Historical Perspective of Poverty in Pakistan: Identifying Key Determinants / Strategies

Nabila Asghar  
Associate Professor  
Department of Economics  
Division of Management and Administrative Science  
University of Education, Lahore  
nabeela.asghar@ue.edu.pk

Muhammad Asif Amjad  
PhD Scholar  
Department of Economics and Statistics (HSM)  
University of Management and Technology Lahore  
m.asifamjad22@gmail.com

Hafeez ur Rehman  
Professor of Economics,  
Department of Economics and Statistics (HSM),  
University of Management and Technology, Lahore  
hafeez.rehman@umt.edu.pk

Abstract

Poverty is the most important problem for every society and political leadership. The political leaders failed to seek solution to the poverty in society. Poverty also encompasses poor health and individual cannot cover basic needs such as food, housing, and clothes. The present study is focused on historical perspective of poverty in Pakistan. The reasons for rising poverty in Pakistan are discussed and important factors are enumerated that could dent poverty. On the basis of the systematic literature review of past studies, the key policy variables are highlighted to reduce poverty. The concept of poverty reduction is multi-dimensional phenomenon which requires macroeconomic management as well as poverty targeted programs. Among the macro-economic management, the sustainable inclusive growth with special focus in reducing income inequality is highly important for addressing poverty in Pakistan. The micro financing for small enterprises and skill enhancement of the marginalized people have the ability to reduce poverty in Pakistan. The policy mix based on efficient management of
macroeconomic indicators coupled with targeted poverty reduction strategies are helpful in addressing poverty in Pakistan.

**Keywords:** Incidence of Poverty, Historical Perspective, Key Determinants, Head Count Ratio

I. **Introduction**

Poverty is the bitter truth that silently forces a person to die in the end. Under poverty, a person fails to fulfill his basic needs such as food, shelter and clothing (Tariq et al. 2014). Apart from basic necessities, it also breeds moral degradation, unbridled crimes, bribery, frustration, infectious diseases and malnutrition and so many other evils (Miankhail, 2009). It changes from place to place and across time.

Various institutions have defined poverty in their way. The most important definition is presented by the World Bank which defines poverty as a multidimensional phenomenon. According to the World Bank, "Poverty is pronounced deprivation in well-being and comprises many dimensions. It includes low incomes and the inability to acquire the basic goods and services necessary for survival with dignity. Several studies are available in literature which have tried to measure absolute poverty (Anwar & Qureshi, 2002; Malik, 1992; Naseem, 1973). Relative poverty refers to a state in which one individual or group faces lack of resources as compared to other members of society. Townsend (1979) explained that the individual or groups of people that are excluded from ordinary living patterns, activities, and customs are considered to be poor.

Poverty can be measured into two dimensions. The first one is the monetary and the second is the non-monetary term. The monetary term poverty is used as proxy by two indicators i.e., consumption and income. In these two indicators consumption is a better outcome than income (Imai *et al.*, 2010). There are many other factors connected with poverty, such as education, nutrition, health, wealth and infrastructure represent the second dimension of poverty which is non-monetary. On the basis of various studies which are conducted by government agencies, academics, and international organizations, it is reported that poverty has five major shocking
consequences. The five most important implications are malnutrition, lack of education, poor health, crime, and victimization (Boamah & Moore, 2009).

Poverty is not limited to economic resource crisis for individual or household as it has also dire consequences for social life. A poor person has neglected position in social set up. Poverty is observed to be creating very devastating effects on social life especially in case of friends and close relatives. Poverty creates cash deprivations which has strong footprint on social life. The lack of access to resources and deprivations are the major causes of poverty which often creates social issues by social exclusion of vulnerable from mainstream of society. In this regard, the provision of access to resources is highly important for poor to kick start economic activity. In remote rural areas, the provision of basic facilities such as electricity and connectivity can be very helpful in reducing poverty. This will be very helpful for inclusion of poor people in mainstream of social set up (Huang et al., 2021). The social isolation in modern societies is continuously increasing and poverty is regarded as the main cause of social isolation. When people do not have the sufficient resources to perform the social activities then the chances are relatively high for social isolation/exclusion. Thus it is observed that poverty creates isolation and association exists between poverty and isolation. The poverty in the form of job loss has also an impact on the family relationships and creates devastating issues for couples. Furthermore, the people having low level of income are at high risk of isolation and social exclusion (Eckhard, 2018).

Gender based poverty has multiple dynamics as the woman has limited opportunities for livelihood due to sociological and religious constraints. In this regard, two types of strategies with perspective of Pakistan are very important. First, such type of programs be devised that are helpful in providing the technical skills to the woman that they can work from home. Secondly, the woman may be provided the credit on soft terms and conditions that they can start work with small enterprises. In this regard, the barriers of social set up and religious compulsions could be addressed for woman. Such type of opportunities can address the gender poverty in Pakistan. The Rural Support Program (RSPs) can play very effective role in
mobilizing the women by providing micro credit opportunities to address poverty. Thus, the gender poverty alleviation has more significant dynamics to protect against isolation and social exclusion (Sofo & Wicks, 2017; Feldman, 2019).

The first few years of children’s growth provides the basic foundation for future structure. In this regard, it is highly important that proper nutritious food must be provided to the children to meet the future dietary requirements. The rising poverty and income inequality have adverse an impact on the children development from several perspectives. The most important one is the deprivation, lack of proper nutrition, lack of conducive living environment, lack of proper opportunities of learning and schooling. It is an evident fact that malnourished children cannot groom properly and are unable to contribute to healthier society (Parker et al., 1988; Ferguson et al., 2007). Furthermore, poverty also impacts the mental health of children in multiple ways. It has also been observed that children from low income households have poor health outcomes as compare to the children of high income households. Infant mortality is the most relevant health outcome of child health and prevalence of Infant mortality rate is higher in developing countries as compared to the developed countries. (Gupta et al., 2007).

Poverty can be directly addressed by reducing the income gap and raising per capita income of people. For this purpose, the concept of inclusive growth is highly important as vertical growth cannot address the issues of poverty particularly in Pakistan. In modern day of life, the environmental protection is also an important issue and accordingly clean energy is pre requisite for economic growth. Therefore, to address poverty, the idea of inclusive growth be promoted and economic growth be fueled with clean energy consumption. In developing countries like Pakistan, the shortage of energy and power crisis are the main hurdles in sustained economic growth. Thus, it directly impacts poverty and creates number of socio economic issues. In addition to the macroeconomic crisis of poverty management through the channels of economic growth, the micro management of poverty in terms of poverty targeted programs are essentially required. Therefore, from Pakistan’s perspective it is highly important to review the previous strategies of poverty alleviation and come up with additional / modern strategies to
address poverty by promoting inclusive growth while using clean energy.

Pakistan has been facing the problem of poverty since its independence. In the last two decades, its economy showed slow progress due to inconsistent macroeconomic policies adopted by the government. The annual growth in per capita income of Pakistan remained at an average of 2%, less than other SAARC countries (World Bank, June 22, 2021). After having discussion regarding the significance of poverty alleviation strategies, the contribution of the present research study is evident. This research study will contribute by reviewing the historical perspective of poverty in Pakistan. Subsequently, the specific strategies/key determinants will be reviewed for poverty reduction strategies with special focus on Pakistan. On the basis of desk review, this research study will contribute in the existing stock of knowledge by advocating the key strategies to manage poverty in Pakistan. Similarly, the strategies/determinants of poverty for macroeconomic management are discussed and specific poverty alleviation programs be solicited for comprehensive strategy to combat poverty.

The major objective of the study is to highlight the historical perspective of poverty in Pakistan and to identify key strategies/determinants of poverty through conducting desk/literature review of developing countries. Furthermore, the study suggests policy options to address the problems of poverty in Pakistan.

The incidence of poverty in Pakistan is highlighted in second section of the study. The poverty reduction strategies are discussed in third section. The conclusions and recommendations are portrayed in last section of the study.

II. Incidence of Poverty in Pakistan

In this section, the poverty trends in Pakistan are discussed. In Pakistan more than 40% peoples are living under the poverty line. Numerous studies have examined the trend of the poverty line through Head Count Ratio (HCR) in Pakistan (Jamal, 2006). HCR identifies the share of the population having income below the
poverty line. World Bank has categorized the HCR ratio into three levels. In the first level, it estimated the population having income less than $1.9 per day, in the second level it accounted for the population having less than $3.2 per day and lastly the population having less than $5.5 per day (World Bank group poverty & equity, 2020). The poverty line itself constructed the consumption poverty where minimum daily recommended calories determine that poverty line. Figure 1 shows the trend of Pakistan's Headcount ratio from 1970 to 2020 at different poverty levels. The Figure 1 labeled that from 1970 to 1990 more than half of Pakistan's population was living below $1.9 per day.

After 1970, the poverty level decreased because there was significant growth in the manufacturing and agriculture sectors. The nationalization program of the Pakistan People Party government of 1972-1977 was an important factor which contributed in the reduction of poverty. The public sector in development plans increased substantially (Arif & Farooq, 2012).

![Figure 1: Detail of the Headcount Ratio (HCR) of Pakistan Source: WDI Pakistan database 2022](image)

When the PPP government ended up in 1977, development expenditures were about 11% of GDP which were due to the political instability. Furthermore, many significant changes were observed in the economic and social sectors during the 1972-1977 periods. A few policies played a positive role to reduce the poverty level in Pakistan such as in 1972 the government implemented land
reforms, the nationalization of all the private banks which caused the growth of 45% number of branches in these five years. The credit to agriculture sector was increased. In the history of Pakistan, first time the credit was given to small farmers, small businesses man, cottage industries, and low-cost housing by the banks at a low-interest rate. In this era, nationalized commercial banks and favorable political environments favored the small-scale industries, services sector, self-employment, and small business at the expense of the large-scale sector. In this period urban unemployment decreased due to the active construction sector. In the mid-1970 many public sector programs were started, which increased the wage level in the urban areas. On one side, these programs enhanced employment and produced poverty reducing consequences but on the other side these policies did not immediately show significant impact on economic growth of Pakistan.

By the end of 1980, the process of migration started to the Middle East countries. In 1972-73, 100,000 laborers left Pakistan to work abroad, who approximately sent $1.4 billion. This amount was higher than the oil imports bill of the economy even after the significant increase in the prices of oil by the Organization of oil-exporting countries (OPEC). From 1977 to 1980, $4.2 billion additional remittances were received from the Middle East countries. This process started in 1970, become a major factor in the high growth rate resulting in a reduction in poverty in the 1980s. After 1980 in the regime of the military, the growth rate was high due to foreign aid and remittance, which played an important role to reduce the poverty level.

After 1990, poverty increased significantly. Zaidi (2006) discussed in his book "Issues in Pakistan economy" that Structural Adjustment Programs (SAP) of IMF were a major player in the return of Poverty, as these programs were aimed to reduce the current account deficit, lower inflation, increasing growth rate in the economy and cut the fiscal deficit. Although the main objective of this program was to reduce poverty level in Pakistan but unfortunately it failed to achieve this objective and caused more poverty in Pakistan.
Another reason for an increase in poverty in these regimes was political instability and corruption. During this period 1988-1999, there were four elections and 9 changes were made in the Government. In addition, the war against terrorism increased the flow of weapons in the country which breakdown the internal security. Uncertainty by these regular changes of the governments associated with economic policies and trail off in the internal security exerted a negative impact on the private investment and economic growth of the country and it caused an increase in poverty (ADB, 2002). In 2000s, the economy of Pakistan again achieved a good momentum of growth till 2006-2007. While in 2008-11, Pakistan faced a decrease in economic growth due to the poor macroeconomic policies, persistent increase in oil prices, flood, global financial meltdown, and heavy monsoon rains.

In the election of 2007, the PPP government took control of the economy of Pakistan. This was the democratic government after nine years of military dictatorship. In this era headcount ratio showed a downward trend as can be seen in figure 1. This was probably due to schemes like the Benazir Income Support Program (BISP). In the same way, the Poverty HCR slowly declined in the next upcoming regimes. It is still an alarming situation for Pakistan because it ranked below South Asian countries like Nepal, India, and Bangladesh (Miankhail, 2009). Pakistan's growth experience has been noticeable considered as the period of slow growth and strong upswings and in this period overall economic growth was about 5 percent per annum on average.

During the last 3 years, due to the catastrophic outbreaks of covid-19 the poverty level rapidly increased. In order to stop the spread of the Covid-19 virus many counties imposed lockdown and social distancing; many people lost their jobs and failed to pay for basic necessities. Furthermore, due to disruption in supply chain, the global prices of basic necessities of life have rapidly increased and it became difficult for poor to meet both ends. Mahler et al. (2021) estimated that due to Covid-19 pandemic outbreaks additional 97 million people moved below the poverty line. Most recently, the Russian Ukraine war is responsible for increase in food and energy
prices. These factors raise global poverty especially in developing countries.

III. Key Determinants / Strategies for Managing Poverty

Poverty is a complex phenomenon and as discussed earlier poverty has number of forms and categories. Researchers have engaged number of variables for different data sets and time period to explain the reasons of poverty. In this regard, Chen and Wang (2015) used the data of Taiwan to envisage the key household and macroeconomic determinants of poverty. The results of the study indicated that number of factors at household level are linked with poverty. These indicators includes family status, education, dependency ratio, marital status etc. However, the macroeconomic indicators which include employment status, economic inequality, rigidities in labor market, economic growth, inflation and interest rate have the tendency to impact poverty. Alvaredo and Gasparini (2015) conducted research for developing countries for the assessment of the relationship and trends of income inequality and poverty. The results of the study suggested that rising income inequality directly increases poverty. However, the targeted poverty alleviation programs have supported the marginalized societies and had dented the income inequality gap. Trommlerová et al. (2015) used the empowerment approach to discuss the dimensions of poverty. The findings of the study suggested that economic activity, education, health care facilities and credit availability are the key indicators of empowerment which are implicitly helpful in reducing poverty.

Tah (2016) conducted research on the data of Cameroon to ascertain the key determinants of poverty. The results of the study indicated that for reducing poverty government must adopt such policies that are helpful in promoting higher education, raising employment status and rural development in the country. Biyase and Zwane (2018) conducted research for South Africa and identified that the lack of education and employment opportunities are the core reasons of Poverty. The study concluded that better employment opportunities and higher level of education has the tendency to
reduce poverty in South Africa. Ali and Ali (2018) used different indicators to envisage the relative impact on poverty in Pakistan. The study pointed out that Inflation rate, unemployment rate, government expenditures, budget deficit and exchange rate are significant determinants of poverty in Pakistan. Bashir (2018) conducted research in case of developing countries to assess the impact of human resource and state of governance on poverty. The study results indicated that exports and human capital are the significant factor in reducing poverty in developing countries. Furthermore, good governance practices related to political leadership, financial management and institutional betterment are very helpful in reducing poverty across developing countries.

Osuji (2019) analyzed the rural data of Nigeria and found that education, farm income and household size are the key determinants of poverty. Dhrifi et al. (2020) conducted research for a panel of different countries to assess the impact of foreign direct investment on environmental pollution and poverty. The results indicated that foreign direct investment is very helpful in reducing poverty across the panel of countries, however, foreign direct investment increases environmental pollution. Shaukat et al. (2020) conducted research on poverty in Pakistan by using the demographic health survey. The results of the study indicated that dependency ratio, education level, sex and age of the head of household are the key determinants associated with poverty in Pakistan. Omar and Inaba (2020) used data of developing countries to assess the impact of financial inclusion on income inequality and poverty. The results indicated that financial inclusion is very effective in reducing poverty and income inequality across developing countries. Furthermore, the use of formal and informal financial services with zero interest rate provides the opportunities of livelihood which is very helpful for vulnerable segment of the society. Liu et al. (2021) highlighted the key macroeconomic indicators of poverty in South Asian Countries. The results revealed that level of education especially higher education is highly important to combat poverty across South Asian nations. The study concluded that consistent economic policies for sustained economic growth are highly important to reduce poverty.
The desk review of various studies indicate that poverty is a multidimensional phenomenon and cannot be dented without sound micro and macroeconomic policies (Chen & Wang, 2015; Biyase & Zwane, 2018; Omar & Inaba, 2020). Among the macroeconomic indicators, the reduction of income inequality is highly important to reduce poverty (Alvaredo & Gasparini, 2015; Ali & Ali, 2018). The creation of employment opportunities plays a significant role in increasing the income of the people which subsequently reduces poverty (Chen & Wang, 2015; Omar & Inaba, 2020; Liu et al., 2021). Inclusive and sustained economic growth ensure the increase in real income of the people which is very helpful in reducing poverty (Tah, 2016; Bashir 2018). The review of past studies has also shown that promotion of education especially higher education is significant across most of the developing countries in reducing poverty (Biyase & Zwane, 2018; Osuji 2019). The macroeconomic management of different variables such as inflation, exchange rate, interest rate, trade balance and external debt increase the purchasing power of people (Ali & Ali, 2018; Dhrifi et al., 2020).

The monetary managements are observed to be very helpful in reducing poverty (Bashir 2018; Osuji, 2019; Shaukat et al., 2020). The literature also indicates that direct poverty alleviation programs are very effective in reducing poverty (Chen & Wang, 2015; Osuji, 2019; Dhrifi et al., 2020). Micro financing and skill development of people at grass roots level is an effective strategy for marginalized segment of the society (Bashir, 2018; Omar & Inaba, 2020). The promotion of small entrepreneurship through formal financial institutions on community collateral is reported to be very helpful in directly targeting poverty (Biyase & Zwane, 2018; Dhrifi et al., 2020; Liu et al., 2021). The community mobilization by forming community organizations for promotion of agricultural / livestock on micro financing is helpful in reducing poverty (Osuji, 2019; Omar & Inaba, 2020; Liu et al., 2021).

The literature review brings up that poverty alleviation is a complex phenomenon which requires multiple strategies. The historical perspective of poverty and key determinants / strategies of poverty alleviation show that poverty needs to be managed through macroeconomic interventions as well as direct poverty alleviation
strategies. The macroeconomic management includes the planning for sustainable inclusive economic growth with special focus on reducing income inequality for Pakistan. It also requires to manage the inflation targets within the sustainable range to keep intact the purchasing power of common people. Another important step is to keep the balance of payments within the sustainable range as the rising deficit of balance of payments exerts pressure on foreign exchange which also increases inflation. The trade openness in Pakistan must be promoted to increase economic growth and in this regard the import of capital / machinery oriented goods be promoted rather than the promotion of consumption oriented goods.

The micro management of poverty is highly important as it includes the direct poverty alleviation programs. These poverty alleviation programs must be promoted in Pakistan with special focus on rural areas. The micro financing is highly important in providing the opportunities to the poor people for small enterprises. The improvement of skills of the poor people through different government organizations such as Technical Education & Vocational Training Authority (TEVTA) followed by micro credit facility for small enterprises can be very effective and fruitful strategy for combating poverty. The poor people residing in backward rural areas of Pakistan can be utilized to harness the agricultural and livestock potentials by providing different types of agricultural inputs. Furthermore, the promotion of livestock activities in rural areas also have potentials to generate sustainable livelihood for the people.

IV. Conclusions and Recommendations

The present study is an attempt to explore the historical perspective of incidence of poverty in Pakistan. Furthermore, the literature / desk review is conducted for international practices regarding poverty alleviation strategies in developing countries. On the basis of this desk review, the policy options / strategies for poverty alleviation strategies are advocated.

The desk review indicates that poverty alleviation is a complex phenomenon which requires multiple strategies. The historical
perspective of poverty and key determinants / strategies of poverty alleviation indicate that poverty needs to be managed through macroeconomic interventions as well as direct poverty alleviation strategies. The macroeconomic management of poverty in Pakistan includes the planning for sustainable inclusive economic growth with special focus on reducing income inequality. Furthermore, the management of inflation rate, exchange rate, interest rate and external debt of Pakistan are highly important to maintain the purchasing power of people to address vulnerabilities of poverty. The micro management of poverty includes direct poverty targeting programs. The micro financing and provision of technical skills have the ability to dent poverty. The poor people living in remote rural areas of Pakistan must be given an opportunity to harness the potentials of small agricultural and livestock activities to combat poverty.
References
biomedical insights from the rhesus macaque genome. science, 316(5822), 222-234.
determinants using Demographic and Health Survey data. *Journal of Poverty, 24*(1), 24-44.


114