

Kalsoon Zulfiqar\*  
Durdana Qaisar Gillani\*\*

## **Socio-Economic Disparities and an Imperative for Inclusive Economic Growth In Pakistan**

### **Abstract**

*Socio-Economic Inconsistencies have always been a focal point of research due to their implications for human well-being. Current study offers a detailed account of regional income disparities, inequalities in access to education and health, and imbalances in access to infrastructure and financial services in Pakistan. The potential consequences of these widespread inequalities are also reconnoitred. It is recommended that for economic growth to be sustainable there is a need to adopt effective policies to ensure a broad-based, inclusive economic growth.*

**Key Words:** Income Inequalities, Inclusive Growth, Gender disparities

### **I. Introduction**

Kuznets (1955) advocated that income inequality initially increases with economic growth but gradually falls due to “trickle down” effect. The phenomenon was initially reinforced by many studies; however later in 1990s its soundness was challenged. (See Anand and Kanbur; 1993, Robinson; 1976, Ram; 1997). It was suggested that inequality growth relationship does not necessarily follow the inverted U pattern (see Barro; 2000, List and Gallet; 1999). Some further contributions (Deininger and Squire; 1996, 1998; Perotti; 1993) emphasized the role of other related factors like political institutions in defining the dimensions of growth inequality relationship. Nissanke and Thorbecke (2006) concluded that income inequality in early phases of economic growth might have negative implications for both rate and extent of growth. (see Berg and Ostry; 2011, Easterly; 2002) There are several studies (see Adams; 2003, Chen and Ravallion; 2010, Deininger and Squire; 1998;) which have tried to reconnoitre the growth inequality relationship but could not find any methodical causality running from growth to economic inequality.

Palma (2011) concluded that the inverted “U” relationship does not seem to exist anymore or has faded. Chen and Ravallion (2012) concluded that inequality is not a necessary evil and might be too heavy a price to be paid for economic growth. Voitchovsky (2005) suggested that inequality among poor is bad for growth while inequality among the people at top of income distribution is good for growth. Weide and Milinkovic (2014) resolved that high-income inequalities are bad for economy and worse for the poor. There is a consistent rise in inter-country and

---

\* Dr. Kalsoon Zulfiqar, Assistant Professor and Incharge Economics Department, University of the Punjab, Lahore, Pakistan, sakoang@yahoo.ca.

\*\* Dr. Durdana Qaisar Gillani, Assistant Professor, Economics Department, University of the Punjab, Lahore, Pakistan

intra-country income inequality all over the world. Oxfam (2014) suggested that the overall Global Gini coefficient was 0.76 in 2008 as compared to 0.77 in 1998. The disparities among poor and rich countries started increasing in early 1800s to the middle of the 20th century primarily due to industrial revolution. The developed countries of West were approximately 90 percent richer than the rest which sounds huge; however, by 2000 these countries were 750 percent richer than the rest.

Researchers have very diverse opinions about catch up debate. (See Isham et. al.; 1977, Subramanian; 2011, Dervis; 2012, Ghani; 2014). Economic growth escorted by growing inequalities has negative implications both for a country and its people and not sustainable in long-run. Current research highlights the extent of socio-economic disparities prevailing in Pakistan. It is divided into four sections. Section 2 provides an in-depth analysis of inequalities in Pakistan. Section 3 describes as to why inequality is bad and section 4 highlights the importance of inclusive economic growth in this regard. Section 5 provides conclusion and policy implications.

## **II. Pakistan: A Case of Multiple Gaps and Numerous Inequalities**

Income inequality alone provides a very slender idea of actual disparities and gaps prevailing in a country. In order to fully grasp the magnitude and impact of inequality on social and economic fibre of society we need to take a profound look at related aspects also. Following section states various facts in this regard.

### **Rise in Income disparity**

Gini coefficient is the most widely used measure of income inequality. Some studies measured income distribution using Gini coefficient calculated from primary household data (see FBS; 2001, World Bank; 2003, Anwar; 2003) while some used Gini coefficients based on grouped data. (See Bergan;1967, Azfar;1973, Khandker;1973, Naseem;1973.). Burki et al (2015) reported rise in numerous inequalities in Pakistan by using different measures. Jamal (2015) reported that during 1987-88 to 2013-14 income inequalities increased by 6 percent, 2 percent and 8.7 percent for Pakistan as a whole, Urban areas and rural areas respectively. Income inequality increased in both rural and urban areas of Pakistan; however, the magnitude of increase is greater in rural areas. Similarly, the income share of top 20% urban population increased by of 5.7% during past 20 years. According to UNDP (2016) the income of upper quintile grew by 31.7 percent as compared to just 4.1 percent growth in the incomes of poorest 20% during the period from 1987-88 to 2013-14.

### **Widening Regional disparities**

Zaidi (2016) concluded that Income distribution is most unequal in urban Punjab where Gini coefficient was highest in 1987-88 and with an increase of 5 percentage points maintained its status of being highest even in 2013-14. Income inequality has considerably increased in rural Punjab by 29% from 1987-88 to 2013-14. Income distribution deteriorated by almost 36% from 1987-88 to 2013-14 in rural Sindh while overall inequality in Sindh also increased. Income inequality worsened in urban areas of both Baluchistan and KPK by 28% and 26% respectively. An overall analysis suggests that income inequality increased in all

provinces of Pakistan particularly in rural areas of Sindh and Punjab and urban areas of Baluchistan and KPK. Pasha (2015) provided evidence that income disparities among various provinces have substantially increased over last 15 years.

### **Regional Inconsistencies in Poverty Reduction**

According to Ministry of Planning Development and Reform; 2016 the percentage of population living below poverty line in Pakistan declined from 57.9 percent in 1998-99 to 29.5 percent in 2013-14. Rural areas of Pakistan have a higher percentage of population living below poverty line in year 2013-14. The number of poor in rural areas however, was almost double in number as compared to poor in urban areas pointing towards the existence of wide disparities. Similarly there exist huge gaps in overall poverty incidence in Pakistan. For example, head count ratio is 71.2 percent in Baluchistan as compared to 24.9 in AJK. An important observation is the prevalence of huge rural urban gaps regarding incidence of poverty. Sindh has the highest rural urban disparity of 64.9 percent. Urban areas have a much lower poverty rate as compared to rural areas. Multi-dimensional poverty in rural areas of Baluchistan is 84.6 percent as compared to 28.1 percent in rural areas of AJK. Similarly, in urban areas of Baluchistan poverty is 37.7 percent as compared to just 3.1 percent in AJK (OPHI and UNDP, (2016)).

### **Disparities in access to Education**

Education is considered vital for human resource development. The number of out-of-school children in Pakistan is the second highest in the world, and they account for a significant share of the global out-of-school population (UNESCO, 2010). According to UNESCO (2013) Pakistan is currently spending 2.3 percent of GDP on education which is lowest in South Asia. Pakistan has a literacy rate of 56.4 percent as compared to 92.5 percent in Sri Lanka, 71.2 percent in India and 99.3 percent in Maldives. Pakistan also has the lowest literacy rate for females and highest gender gap of almost 27 percent indicating existence of wide gender disparities. These disparities in literacy rates lead to disparities in income, employability and earning potential of males and females. Even the children having access to education do not have access to same quality of education. There are three main categories of schools namely public, private and madrassas each following its own curriculum and having different fee structures. Children belonging to poor income brackets either go to madrassas or government run schools. This segmentation breeds further inequalities and clearly proves that rich and affluent have a wider range of opportunities and they can buy quality education.

### **Uneven access to health facilities**

Health is an important aspect of human well-being. Health expenditure of Pakistan is just 2.6 percent of GDP as compared to 4.7 percent in India, 3.5 percent in Sri Lanka, 4.7 percent in Philippines and 7.1 percent in Vietnam. (WDI; 2016) Pakistan's health expenditure as percentage of GDP is lowest and well below South Asian average reflecting neglect and lack of interest on part of policy makers and government. Pakistan has the lowermost healthy life expectancy and highest infant mortality rates in South Asia. The gaps between Pakistan and other

countries are huge. For example, India has the second highest under five mortality rate in the region but is just 52.7 as compared to 85.5 in Pakistan. In Pakistan, only 52 percent of births are attended by skilled personnel while in India and Sri Lanka 67 and 99 percent births are attended by skilled personnel. According to World Health Indicators Urban areas of Pakistan are better placed, in birth control awareness and facilities, availability of professional birth attendants and under 5 mortality rates. These gaps demonstrate disparities in access to and availability of health facilities in Pakistan. Similarly, people in higher income quintiles and with higher education have better health outcomes as they have access to much wider and improved health facilities. Pakistan has numerous regional, income and education level related gaps in accessing health facilities.

### **Discriminations in access to Infrastructure**

Infrastructure development plays an important role in economic growth of a country by boosting economic activities, generating employment and reducing transportation costs and hence mitigating inequalities. (Aschauer; 1989, Munnell; 1990, World Bank; 1994, Sahoo and Dash;2008). In Punjab 80 percent of population can access to metal road from less than 1 km whereas in Baluchistan, only 20 percent of population enjoys this facility. Similarly, in Punjab 40 percent of population has access to electricity as compared to just 10 percent in Sindh, 12 percent in Baluchistan and 34 percent in KPK (Mouza Statistics, 2014). Punjab is ahead in access to soiled street drains and education facilities. Baluchistan has the lowest access level for all facilities. For example, in Punjab 30.5 percent of population has access to health infrastructure compared to only 11.3 percent in Baluchistan.

### **Regional Differences in Human Development**

Human Development Index (HDI)<sup>1</sup> evaluates the state of human resource development in a country or region. Pakistan is a poor performer in this regard and is ranked 147 out of a total of 188 countries. According to UNDP (2016) there are wide disparities among various provinces/regions of Pakistan with regard to human development. For example, HDI value for AJK is 0.734 as compared to 0.216 for FATA (Federally administered tribal areas) showing a huge gap of 0.518 points. Similarly, for Punjab the HDI value is 0.732 as compared to 0.421 for Baluchistan. In Punjab, Lahore has an HDI score of 0.877 while Rajanpur has a value as low as 0.506. Disparities in Sindh are even worse where there is a huge gap between HDI score of Karachi and Tharparkur. KPK and Baluchistan are no exceptions and have wide disparities regarding HDI score of various districts. It points towards the existence of huge inequalities in Pakistan which are outcome of long-term policies having implications for welfare of masses.

### **Gender Gaps**

Gender disparity is just another form of subjugation and manipulation prevailing in Pakistan. Women suffer from dual peril due to their gender and being a part of vulnerable and marginalized group. They are the easiest target of denial, poverty,

---

<sup>1</sup> *The Human Development Index (HDI) is an index to assess the level of human development in a country.*

war, violence, and extremism due to their inferior status in the society. In Pakistan females are far behind males in all walks of life. Overall Literacy rate of females is 49 percent as compared to 70 percent for males. Pakistan exhibits the worst health scenario for females in South Asia with 260 deaths in every 100,000 live births. Most of the women are employed in informal sector where they are mostly under-paid, over-worked and face lots of discrimination. Pakistan has been ranked second last in the annual Gender Gap Index produced for years 2013- 2016. The current scenario implies that it might take decades for Pakistan to come closer to gender equality.

### **Unequal Access to financial services**

An equitable and timely access to financial services is vital for poverty alleviation and reduction of socio-economic disparities in a country. Pakistan is unfortunately one of the least financially inclusive countries in the world. Only 13 percent of adult population of Pakistan have bank accounts as compared to South Asian average of 46.4 percent and lower middle countries average of 42.4 percent<sup>2</sup>. Access to finance is not only limited but also very unevenly distributed across various demographic groups. There are regional, gender, income and education level related disparities in access to financial services. The number of individuals formally served as percentage of population having access to formal financial services was 23% in 2015. Overall financial inclusion is very low at 44% in 2008 and after registering an increase of merely 3% in seven years, rising to 47% in 2015 leaving more than half of population without access to financial services.

### **III. Why inequality is bad?**

Persistent inequalities in resource ownership and income lead to inequality of opportunity and individuals, instead of working hard, divert their energies toward getting undue favours and fortifications that lead to misallocation of resources, corruption, partiality, and other undesirable outcomes (IMF; 2015). Inequality in health and education opportunities adds to miseries of poor and deprived. (Galor and Moav; 2004, Aghion et al.;1999). Parents having little or no access to available opportunities will not be able to raise children to their full potential. Children born to rich, well-placed and educated parents have a higher probability of better education and good earnings. Poor parents cannot afford to send their children to high-quality schools which results in continuation of disparities in earning and access to opportunities. (Corak; 2013). Palma (2011) concluded that income inequality has an “*intrinsic value*” and it is not only unjust but its outcomes are even worse.

Rajan (2010) argued that government initiatives to reduce inequalities are usually politically motivated and short-lived and hence lead to economic instability. Bernanke & Summers (2015) argued that inequality leads to “savings glut” as rich tend to save extra earnings whereas poor spend more with rise in income triggering economic activity. Increased savings lead to fall in interest rates and rise in asset prices which boost borrowing, making the management of economies harder for central banks. Persistent socio economic inequalities may give rise to inter country and intra country conflicts. (Bardhan; 2005, Lichbach; 1989).

---

<sup>2</sup> *The little data book on Financial Inclusion (2015), Financial Inclusion database.*

Stiglitz (2007), stated that economic growth is “*about transforming the lives of people, not just transforming economies.*” Economic growth plagued by inequalities also transforms the lives but of a select few and hampers the pace and course of poverty discount. (Ravallion & Chen; 2003). Wilkinson and Pickett (2010) concluded that income inequalities influence not only access to opportunity but also result in more unequal social outcomes. UNICEF (2010) vividly concluded that income inequalities have grave implications for children particularly in terms of health and education.

#### **IV. Inclusive Growth: A Choice or Compulsion**

Traditionally economic development and growth is assessed in terms of income alone. The focus however, has gradually shifted to other dimensions like income distribution and welfare implications of economic growth process. Real concern is the sharp rise in inequalities accompanying economic growth which has led to emphasis on need for more broad-based inclusive economic growth. According to Klasen Inclusive Growth is “*Broad based growth which ensures non-discriminatory participation*”. The concept of inclusive growth is much broader and primarily focuses on *equality of opportunity* for all irrespective of their circumstances. (Ali&Son; 2007). McKinley (2010) suggested that inclusive growth implies growth in both income and non-income dimensions of human welfare. In words of Wong (2014) “*Inclusive growth generates benefits which are more widely shared*”. Inclusive growth is focused more on productive employment and redistribution which ensures not only participation in growth process but also enhances access to opportunities. Ramos et al (2013) emphasized that although Increase in per capita income is a sufficient but not necessary condition for broad-based growth. Inclusive growth enhances and enriches existing explanation of economic growth by adding dimensions of equity, efficiency and participation. Inequalities arising due to lack of effort are acceptable as they might function as motivation to work harder. However, inequalities driven by circumstances, like birth in a poor family or backward area, must be addressed by dividends of true economic development. This is where concept of inclusive growth comes in full play to remove disparities and inequalities beyond control of individuals. Such inequalities are unethical and immoral and if allowed to persist, not only deny basic human rights but also lead to continuous wastage of human resource and make economic growth unsustainable (Ali & Son (2007)). Hence inclusive economic growth, based on principles of equity and efficiency, is not an *option* but a *compulsion* for a country like Pakistan where economic growth is favouring only a select few.

#### **V. Conclusion and Policy Implications**

In Pakistan income and non-income inequalities have increased over time posing serious threat to the sustainability of growth process. These disparities are numerous, deep-rooted and multi-dimensional. A very unequal distribution of growth dividend has put a question mark on the quality and sustainability of economic growth. It is therefore highly obligatory for policy makers to pursue inclusive and broad-based economic growth through participation and empowerment of poor and deprived. An equitable, fair and broad based

distribution of financial resources and growth dividends is vital for long-term sustainability of economic growth.

## References

- Adams, Richard H. (2003). *Economic Growth, Inequality and Poverty: Findings from a new data set.* ( Working Paper No. 2972).
- Aghion, Philippe, Philippe Bacchetta and Abhijit Banerjee. (1999). Financial liberalization and volatility in emerging market economies. *Cambridge University Press*, 167–190.
- Ali, Ifzal. and Hyun Hwa Son. (2007). Measuring Inclusive Growth, *Asian Development Review* 24, no. 1: 11-31.
- Anand, Sudhir. and S.R.M. Kanbur. (1993). Inequality and development: A critique. *Journal of Development Economics* 57, no. 2: 259-287.
- Anwar, Talat and Faiz Bilquees. (2003). Trends in Inequality in Pakistan between 1998-99 and 2001- 02. *The Pakistan Development Review* 42, no. 4: 809–821.
- Aschauer, David. (1989). Is government spending productive?, *Journal of Monetary Economics*, 23 no. 2: 177-200.
- Azfar, Javaid, and Jawaid Azfar. (1973). The distribution of income in Pakistan 1966-67. *Pakistan Economic and Social Review* 11, no. 1: 40-66.
- Bardhan, Pranab. (2005). Institutions matter, but which ones?. *Economics of transition* 13, no. 3: 499-532.
- Barro, Robert J. (2000). Inequality and Growth in a Panel of Countries. *Journal of economic growth* 5, no. 1: 5-32.
- Bergan, Asbjorn. (1967). Personal income distribution and personal savings in Pakistan: 1963/64. *The Pakistan Development Review* 7, no. 2: 160-212.
- Burki, Abid A., Rashid Memon, and Khalid Mir. (2015). *Multiple Inequalities and Policies to Mitigate Inequality Traps in Pakistan*. Department of Economics, Mushtaq Ahmad Gurmani School of Humanities and Social Sciences, Lahore University of Management Sciences.
- Chen, Shaohua, and Martin Ravallion. (2010). The developing world is poorer than we thought, but no less successful in the fight against poverty. *The Quarterly Journal of Economics* 125, no. 4: 1577-1625.
- Corak, Miles. (2013). Income inequality, equality of opportunity, and intergenerational mobility. *Journal of Economic Perspectives* 27, no. 3: 79-102.
- Deininger, Klaus, and Lyn Squire. (1996). A new data set measuring income inequality. *The World Bank Economic Review* 10, no. 3: 565-591.
- Deininger, Klaus, and Lyn Squire. (1998). New ways of looking at old issues: inequality and growth. *Journal of development economics* 57, no. 2: 259-287.
- Dervis, Kemal. (2012). World Economy: Convergence, Interdependence, and Divergence. *Finance and Development* 49, no. 3.
- Galor, Oded, and Omer Moav. (2004). From physical to human capital accumulation: Inequality and the process of development. *The Review of Economic Studies* 71, no. 4: 1001-1026.
- Ghani, Ejaz. (2014). Growth escalators and growth convergence. *VoxEU.org* 17.

- Isham, Jonathan, Daniel Kaufmann, and Lant H. (1997). Pritchett. "Civil liberties, democracy, and the performance of government projects. *The World Bank Economic Review* 11, no. 2: 219-242.
- Jamal, Haroon. (2003). Poverty and inequality during the adjustment decade: Empirical findings from household Surveys. *The Pakistan Development Review* 42, no.2: 125-135.
- Jamal, Haroon. (2006). Does inequality matter for poverty reduction? Evidence from Pakistan's poverty trends. *The Pakistan development review* 45, no. 3: 439-459.
- Khandker, Shahidur R., Zaid Bakht, and Gayatri B. Koolwal. (2009). The poverty impact of rural roads: Evidence from Bangladesh. *Economic Development and Cultural Change* 57, no. 4: 685-722.
- Klasen, Stephan. (2010). *Measuring and monitoring inclusive growth: Multiple definitions, open questions, and some constructive proposals* (Working paper no. 12).
- Kuznets, Simon. (1955). Economic growth and income inequality. *The American economic review* 45, no. 1: 1-28.
- Lichbach, Mark Irving. (1989). An evaluation of does economic inequality breed political conflict? studies. *World politics* 41, no. 4: 431-470.
- List, John A., and Craig A. Gallet. (1999). The Kuznets Curve: What Happens After the Inverted-U?. *Review of Development Economics* 3, no. 2: 200-206.
- McKinley, Terry. (2010). Inclusive growth criteria and indicators: An inclusive growth index for diagnosis of country progress.
- Munnell, Alicia H. (1990). Why has productivity growth declined? Productivity and public investment. *New England economic review* 3-22.
- Naseem, S. Mohammad. (1973). Mass poverty in Pakistan: Some preliminary findings." *The Pakistan Development Review* 12, no. 4: 317-360.
- Nissanke, Machiko, and Erik Thorbecke. (2006). Channels and policy debate in the globalization–inequality–poverty nexus. *World development* 34, no. 8: 1338-1360.
- Organisation for Economic Co-operation and Development. (2015). *All on Board: Making Inclusive Growth Happen*. OECD Publishing, 2015.
- Ostry, Jonathan David, and Andrew Berg. (2011). *Inequality and Unsustainable Growth; Two Sides of the Same Coin?*. No. 11/08. International Monetary Fund.
- Oxfam (2014). *Working for the Few: Political Capture and Economic Inequality*, Oxfam,
- Pakistan Economic Survey. (Various issues), Federal Bureau of Statistics, Planning and Commission Division, Islamabad Wing, Pakistan: Pakistan Economic Survey.
- Palma, José Gabriel. (2011). Homogeneous Middles vs. Heterogeneous Tails, and the End of the 'Inverted-U': It's All About the Share of the Rich. *Development and Change* 42, no. 1 (2011): 87-153.
- Perotti, Roberto. (1993). Political equilibrium, income distribution, and growth. *The Review of Economic Studies* 60, no. 4: 755-776.
- Wilkinson, Richard, and Kate Pickett. (2010). *The spirit level: Why equality is better for everyone*. Penguin UK
- Rajan, Raghuram G. (2011). *Fault lines: How hidden fractures still threaten the world economy*. Princeton University press.

- Ram, Rati. (1997). Level of economic development and income inequality: Evidence from the postwar developed world *Southern Economic Journal* 576-583.
- Ramos, Raquel Almeida, Rafael Ranieri, and J. Lammens. (2013). *Mapping inclusive growth. IPC-IG Working Paper* 105
- Robinson, Sherman. (1976). A note on the U hypothesis relating income inequality and economic development. *The American economic review* 66, no. 3: 437-440.
- Sahoo, Pravakar, and Ranjan Kumar Dash. (2012). Economic growth in South Asia: Role of infrastructure. *The Journal of International Trade & Economic Development* 21, no. 2: 217-252.
- Stiglitz, Joseph E. (2007). *Making globalization work*. WW Norton & Company, 2007.
- Subramanian, Subbu. (2011). Inclusive Development and the Quintile Income Statistic. *Economic and Political Weekly* 69-72.
- UNDP (2016) *Inequality: Missing from Public Agenda*. Development Advocate Pakistan 3, no. 2.
- UNESCO (2010). *Reaching the Marginalized*. EFA Global Monitoring Report.
- UNICEF. (2013). Out-of-school children in the Balochistan, Khyber Pakhtunkhwa, Punjab and Sindh provinces of Pakistan. *Islamabad, Pakistan: UNICEF Pakistan*.
- Van der Weide, R. and Milanovic. (2014). *Inequality is bad for income growth of the poor (but not for that of the rich)* (Working Paper, No. 6963).
- Voitchovsky, Sarah. (2005). Does the profile of income inequality matter for economic growth?. *Journal of Economic growth* 10, no. 3: 273-296.
- Wong (2014). *Mapping the Path to Future Prosperity: Emerging Markets Inclusive Growth Index*. Master Card centre for Inclusive growth.
- World Bank, *World Development Report*. Various Issues World Bank, Washington, D.C.