

**UNDERDEVELOPMENT, POVERTY
AND INEQUALITY IN PAKISTAN:
A Review Article***

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This is a timely book in many respects. Coming as it does at the end of Pakistan's third decade as an independent nation, it provides a useful perspective on where we have been and where we ought to be going. In particular, it gives us a good opportunity to evaluate economic development under two broadly distinguishable development strategy regimes, the Ayub Khan regime (1958-69) and the Bhutto regime (1972-77). Coming as it does at the beginning of a fresh attempt by Pakistan to chart a long-term development plan and a consistent and identifiable development strategy, it presents planners an opportunity to draw lessons from past experience and thereby avoid past mistakes. Finally, covering as it does the important issues of growth, inequality and poverty it enables us to view development strategies from a perspective that has won widespread acceptance as being the relevant one.

The introductory part of the book deals with the resource position inherited by Pakistan in 1947. This is followed by a long survey of macro-economic performance (i.e. growth, employment, sectoral change, and income distribution) in the decades since independence. A third part provides detailed information on changes in agrarian structure and their consequences for income distribution and poverty. After this some issues pertaining to regional growth and migration are discussed. The book ends with an overall assessment of development strategies — past, present and future — in Pakistan. A lot of ground is covered and that too in a concise, readable fashion. It is convenient to review the book, however, in terms of an answer to the question: What do we know about the evolution of inequality and poverty in Pakistan and how is this evolution linked to development strategy? This will involve emphasizing some issues while ignoring others taken up in the book. On the whole, however, this approach seems to be consistent with the spirit of Naseem's work.

A preliminary remark is in order here. Naseem's book is largely about the sixties. While he attempts to discuss some implications of the economic events and policies that characterized the Bhutto administration there is

* S.M. Naseem, 1981, *Underdevelopment, poverty and inequality in Pakistan*, Lahore: Vanguard Publications.

not enough data, he argues, to enable a definitive assessment. Presently available national census and survey data only go up to 1972 and little can be said about income distribution and poverty alleviation in the absence of such data. This review will, therefore, also concentrate on the sixties.

Pakistan's economy grew and diversified rapidly during the sixties. The record of growth has been amply described and discussed in many a book now and Naseem provides a handy review in Chapter III. He also provides a more detailed discussion of the pattern of industrial and agricultural development in Chapters IV and V and concludes, quite correctly, that the usefulness of aggregate macroeconomic data is rather limited when it comes to evaluating consequences for income distribution and poverty. Such an evaluation is possible from microeconomic data on household incomes and expenditures collected and reported sporadically by the Central Statistical Organization between 1963-64 and 1971-72 and it is to this that Naseem turns in Chapter VI.

Upon reading the section on trends in income distribution one is struck by the remarkable fact that an issue which has for long agitated intellectuals, politicians and, by some accounts, even the masses in Pakistan, is discussed and dismissed in only two and a half pages! Naseem's view seems to be roughly as follows: existing data show improvements in income distribution (as measured by the Gini coefficient) during the Ayub Khan period, or more precisely, over 1963/64 – 1969/70, and some deterioration thereafter; this trend, however, seems contrary to popular expectation; therefore, the question of data reliability is raised; at any rate, the appropriate focus of study should be absolute poverty rather than relative poverty.

While I concur with the spirit of Naseem's discussion of the matter, it seems to me that a book concerned with inequality owes its readers a more comprehensive review of the evidence than that offered here. Included in such a review should be at least the following results:

1. The same trend is observed for different definitions of the relevant variable; it does not matter whether the Gini is based on real income (or expenditure) or nominal income (or expenditure) or on a per capita basis or a per household basis.
2. While the Gini for any given year may be biased towards equality on account of the underenumeration of high income groups there is no evidence that the bias has increased over time; hence the trend is still meaningful [Alauddin (1975)].
3. A decomposition of the Gini coefficient by source of income suggests that labour incomes are most important in accounting for overall inequality even though non-labour incomes are most unequally distributed; this suggests that we pay more attention to the labour market and to

labour incomes for inequality-decreasing measures [Ayub (1977)].

I would also be a little bolder than Naseem and draw at least a minimal conclusion from the review. One might as well recognise that while the data may not allow us to state with great confidence that income inequality lessened during the high growth period of the Ayub Khan regime, they offer even less of a basis for arguing the opposite case. The burden of proving an unfavourable growth-equity trade-off now rests with the pessimists. That the data reveal a pattern opposite to that expected by many need not be entirely due to biases in the data. People are biased too. We may have been misled by the political rhetoric of the past decade.

The ambiguous welfare interpretation of most inequality statistics suggests that we focus attention on measures of absolute poverty. Naseem pioneered the study of absolute poverty in Pakistan with a set of estimates published as early as 1973. His analysis was based on the same data used by others to compute Gini coefficients and his results had the same flavour as the income distribution results, viz. there appeared to be a decline in poverty over 1963/64 – 1969/70, and an increase thereafter. In his 1973 study Naseem had used arbitrarily chosen income levels to demarcate rural and urban poverty lines. In his present book he derives rural poverty lines from estimates of per capita expenditures (same data base) necessary to obtain 95%, 92% and 90% of the “minimum” recommended caloric intake of 2100 calories daily. This gives him a somewhat more objective measure of the rural poverty line but the results hardly differ. Once again the dominant pattern in his results is one of improvement over 1963/64 – 1969/70 and deterioration thereafter.

A surprising feature of Naseem’s discussion of trends in poverty is the absence of comments on what I would think are some of the most important aspects of his results.

His results are, for example, very sensitive to the choice of a poverty line. A difference of as little as Rs. 4.00 per capita per month can change the number counted as poor by as much as 15 million [see Naseem (1973) rural poverty estimates for 1969/70]. This point is emphasized by Naseem in his original article but is nowhere raised in the book. It is necessary to do so because a number of arbitrary judgments are involved in the process of estimating poverty: the choice of line is arbitrary, the transformation of nominal income into real income is full of assumptions regarding income – specific market baskets and prices, the calculation of real incomes for rural households who do not purchase the bulk of their food in the market requires special assumptions, and so on and so forth. These issues could be glossed over in a journal article but they surely ought to receive attention in a book concerned explicitly with assessing poverty.

Another issue that is not addressed concerns a methodological point raised by Mujahid (1978) about Naseem's poverty estimates. Naseem derives his estimates by assuming that all households falling in a given income group have per capita incomes equal to the average for that group. This means that it is possible to mistake some non-poor for poor and vice versa on a per capita basis. For example, it is possible to count as poor those households whose household income places them below the poverty line but who, because of smaller-than-average (for income group) household size, may have per capita incomes placing each individual above the poverty line. The reverse could also happen for larger-than-average households. Mujahid raises this point and presents an alternative measurement approach leading to results which are, in some respects, at odds with Naseem's results. This is not the place to attempt a comparative evaluation. What I find surprising, however, is the complete lack of reference to Mujahid's point in Naseem's book. (Mujahid's article, however, is cited in the reference list).

A third issue that ought to have received some attention concerns the determinants of poverty. So far the study of poverty in Pakistan has been a numbers game. It is time to move on to a systematic analysis of the determinants of low incomes. True, it is difficult to say much about this from national level data. However, a few region-specific studies exist [Haque (1977), Hamdani (1977)] which might allow a preliminary assessment of such questions as the contribution of education to income. Naseem uses data from an extensive eight village survey (pp. 147-156) whose central objective he reports to have been to study in depth the situation of the rural poor. I am surprised that this data has not been used to construct poverty profiles or to estimate earnings functions. Much evidence exists that suggests that this is a most promising area of research in poverty [Fields (1981)].

We have seen that there is enough volatility in the poverty estimates derived from existing household income and expenditure data for one not to want to rely exclusively on such data. Naseem attempts to cast further light on the question of rural poverty and inequality by examining changes in agrarian structure over the sixties. This is done by comparing information from the Agricultural Censuses of 1960 and 1972. The following noteworthy features emerge from this comparison:

1. There is a substantial decline in the number of farm households; this decline is almost exclusively concentrated in the category of marginal holdings (those operating less than 5 acres).
2. The number of households relying primarily on livestock raising for their livelihood has increased substantially.
3. There is a substantial decline in the number of pure tenant households in all categories except that of 7.5 to 12.5 acres; there is an increase,

however, in the number of owner-cum-tenant households in all categories except that of marginal holdings.

4. Naseem also reports that, according to his calculations, the number of landless households rose by 384% from roughly 0.6 million in 1960 to 3.0 million by 1972.

What are we to make of this evidence? Does the decline in the number of marginal farmers and tenants and the spectacular increase in the number of landless households carry clear implications for rural poverty and inequality? An answer to this question depends partly on the causes and partly on the consequences of these phenomena. Let us consider some of these.

The spectre of land reforms may have prompted pre-emptive tenant evictions with marginal farmers being most easily evicted. The increased profitability of farming over the sixties (associated with the introduction of Green Revolution technology and increased government assistance to agriculture) may have led many owners to re-assess the opportunity cost of renting out and to become owner-cultivators at the expense of former tenants. The coercion implied in these explanations carries a strong presumption of welfare deterioration for the displaced tenants. In the absence of direct evidence on tenant evictions, however, we cannot go much beyond what is only a presumption.

The increased profitability of farming may have led small and medium-scale farmers to buy out marginal holders or to rent in their lands. This could have been a handsome economic bargain for both parties. Such an explanation is consistent with the steady rise in agricultural land values over the sixties and the increase in the number of owner-cum-tenant households in all but the marginal holding category. This explanation carries a strong presumption of welfare improvement for the marginal holders who now sell or rent out their land. As Naseem points out (p. 146) the "traditional terminology" with regard to the institution of tenancy has certain "evocative biases" which could be misleading in the context of a profitable, commercializing agriculture.

Finally, increased and more remunerative wage employment opportunities both in the rural and urban sectors may have persuaded some marginal holders to sell or rent out their holdings and become functionally landless workers. There is considerable evidence of a growth in labour demand associated with Green Revolution technology [Chaudhry (1980)] and there is, of course, much visible evidence of village-town and rural-urban migration also.

In all the above cases we would expect displaced marginal farmers and tenants to have voluntarily become either landless agricultural workers or informal sector migrants to the urban sector. The overall welfare effects

of this change in structure could then be assessed, in the absence of more specific data, by reference to the behaviour of rural and urban real wages during this period.

Naseem cites a number of different studies which show that rural real wages have tended to increase over the sixties (pp. 180-184). Similar evidence is also to be found in Chaudhry (1980). As far as urban real wages are concerned, Guisinger and Irfan (1974, 1980) report that these have also risen, both for industrial and informal sector workers. All of these trends seem to be consistent with the phenomenon of rising labour demand in agriculture and in the urban sector. Surprisingly, after presenting the above evidence, Naseem tries to show how it might be misleading. Implying that increased landlessness must have been associated with welfare deterioration he attempts to reconcile the evidence of rising real wages and increased landlessness.

He argues that the answer lies in the existence of a variety of payment systems in the rural economy and suggests that many of the landless fall into non-competing groups to whom the market wage is inapplicable. This seems to say that the process of commercialization in Pakistani agriculture has been accompanied by an increase in the scope of "semi-feudalism" whereby increasing numbers are being drawn into non-market employment arrangements. Perhaps one can be excused for raising a very skeptical eyebrow at this explanation. That non-market employment arrangements exist is not implausible. That such arrangements have expanded in scope in response to commercialization does not seem at all plausible. Another explanation given by Naseem is that rising wages may be due to "a reduction in the average number of days worked by each member of the labour force and a consequent increase in the minimum daily payment needed to sustain (him)". I fail to understand the logic of this argument. Is Naseem referring to a voluntary increase in leisure arising from the income effect of rising wages? Or is he claiming that surplus labour is increasing on Pakistani farms, thereby necessitating greater work sharing and hence fewer hours or days worked per worker? If the latter, then why do employers pay higher wages per worker even though the labor surplus is increasing?

It seems quite unnecessary to me to look for complicated, speculative solutions to a paradox that may not exist. There is no inconsistency between rising wages and rising landlessness if we accept the notion that rising labour demand lies behind both phenomena. Most historical instances of rapid agricultural development have involved a reduction in the number of farm households and a corresponding increase in the number of non-farm households [Kuznets (1966)]. Perhaps, it is the rather spectacular increase in the number of landless households that appears worrisome in Pakistan's case.

In this regard the following points seem to me to be worth keeping in mind. First, not all the landless need be classified as poor; while the average rural wage appears to me to place the average rural wage-earner below the rural poverty line, there is sufficient variation in rural wages (by skill, task, location etc.) for one to look askance at Naseem's assumption (p. 176) that all the landless should be counted as poor. I simply raise this point as a possibility. I would not care to lie out in the sun, let alone be burnt at the stake, in its defence. Secondly, the increase in number of landless households seems to have been grossly exaggerated by Naseem's assumption of an average rural household size of 5.5 in 1972. Both the Agricultural Census of 1972 (Table 63, All Pakistan Report) and the Population Census of 1972 (Table 9, Statistical Report of Pakistan) indicate that average rural household size is closer to 6.5. If we use 6.5 instead of 5.5 as the appropriate household size then the number of landless households in 1972 turns out to be 1.6 million rather than 3 million. This is a rather large drop and suggests that the assumption about average household size is not trivial.

Where then do we come out in the matter of assessing trends in inequality and rural poverty in the Ayub Khan era? In his concluding chapter, in a section entitled 'Development Strategies Before 1970', Naseem writes: "The general picture of agrarian structure seems to be one in which the incidence of poverty, inequality and landlessness has increased during (this) period". This conclusion comes as a surprise since all the direct evidence presented by Naseem suggests that rural (and urban) poverty and inequality declined over 1963/64 – 1969/70. As already discussed, this is the dominant pattern in all his poverty estimates and in all the inequality estimates provided by others. As far as indirect evidence is concerned both rural and urban real wages appear to have risen in spite of increased landlessness.

It is true that the relevant poverty and inequality figures for 1970/71 and 1971/72 suggest an ominous deterioration. However, these post-Ayub years were marked by extraordinary economic and political turmoil and uncertainty, and stagnant or falling real per capita incomes. Little wonder that the poverty situation appears to worsen in these years. This should not, however, obscure the improving trend over most of the sixties, coincident with the economic administration of the Ayub Khan regime. In the matter of linking development strategies to poverty and inequality outcomes timing is of critical importance. The development policies that characterized the Ayub era were not generally in effect after 1969 and, to be fair, their effects cannot be evaluated on the basis of post-1970 data especially given the "outlier" nature of the years 1970/72. Again, a minimal conclusion seems to me to be that while the data do not allow us to state with great

confidence that poverty was reduced during the high growth period of Ayub Khan, they offer even less of a basis for arguing the opposite case.

Mujahid (1978) is the only one who has, to my knowledge, demonstrated a rising trend in rural poverty over the relevant years. His finding is, of course, at odds with Naseem's results and with most of the other information we have regarding wage and employment trends, per capita income and caloric intake trends and so on. There is a further paradox in Mujahid's work. His results suggest that poorer households tend to have larger family sizes. The Agricultural Census of 1972, however, shows that family size increases steadily as farm size (and, therefore, income) increases (Table 63, All Pakistan Report).

Recognising that the bulk of the evidence indicates an improvement in the poverty situation during the growth-first distribution-later period of the sixties, is in no way inconsistent with stating that the poverty problem remained then, and is now, a serious and formidable one. Nor should we automatically draw the conclusion that the positive experience of the sixties justifies an uncritical acceptance of all the development policies and priorities associated with the Ayub Khan regime. A closer look at the record indicates that some aspects of the sixties' strategy ought to be retained/revived and others discarded. Naseem's discussion of the pattern of industrial and agricultural growth provides a few examples.

Consider for example the question of choice of technology in agriculture. What agricultural technologies ought to be encouraged and what discouraged? Naseem's empirical analysis of the pattern of regional (district-wise) growth of output and employment (Chapter X) suggests that such growth is positively and strongly influenced by the availability of land, water and "modern" inputs such as high-yielding seeds and chemical fertilisers. He also shows that labour absorption is negatively affected by the use of tractors. This suggests that scale neutral, land augmenting, labour intensive technologies ought to be preferred over tractorization. Both lead to increases in yield but the net social costs of the latter are arguably higher. Naseem also cites a number of studies which suggest that tractors do not, in fact, lead to substantial increases in yields but do displace animal and labour power. While it would be inappropriate to condemn tractorization outright on the basis of presently available evidence there seems to me to be enough of a case to discontinue the subsidization of this process through preferential tariffs and loans. Such methods of encouragement were employed by both the Ayub and the Bhutto governments with the possible consequence that substantial employment expansion opportunities may have been missed (particularly under the latter regime). For the near future, a policy of benign neglect rather than active encouragement or discouragement

is called for, at least until empirical research makes the costs and benefits clearer.

A welcome aspect of Naseem's account of industrial growth is his emphasis on the role of small-scale industries. The Ayub government was clearly enamoured of the large-scale manufacturing sector and pumped huge sums of money into it. The result was a substantial rise in output but a less impressive rise in employment since capital-intensive projects were favoured. During the Ayub period, the small-scale sector did remarkably well considering it had to grow in the shadow of the large-scale sector and with little official assistance. One could argue that the reduction of bias towards large-scale and capital-intensity in industrial policies would enhance employment substantially and not affect growth appreciably. The small-scale sector has considerable promise as an absorber of labour and a generator of incomes for the rural and urban poor. Sadly enough even the Bhutto government displayed a disproportionate fondness for the large-scale sector. The only difference was that Bhutto nationalized a largish chunk of this sector and then justified all the former scale-biased policies directly in terms of the national interest. The real issue, however, from the point of view of employment and growth is not whether the public sector should be preferred to the private sector but whether small-scale, relatively labour-intensive industries should be preferred to large-scale, relatively capital-and-imports-intensive ones.

So a survey of development performance under Ayub Khan indicates that while the poverty situation improved somewhat much more could have been achieved had some policies not been followed and had some others been emphasized. Comparative evidence (e.g. from South Korea, Taiwan, Sri Lanka) also suggests that it is not growth per se that is critical here but the content of growth. Where growth had been accompanied by substantial employment expansion poverty reduction has been most dramatic, [Sen (1981)]. For populous countries, it is not as much a matter of free market policies versus controls, or of private sector versus public sector, or of export-expansion versus import substitution, as perhaps of the employment content of growth. Pakistan's growth in the sixties was moderate in its generation of employment and earnings for the poor but it was not disastrous. There is little fire and thunder in such a conclusion but it is, nevertheless, what a close reading of Naseem's useful book points to.

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