

REDUCING POVERTY OR REDISTRIBUTING INCOME?

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Pakistan's successful achievements during the last four and a half years were ingrained in a long and medium strategy that has its own timing, phasing and sequencing. The first phase that began in December 1999 emphasized upon stability, orderliness and a predictable environment in which the businessmen could plan their decisions to produce and sell goods in the economy with an amount of certainty. If there were violent fluctuations and swings in exchange rate, interest rate, tax rate, tariff rate, then it becomes extremely difficult for a businessman to cost their products in a realistic manner and earn a decent rate of profit. So the primary consideration before the Government in 1999 was to reduce the excessive debt burden, stabilize the economy and resume the path towards a higher growth rate. Having carried out debt re-profiling, pre-payment of debt, rationalizing NSS and benefiting from lower interest rates, the GOP was able to achieve this objective successfully.

The second phase focused on acceleration of economic growth rates in the economy. The current fiscal year is likely to end up with a 6 percent growth rate from almost 2.2 percent in FY01 and this high rate has to be sustained over time for reducing the absolute poverty level. We should, however, distinguish between poverty reduction and removing income inequalities and realize these are two different concepts. They are

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neither congruent nor do they converge automatically. At this particular stage, we should focus on reducing the level of poverty in the country so that 32.1 percent population of Pakistan living below the poverty line can be lifted and their standards of living can be improved. We are on strong empirical grounds for making this assertion on the basis of Pakistan's own experience and that of other developing countries. In Pakistan, poverty levels declined from 43 percent in 1960 to 18 percent by the end of the 1980s when the growth rate averaged about 6 percent per annum. Other developing countries, such as China, have also demonstrated a strong positive correlation between high growth rate and poverty reduction. In this process if there are disproportionate benefits accruing to the top income groups we should not grudge it as long as they are making productive investments, creating jobs, expanding exports and paying taxes. So the current third phase should focus on measures that aim at reducing absolute poverty levels from one-third to one-fifth of the population.

In the next phase, when the country has succeeded in tackling the poverty problem to some extent, the focus can be shifted to addressing the issue of income inequality. But, we should be quite clear in our mind that reduction in absolute poverty levels will not necessarily mean a better or improved distribution of income or equitable distribution of gains from economic growth. We may have to live with income inequalities for some more time as long as the poor are getting the benefits of economic growth and poverty targeted interventions.

Empirical evidence from Pakistan and elsewhere in the developing world suggests that growth is necessary but not a sufficient condition for poverty reduction. There are additional policy and institutional variables that are concomitant ingredients, along with high growth, for reducing poverty.

The question that I wish to address this morning is: How do we achieve reduction in the proportion of the population living below poverty during the next five years? Broadly speaking, we have set out the policies right in the last few years but we have to move our attention towards fixing our institutions which have decayed for a long time. The single most difficult challenge facing us today is to reorient and strengthen key institutions that are mandated with the implementation and enforcement of policies, programmes and investments that aim at achieving poverty reduction goals in medium term. We have to bridge the missing gaps in this wide array of institutions. The strategy should consist, in my humble opinion, of at least the following ten measures but other observers and analysts can add, subtract or modify the set of measures outlined. I offer them in the spirit of initiating a discussion and debate on the future direction of our development strategy.

There are certain pre-requisites for achieving self sustaining growth and simultaneously reducing absolute poverty. The speed and dispersion of the trickle down from growth to poverty reduction have to be accelerated in addition to some specific interventions.

The first and foremost ingredient of this proposed strategy is increasing agriculture productivity. Pakistan was still trapped in low productivity syndrome with large unexploited potential. This potential can be translated into actual gains by making concerted efforts towards agriculture research, dissemination of new techniques and processes to the small farmers, lining of water courses to optimize the use of scarce irrigation water, better marketing of agriculture produce and to give a boost to livestock sector. The link between livestock income and poverty reduction is both direct and strong and this is an area that complements growth and poverty reduction. Without increasing the incomes of the rural poor through higher yields of their output and lower costs we cannot conceive of any possibility under which rural poverty can be reduced. As the majority of the poor lives in the rural areas and derive their livelihood directly or indirectly from agriculture this is the most effective way of reducing overall poverty level..

Linked to agriculture productivity is the issue of devolution of powers to local governments and communities. We made a promising start but have since got bogged down in resolving several contentious issues surrounding the devolution process. There is no doubt in my mind that devolution empowers the local communities to make choices for their own development, It is unfortunate that it has run into snags since the elections to National and Provincial Assemblies held in 2002 as there is a struggle for supremacy between the Provincial and the local governments. In my view the sooner these tensions are eased out of the system and modalities are worked out to establish clear-cut constructive relationships between these two tiers and the Assembly members, the more

effective the devolution would be in delivering essential services to the poor. There is an urgent need to protect this system through a broad-based political consensus and save it from derailment.

The third element of this strategy is infrastructure development. Sustained growth will not be possible if we run into shortages and congestions because of deficiencies, weaknesses and inadequate investment and maintenance of our infrastructure facilities. We have been proved wrong in the developing countries to assume that private sector will be the most appropriate provider of power, water, highways, ports, airport services. Experience has shown that exclusive reliance on private sector does give rise to serious issues of costs and affordability particularly for the poor. The new conventional wisdom, even accepted by the World Bank, is that public goods where the social benefits exceed private benefits should be provided by the public sector. There are other goods such as oil pipelines, power and gas distribution companies, container terminals, telecommunications, commercial services at the airports that can legitimately fall within the domain of the private sector as in these cases private benefits predominate. Yet there are some other infrastructure services which can be provided by public-private partnerships. Thus, our approach to infrastructure development should be a more nuanced one assigning the responsibilities to public, private or mixed sectors depending on the nature of activity and public or private good content.

The next element is investment in education, health, nutrition, drinking water, sanitation and other social sectors. This is such an oft-repeated and well-known

proposition that it is not necessary to repeat the arguments in its support. Suffice to say, there is no other area that is so potent in lifting people out of poverty as investment in education. But we should make a distinction between the provision and financing of education. While it is the responsibility of the government to provide basic education and upgrade the skills of its population it can utilize the services of private and non-governmental providers of education for this purpose. The Government can provide financing, scholarships, school vouchers, per capita grants for the students coming from the poor families for studies at private or community schools of excellence or good quality. It has been found from poor communities across different continents ranging from the deserts of Mali to the mountains at Guatemala that communities are much better at managing, monitoring educational institutions and more cost effective than the Government departments.

Despite the injection of substantial amounts of money in education sector the desired results have not been achieved. Although a large number of graduates are being produced every year by our Universities but there is a shortage of skilled manpower needed by the economy. This mismatch between the supply of graduates by our educational institutions and the demand of our economy has to be eliminated. Effective delivery of services such as health care, clean drinking water, sanitation, etc. can make a big difference to the lives of the poor and should be maximized through a similar multi-channel approach.

Human capital is important in reducing poverty but equally important is the building of social capital which is the fifth element of our proposed strategy. There is too much mistrust, suspicion and confrontation among the different segments of our society. Federal-Provincial, Provincial-local, intra-provincial, bureaucracy-private sectors are all mired in fights, scoring points and one-upmanship. These negative sentiments erode social capital rather than build harmony. As Pakistan has to compete with 180 other countries in this globalized village for its survival, we have to put an end to this adversarial relationship and work together in a harmonious, collaborative and cooperative manner. Differences of views and disagreements are bound to arise in any society but these should be resolved through a process of open discussions and deliberations. Without social cohesion and inter-provincial harmony, poverty reduction agenda will be difficult to move ahead.

The next ingredient is the reform of our bureaucracy and the governmental structure, processes and rules of business. We are still frozen in the rules of the game that were relevant for the 1950s and 1960s but have become outdated to meet the imperatives of the 21st century. There are too many overlapping tiers of the government and too many agencies duplicating each other's work that create obstacles in the way of establishing, nurturing and fostering businesses and investment in the country. They lack competence, are process oriented and not result oriented but enjoy excessive discretionary powers. Their compensation packages are inadequate and last for only one week of a month and, thus, they are forced to resort to other undesirable means to sustain themselves. Consequently, Civil Servants lack motivation and commitment and pass on

the files upwards or downwards to avoid taking decisions. There are too many layers and it takes months altogether for a file to travel from the Section Officer all the way to the Minister and then downwards. The poor have no access to the bureaucracy and kutchery, thana and tehsil are all controlled by the elites and influentials and respond to their interests. Unless this asymmetric power relationship is reversed even improvement in income poverty will not obviate the helplessness and hopelessness of the poor in getting their genuine day-to-day problems resolved.

Seventh, judicial reforms have been neglected for a long time and consequently impeded the smooth and efficient functioning of the private sector. It is not that we have dearth of laws but it is the enforcement of laws and contracts that is wanting. Familiarity and full grasp of commercial and banking laws is found lacking among the lawyers and Judges. Unnecessary adjournments prolong the process of litigation and cause delays in settlement of disputes. If a borrower knows that he can default on his loans and the legal case against him will not be decided for the next 10 years, he will have perverse incentives to exhibit this behaviour. Alternative dispute resolution mechanisms, mediation and arbitrations which form integral part of the formal legal system are conspicuous by their absence. The result is that the caseload in the Court is overloaded and the system is clogged. Facilities and infrastructure for the Courts and the bar Members are inadequate. The Banking Court Judges complain that they have neither PCs nor fax machines to carry out their routine work. Court buildings are scattered all over the town and the lawyers cannot meet all the scheduled hearings resulting in unnecessary postponements. We did not pay much attention in the past to provide adequate facilities

to the judiciary as it was considered non-development spending. In hindsight, this myopic approach has caused enormous cost to the private sector development in Pakistan. Time is ripe that judicial reforms including adequate infrastructure should be made a priority of the Government.

Ninth, the big cities of Pakistan are imploding as well as exploding overburdened with migrants from the rest of the country looking for economic opportunities. Urban management has been an area that has been relegated in the order of our priorities with little realization that the urban poor can create more difficulties with law and order and security as they are susceptible to manipulation by various mafias. For example, as the Government has no systematic mechanism in place to earmark and allocate parcels of urban land to accommodate new comers, the land mafias encourage the migrants to encroach upon the state lands and to occupy them illegally. The Government loses valuable revenue that could have been generated by sale of land on a transparent basis while these poor fall prey to the stranglehold of these mafias. They cannot upgrade the quality of their life as they become encumbered to these unscrupulous elements. Similarly, transport mafias, water mafias, etc. operating in metropolitan areas are extorting huge rents from the citizens while the government agencies are either indifferent or conniving with these elements. Urban management which is currently fragmented, unfocussed, uncoordinated and ineffective with overlapping jurisdictions and unclear accountabilities needs to be strengthened and revamped to conform to the organizational imperatives of delivery of efficient and cost effective services to the citizens particularly the poor.

It is now widely believed that the law and order and security situation have been a major deterrent for the foreign and domestic investors to take long-term positions by locating their investment in Pakistan. For example, the terrorist activities, bomb explosions, car jacking and robberies and dacoities in Karachi have made the city perceptibly unsafe for potential investors. On the other hand, certain investments particularly those dependant on imported raw materials and exports can have cost advantage only if they are located within the close proximity of the ports. If these investments are located up-country for example, the additional costs of bringing the raw material from the Port and then sending the finished goods back to the Port for shipment abroad would not be worthwhile. Hence, such investment decisions are either not taken at all or postponed. The perception of the country also suffers when the international electronic and print media repeatedly display the stories of bomb explosions and acts of terrorists in Karachi. We have a big challenge ahead i.e. to change this perception and eliminate all the vestiges of terrorism, sectarianism and minimize violent crimes against person and property from our society.

Finally, even if we take all these above measures with some degree of satisfaction, there would be some vulnerable segments among the poor who would require social safety nets. Pakistan has a lot of generous private philanthropists who are doing an impressive job by helping these groups but their efforts are not properly targeted and are sporadic. They may miss the real deserving who do not catch their eyes and may over pamper those may be too visible but do not deserve such largesse. Zakat and Bait-

ul-Mal are two other important vehicles for channelizing resources to the ultra-poor but it is not yet clear whether they have made any significant difference in coverage and outreach. Any civilized government worth its name has to worry about this particular group of vulnerable ultra-poor and design social transfers to help them living a decent life.

The above agenda I have sketched out is both ambitious and institution intensive. The paradox is that if our institutions are weak in the first place how can they be expected to implement the above strategy. The point of my discourse is that the Government - at all levels – along with the private sector and local communities have to begin working together in a synergetic way rather than in isolated and compartmentalized silos. This is the only feasible way in which we can sustain growth, reduce the numbers of those living below the poverty line and also move in the direction of a more equitable distribution of gains among the various segments of society.