

Mahbub ul Haq

### Is there any hope for the poor?

Pakistan has experienced the largest gap between economic growth and human lives. Despite the fastest rate of GNP growth in South Asia in the last 50 years, Pakistan's poor masses have hardly benefitted.

Today, a quarter to one-third of Pakistan's population lives below the poverty line, if poverty is defined narrowly – for example, whether they get enough to eat or whether they have a minimum income to purchase their basic needs. In fact, taking a much broader concept of poverty of opportunity, nearly one-half of the population suffers from serious human deprivations. Two out of three adults cannot read or write. Nearly half of the population is denied access to such basic social services as primary health care and safe drinking water. These are some of the disturbing facts brought out in the 1998 Report on *Human Development in South Asia*. But these are not just cold statistics. Behind each number, there lies a stunted human life.

As our poor people look to the neighbouring countries, they can draw little comfort from the comparison. Bangladesh has about half the per capita income of Pakistan but its *net* primary school enrollment rate is nearly three times higher. Pakistan enjoys 75 per cent higher real income per capita compared to India but most of Pakistan's education and health indicators are lower than India's. Obviously, Pakistan is doing a much poorer job of translating the fruits of its higher income into enriching the lives of its people.

Why such a great distance between economic growth and poor people's welfare in Pakistan? Obviously, economic growth has failed to trickle down to the masses because of the feudal hold over the distribution of income. A major portion of the benefits of economic growth in the past has been hijacked by non-tax paying landlords, tax-evading industrialists, corrupt politicians and bureaucrats, and the ruling elite who largely pre-empt the economic patronage of the state.

Successive governments have played a marginal role in transferring income and employment opportunities to the poor. Pakistan's system of taxation remains quite regressive, with a heavy burden of indirect taxes on the poor masses. The rich and the influential seldom pay their due taxes, while agricultural income is completely exempt from taxation. Social safety nets are inadequate: the government transfers only 0.2 per cent of the GNP to the poorest of the poor through *zakat* and *bait-ul-maal* (compared to 15 per cent in US and UK, and 35 per cent in Sweden, through their social security systems).

Successive governments have paid little attention to providing basic social services of education, health, safe drinking water and low-income housing to the poor. A rough estimate indicates that budgetary subsidies to the rich (in the form of various tax concessions and fiscal incentives) are about 20 times the subsidies to the poor. Instead of transferring from the rich to the poor – as government budgets normally do in civilized societies – Pakistan's budgets further enrich the rich as many powerful groups in society manage to extract yet more tax concessions at the time of annual budgets. When there is a financial squeeze, budgetary subsidies for the poor are more likely to be cut than for the rich.

Add to this another crushing burden. Crude estimates indicate that Pakistan has been transferring abroad at least \$ 2 to 3 billion every year recently, in the

form of corrupt money and capital flight. In the face of such heavy outflows, foreign assistance – received after much conditionality – becomes only a mirage. It is a soft option for the government, and not much comfort for a nation that is transferring over 10 times as much to the rich nations as the amount of net external assistance it receives each year. In fact, Pakistan's national saving rate may now be negative if undocumented transfer of resources abroad is taken into account.

The poor are in bad shape. And their condition is likely to grow worse. The robust economic growth of the past has turned into a very slow growth rate in recent years, barely exceeding population increase. If the poor did not gain much from high growth periods, are they likely to be crushed further in a slow growth period as the rich jockey to maintain their income share?

Pakistan's GNP growth rate averaged over 6 per cent a year in the first 40 years after Independence, while India was locked into, what was derisively termed by its own economists, as the "Hindu growth rate" of around 4 per cent. During this period of slow growth, India still managed to create a great deal of physical infrastructure and heavy industry, invested more than Pakistan in education and technical skills, saved around 24 per cent of its GNP to create institutions of self-reliance, and used democracy to contain the frustrated expectations of the poor. Pakistan, despite its high GNP growth rate, saved little (less than 10 per cent of its GNP), became dependent on domestic and external borrowings (which are now leaving its so few financial options), borrowed even to pay government salaries and for much current expenditure, and built little infrastructure (either physical or human), witnessed a gradual weakening of institutions, thus failing to create a sustainable basis for its growth.

In the 1990s, it is Pakistan that is getting locked into a “Muslim growth rate” averaging around 4 per cent a year, based on development expenditure financed exclusively through high-cost and cumulative borrowings. With a population growth rate nearing 3 per cent, this leaves little margin for maneuver for its policy makers. Poverty bomb, which was never diffused in high growth periods, can easily explode in a period of slow growth, high inflation, rising unemployment and deteriorating social services. Poverty, mis-governance and badly-distributed growth are getting locked into a fatal embrace. Interestingly, this is at a time when Indian economy has started generating growth rates of 6 to 7 per cent per annum, which will further extend its options and put greater pressure on Pakistan.

Can the present situation be reversed? On a technocratic level, many rational options can be suggested. Let us sharply increase our saving and investment, reduce our external dependence, privatize our public assets at a fast rate, and regenerate economic growth in a more sustainable manner. And let us distribute growth better, through an aggressive pro-poor fiscal policy. In the meantime, let us take a few obvious steps. Let us collect stuck-up loans of Rs.140 billion from the rich and channel some portion to the poor as micro-credits to promote self-employment. Let us get really tough on existing tax evasion, exceeding Rs.100 billion a year, and reduce indirect tax burden on the poor. Let us impose a meaningful agricultural income tax and use the revenue proceeds to subsidize *ata* and other basic needs for the poor. Let us completely change the priorities in our shrinking development budgets, so as to focus on basic education, safe drinking water and low income housing for the poor. Let us persuade India to seriously negotiate our outstanding disputes, enabling both India and Pakistan to at least freeze military spending at the current level, which will release enough resources to put all their children in primary schools in the next five years. Let us

run a clean administration, save over Rs.50 to 100 billion eaten up in corruption each year, and use the savings to create employment opportunities for the poor. Let us provide the poor with defence counsels from the state so that the rich cannot take advantage of their poverty and prevent them from knocking on the doors of justice. The list of such rational reforms can go on for ever.

But will any of these reform proposals be accepted, or ever implemented? It is quite clear that Prime Minister Nawaz Sharif is very serious about poverty reduction. But there are some formidable hurdles in his way.

First, we must honestly recognize that poverty is not merely a flu, it is more like a cancer. We cannot leave intact the entire system that produces persistent poverty and wistfully hope that we can take care of poverty downstream through limited income transfers or some small poverty alleviation programmes. If the poor lack education, if they lack critical assets (particularly land), if they lack credit since the formal credit institutions refuse to bank on them, if they are socially excluded and politically marginalised, then a few technocratic programmes downstream are not the real answer. The real answer lies in creating a new and responsive system which, for example, can legislate land reforms, establish new credit institutions for the poor, empower women, provide basic education for all, organise a more fair and equitable system of taxation, extend equal justice to the poor, and establish institutions of good governance.

Why can't we make all these reforms within the existing system? Simply because the ruling class will be hurt by these very reforms. If we fail to collect stuck-up bank loans, or to check extensive tax evasion, or to legislate meaningful land reforms, or to ensure equal justice to the poor and the down-trodden, it is not because we lack good technocratic proposals or sound economic and political

advice. The government's cupboards are full with excellent proposals, long forgotten. The real reason is that the ruling elite will not allow basic reforms which trim their own privileged position in society. When various governments confront this harsh reality, they normally give up. No governing class deliberately commits *hara kiri*.

There are two further problems that Pakistan's decision makers face in improving the welfare of the poor. On the one side is the dark shadow of Indo-Pak confrontation, obliging Pakistan to spend three times per capita as much on defence as India does. The stakes may be raised further if the BJP-led government in India opts to go nuclear or intensifies the missile race. Pakistan cannot gamble on its national security, so that resources which could have financed basic social services or poverty alleviation programmes may be pre-empted by rising defence requirements. On the other side is the shadow of large budget deficits and the IMF conditionality for a better balance as soon as possible. Any finance minister is likely to spend most of his time and energies in balancing the budget and avoiding national bankruptcy. Understandably, poverty concerns are unlikely to intrude on his busy schedule.

What then is the hope for the poor? Are there any doors open before their despair erupts into an anarchic revolution?

The evolutionary route is naturally the preferred one. Population censuses, if regularly held, may gradually shift the balance of power in favour of the urban areas and more progressive forces -- though such a route will take too long for the rising impatience of the poor. A political party with a pro-poor agenda is often the real answer in a democratic system. It is possible that Prime Minister Nawaz

Sharif may be able to persuade his political colleagues to accept basic reforms in the economic system in the larger national interest.

Human history offers only two models: the evolutionary change in England and the revolutionary upheaval in France during the 18<sup>th</sup> century, either a change through the ballot box or through the guillotine. Let us hope that our ruling groups are smart enough to read the writing on the wall and to introduce much-needed reforms in the system. The alternatives are far too grim to contemplate.

---

The writer is President of the Human Development Centre and Chairman of the Foundation for Advancement of Science and Technology (FAST).