverty. Growth generates additional goods and services in the economy, which are then distributed to the population. If all persons receive the additional goods and services that are produced in the economy, in the same proportion (i.e. if growth does not change income distribution), then economic growth will guarantee poverty reduction. An institutional initiative is needed to reduce poverty in our country. There is no single most effective method to achieve the objective of

1 - Beneficiaries of Zakat.

human development in the country. It is a continuous process and requires commitment at the national level with the participation of both public and the private sector. We will have to take poverty alleviation as the first priority in our national policy making other wise we will be far behind from the developed nations for centuries.

References

- 1- Amjad.R and Kemal.R.A.(1997). "Macroeconomic policies and their impact on poverty alleviation in Pakistan". *Pakistan development review* 36:1 (spring 1997) pp.39-68
- 2- Ahmad. N (1998). "Poverty in Pakistan". *Journal of applied economics*, Vol 14, No 1 & 2 (1998), pp 1-26
- 3- "Attacking poverty." *World development report* 2000/01. Oxford university press. New York.
- 4- Ali. Syed and T.Sayyid, 1999. "Dynamics of growth, poverty and inequality in Pakistan". *Pakistan development review* 38:4 part-II (winter 1999) pp 837-858
- 5- Aslam. Qais. "Selected essays in political economy of Pakistan". Studio 4 communications Lahore 2000.
- 6- Ahmad. V and R. Amjad. "The management of Pakistan's economy: 1947-82." Oxford University press, Karachi.1984
- 7- Bhatti.A.M, R Haq. and Javed T.(1999). "A sectoral analysis of poverty in Pakistan." *Pakistan development review* 38:4, part-II (winter 1999) pp 859-872.
- 8- Burki.S.J, "Low level equilibrium trap". *Daily Dawn*, 10, September 1999.
- 9- "Fifty years of Pakistan statistics", federal bureau of statistics, 1997.
- 10- Government of Pakistan. "Pakistan interim poverty reduction strategy paper", finance division and planning commission of Pakistan 2001.
- 11- Gohar.A. N, (1999). "Poverty in Pakistan: increasing incidence, chronic gender preponderance and the plausibility of Grameen-type intermediation." *Pakistan development review* 38:4, part-II (winter 1999) pp873-894.
- 12- Goheer.N. "Micro finance: a prescription for poverty and plight of women in rural Pakistan" . www.akdn.org
- 13- Haq.M "Poverty curtain". Oxford university press, Karachi. 1983.

- 14- Hussain.I.S, "The investment in human resource". Daily Dawn. 24, January 1999.
- 15- "Human development in south Asia: The crisis of governance". Oxford University press.
- 16- "Human development in south Asia: Agriculture and the rural development." Oxford university press. 2002.
- 17- Ishfaq.M and Tuyab.S.M, "Dynamics of agricultural productivity and poverty in Pakistan". Lahore journal of Economics, volumen3, No-1.3.
- 18- Khan.R.S. "Do World Bank and IMF policies work?" Vanguard publications 2001.
- 19- Khan.R.S. "Fifty years of Pakistan Economy: traditional topics and contemporary issues." Oxford University press Karachi 1999.
- 20- Khan.R.S. "Reforming Pakistan's political economy." Vanguard publications Islamabad.
- 21- Khan.M.A,(2001). "Poverty reduction and human development: issues and strategy." Lahore journal of economics, (July-Dec, 2001) Vol 6, No.2, pp1-32.
- 22- Kemal.R.A, (2001). "Debt accumulation and its implication for growth and poverty". Pakistan development review 40:4 part I (winter 2001) pp.263-281.
- 23- "Poverty and inequality: the present magnitude of problem, Balancing trickle down and basic strategies: income distribution issues in large-middle income countries". World Bank staff working paper No: 335. 1976.
- 24- "Pakistan poverty assessment, Poverty in Pakistan: vulnerabilities, social gaps and rural dynamics". World Bank, 2002.
- 25- "Poverty in Pakistan – The role for micro finance". National Bank of Pakistan, Economic Bulletin. (September- October 2001)
- 26- "Poverty in Pakistan: cause and institutional response". Asian Development Bank, 2002.
- 27- "Pakistan Economic Survey," Federal Bureau of statistics, various years
- 28- "Poverty and human development". Oxford University press New York 1980.

- 29- Qureshi.S.K (2001). "An overview of government's poverty alleviation policies and programs". MIMAP technical paper series No. 12. Pakistan institute of development economics. (January 2001).
- 30- Quentin. W, "attacking extreme poverty". World Bank. Washington. D. C. 1995.
- 31- "Social development in Pakistan, towards poverty reduction," Oxford University press Karachi 2000.
- 32- Stefen. D, "Vulnerability to poverty: is Quantitative measurement for policy analysis possible?" October 2001.
www.economics.ox.ac.uk/members/stefen.dercon/
- 33- "World Development indicators" World Bank.2000.
- 34- Ziauddin. M, Pakistan: "now, the poverty bomb goes off". Daily Dawn, 10 June 1999.
- 35- Zaidi.S.A. "Issues in Pakistan economy". Oxford University press Karachi 1999.