

## Social Safety Nets for the Poor

(Dr. Mahbub ul Haq)

Like the tale of two cities, Pakistan is a tale of two economies – one embarrassingly rich and the other desperately poor. And the distance between the two economies is widening, not shrinking.

According to some international estimates, about one-third of Pakistan's population survived in absolute poverty in 1991. The state of absolute poverty in these surveys was measured by per capita consumption expenditure of less than Rs.300 a month in 1991/92 prices. It is anybody's guess what basket of goods and services Rs.300 of monthly expenditure can buy these days and how far the poorer income groups have been squeezed further since 1991 due to rising inflation and growing unemployment. Obviously, what these surveys measure is an extremely degrading level of poverty -- below any reasonable definition of human survival or decency. A more appropriate definition of poverty will probably place around two-thirds of Pakistan's population in the poor category.

What is even more relevant than poverty of income is poverty of opportunity -- which means denial of access to education, credit and other economic and political opportunities. It is such denial of opportunities that prevents the poor from crossing the threshold of a decent living standard. In Pakistan, such poverty of opportunity has reached staggering proportions. There are 50 million adults who have no education, 60 million people with no access to any form of health service, 28 million people who rely on polluted, unsafe water and 90 million people with no access to even basic sanitation facilities. Add to this 10 million malnourished children and millions of children out of school and forced into child labour, and it becomes depressingly clear that opportunities of life are denied to many right from their childhood.

In most countries of the world, governments have forged a social contract with their people. These governments tax the rich and transfer income to the poor. They finance the provision of basic social services to all their people -- particularly, education and health. The capitalist America reached its own social contract through the New Deal in the Roosevelt period, and despite much recent chiseling, America still transfers around 15% of its GNP to the poor through medicare, food stamps, unemployment benefits and a variety of social security payments. This proportion is as high as 35% in Sweden. Many poor developing countries transfer 10-15% of their GNP to the poor through the provision of free basic social services, subsidised food, and other income transfers.

In this so-called Islamic welfare state of Pakistan, we enjoy the distinction of transferring the lowest proportion of our GNP to the poor. The entire amount of Zakat, Ushr and Baitulmal comes to around Rs.3 billion --or less than one-fourth of 1% of our GNP. If we add to this free provision of basic social services (particularly, education and health) and food subsidies to the poor (generally non-existent), we may be able to stretch this estimate to 2 to 3% of GNP -- though that would be stretching it quite a bit. Most of our public services are available to the rich, not the poor. How often have we seen subsidised piped water in Gulbergs and Cliftons while the poor dwellers of city slums and katchi abadis are denied such water supply and have often to buy their water from commercial tankers? And how often have we assumed that this a natural course of events where the affluent sections of society are entitled to government patronage while the poorer sections must live without it?

But this is not what happens in most civilised societies. Whether they are capitalists or socialists or ideologically neutral, most countries have worked out their social safety nets for the poor. They are all based on the simple principle of taxing the rich and transferring additional incomes and opportunities to the poor. The governments keep levelling the playing fields so that everyone can play on these fields, irrespective of the accident of their heritage or ethnic origin or gender or income class. This is what leads to a merit-based society. This is what creates social mobility. This is what gives them political and economic stability.

In Pakistan, we seem to have perfected a system where the poor are taxed for the benefit of the rich. The rich evade most taxes -- there is no tax on agricultural income and there is large-scale tax evasion in non-agricultural sectors. In addition, most credit goes to the already rich who also manage to get loan write-offs or default with impunity : there are over Rs.100 billion of "stuck up loans" now in the nationalized banking system. Not many poor are seen to participate in the allocation of licenses, plots, MOUs, and various forms of economic patronage. And yet the poor bear the major burden of indirect taxes -- including the most cruel tax of all, rampant inflation.

No society can ever be stable unless it creates social safety nets for its poor. The technocratic solutions are easy. It is the political commitment that has been lacking. We are willing to spend a great deal of rhetoric on the poor : we are not willing to spend much money or effort.

If we are to reverse the existing pattern of a perverse transfer of income and economic rents from the poor to the rich, we must start taxing the rich and influential groups -- starting from the coming budget. As a very conservative estimate, an additional Rs.30 billion can be raised from a meaningful agricultural income tax, another Rs.40 billion from plugging the current extensive tax evasion, perhaps another Rs.20 billion by charging the

influential groups full market value for transfer of assets and credit to them. This cannot be done in one big jump, but at least a start can be made. Without really taxing the rich, there is not much that can be transferred to the poor.

The income transfers to the poor can take several forms. One of the most effective forms is food subsidies -- despite the hostility of the IMF to such subsidies. In a poor society, well-targetted food subsidies create both price stability and a healthy bond between the government and the poor.

What is even more effective, however, is the subsidised provision of education and health and other social services to the poor. This is the only way to increase their access to economic opportunities and gainful employment. What is needed is a comprehensive and realistic plan to extend universal coverage of basic social services to all the people within a period of 10-15 years, to be financed by more meaningful taxation of the rich. In fact, the poor should get these social services free or with significant subsidies; the rich should pay their full cost or even be charged more to finance subsidies for the poor.

Besides these social services, other items in a social safety net for the poor must include liberal supply of credit for the poor through mechanisms such as the Grameen Bank in Bangladesh. Technical skills should also be spread widely, by opening vocational/technical institutes all over the country, as new employment opportunities require both credit and skills.

Pakistan desperately needs a serious political commitment to build social safety nets for the poor. The political elite need to rethink whether their long-term interests are really safe in a society which is becoming increasingly polarised between the rich and the poor or whether gradual reform will not only help the country but also help them as well in making a smooth transition to a more progressive era. Many societies have confronted these choices and designed their own new deals. Do we have the imagination and the skill to do the same?

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