

Determining factors of urban poverty



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DETERMINING THE PRIME FACTORS OF URBAN POVERTY IN PAKISTAN

ABSTRACT

The purpose of this research paper is to study the poverty dynamics of Pakistan. All the major factors that could affect poverty (especially urban poverty) have been analyzed and taken into account with the intent to know the relation between poverty and its explaining factors. Some of these variables/factors are more significant and influential than others, namely Inflation, Unemployment, and Population Growth. The study conducted uses secondary data to carry out an econometric analysis in order to provide insights into the world of Poverty and hence can lead to the practical and feasible means controlling Urban Poverty in Pakistan.

1 – INTRODUCTION:

1. 1: Case for Urban Poverty:

For developing nations, the greatest battle has been against persistent poverty, affecting the lives of the individuals as well as economies across the globe. Over decades, numerous efforts have been made to understand the dire phenomenon, which have highlighted the nature, and causes. The outcome of the analysis, and recommendations for poverty reduction, generally, stand true. However, there are significant gaps in the economic analysis in concern. One of the more concerning gaps is that the scope of analysis of poverty (reduction) predominantly encircles the rural poverty. The debate on the relative importance and impact of the urban and rural poverty is multi-faced.

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One of the arguments goes that the most basic measure of poverty is income-based, which does not differentiate between rural and urban poverty. Although the basic needs for essential survival are same for rural and urban population, it takes a higher income for a household in a prosperous urban center / city (than one in a rural setup) to maintain lifestyle at a certain threshold, which defines subsistence level of survival. The rural lifestyle is not only simpler, but the cost of living is also lower in rural areas. Therefore, a simple income-based poverty line, applied to urban and rural populations alike, mislead us to believe that the leading aspects of poverty are witnessed primarily in the rural areas. Realizing the room for improvement, economists have not only developed more realistic poverty measures (namely calorie-based approach) but have also made a significant change in the focus of development economics research towards urban poverty. Haddad, Ruel and Garrett (1999, 2) suggest that ‘ many analysts believe that the locus of poverty and under nutrition is gradually shifting from rural to urban areas.’[1]

Proponents of either side play a logical game to prove the significance of rural and urban poverty. The underlying cause of mounting precedence of urban poverty, as the economists have come to understand it, is the ever-increasing rate of urbanization. Natural population growth affects both rural and urban poverty alike. However, rural to urban migration adds further burden onto already scarce urban resources. It is on this reasoning the proponents of urban poverty justify their stance, implying that if the rural poor were to stay back at their origin, the dilemma of poverty wouldn't gain roots at such swift and consistent pace. On the other hand, the proponents

of rural poverty hold urbanization to be a natural and expected consequence of underdevelopment of rural areas. As the status of the urban poor is better than that of rural poor, in terms of income, nutrition and access to necessities (such as health and education), it is more feasible and productive for the government to invest on the economic development of urban poor. Thereby, the rural setup lags behind, forcing its population to move to urban centers, for the sake of survival. Such a bias towards urban poverty has misled development economics into prioritizing rural poverty over urban poverty.

1. 2: Mounting Precedence of Urban Poverty:

Statistical evidence reveals that in the developing nations, over the years, the precedence of urban poverty is increasing not only in absolute terms but also relatively to rural poverty. The need of the hour is to determine the root causes of urban poverty and formulate effective strategy for its reduction. Even if one were to discount the arguments of proponents of either side to nil, focusing on urban poverty makes sense for two reasons:

Till date, in-depth research and analysis has been conducted for causes and means of uplifting rural poverty on its own. Therefore, the task before hand is to continue the execution and implementation of the suggested strategies.

Developing economies are heavily dependent on agriculture for income-generation and GDP growth. For economic development, there is a simultaneous focus on the development of industrial sector, which is centralized at urban areas. Any potential growth in the industrial sector as a whole may be curbed by increased precedence of urban poverty, such that it

would not make any positive difference in per capita statistics, despite effective effort(s). The research evolves further to reveal that the distinction between urban and rural populations is not only in terms of their lifestyles and income (generation) structure, but also regarding the nature of poverty and the extent of its impact, that penetrates within each population.

1. 3: Studying Urban Poverty in Pakistan:

The poor urban in Pakistan are severely deprived of financial resources. Having limited access to basic needs (such as education, health, clean drinking water, and proper sanitation) further undermines their capabilities, limits their ability to secure gainful employment, and results in income poverty and social exclusion. Although, poverty in Pakistan has remained fairly stable during the decade of 90's (from 29. 3% in 1993-94 to 32. 2% in 1998-99), urban poverty is significantly higher than rural poverty. According to FBS, poverty headcount in 2005-06 was 36. 3% and 22. 4% for rural and urban areas of Pakistan, respectively. Moreover, poverty incidences vary significantly between provinces. NWFP has the highest rural as well as urban poverty followed by Punjab.

For the developing economy of Pakistan, urban poverty is an outcome as well as a cause of worsening economic conditions i. e. adverse movement(s) in economic variables deepen poverty incidence, which in turn harm the economic indicators again. It is a vicious cycle. While these variables may be equally relevant to rural poverty, they, nonetheless, tend to push a greater proportion of urban population below the poverty line, than of the rural population. This paper tests the proposition whether urban poverty,

measured in terms of proportion of poor population in urban areas, is significantly impacted in the following terms:

- Does inflation curb the purchasing power of income (measured in terms of CPI) enough to push urban households below the poverty line?
- Does effective development (effort) in the urban areas, manifested in terms of per capita GDP growth (PPP), lead to reduction in poverty?
- Does having less job opportunities and reduced income (high rate of unemployment) lead to more urban poverty?
- Does enhanced pressure on scarce household resources (by increased individuals per poor household and reduced the per capita income, due to population growth) increase the incidence of urban poverty?
- Does higher minimum wage level ensure lesser the people below poverty line in urban areas?

1. 3. 1: Defining Variables:

The research study takes “ percentage of poor population in urban areas” as a measure of Urban Poverty. The following are the definitions of the independent variables that affect urban poverty statistics (in favorable or adverse manner):

Inflation (CPI)

A rise in the general level of prices of goods and services in an economy over a period of time,

Economic Growth

The increase of per capita gross domestic product (GDP) or other measure of aggregate income, over a certain period of time

Rate of Unemployment

Percentage of total workforce in Pakistan, who is unemployed and is looking for a paid job.

Population Growth

The rate at which the population grows, expressed as a percentage.

Minimum Wage Level

The minimum wage set across the economy (as set by labor policy).

2 – REVIEW OF LITRETURE:

Economic theories strive to understand the notion of poverty with all its complexities. The most basic approach to poverty is calorie-based, whereby poverty line is defined as the ‘ average food expenditure of those households who consume in the region of minimum required caloric intake’ (Awan, Nasir; 2010). Based on this approach, various poverty lines have been developed, in terms of ‘ amount (in rupees) per month per adult equivalents’, adjusted to CPI (base year) (Awan, Nasir; 2010).

Recent trends shows increasing urbanization in the third world countries including Pakistan. Nearly half of Karachi’s population, which is about 50 million, lives in Katchi Abadis (slums) and non developed, non serviced areas. (Gunewardena; 1999) Usually what researchers have cared about in the past are the incomes of the poor but even people who are not income

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poor, face deprivation in terms of other basic needs such as clean drinking water, sanitation, health care etc. Pakistan has a Millennium development goal of bringing down poverty from 33% in 2005 to 18% by 2015 which was attained in 1988-89 but since 2002 to 2005, Pakistan's average growth rate has been 6% considered to be the minimum rate at which poverty starts to decline in case of Pakistan but what we have seen is an increasing inflation. (Husain; 2005) However, poverty incidence seems to have become a permanent phenomenon (Zaidi; 1999) and as poverty penetrates deeper and deeper into the economy and society, it is no longer a 'statistical phenomenon' (Hussain; 1994). Poverty is defined as 'incapability of actualizing a person's human potential due to lack of access over certain physical amenities...' (Hussain; 1994).

Assuming "calorie-based approach" to define the "concept of absolute poverty", the factors which explain the incidence of urban poverty are manifold. "Natural population growth, rural to urban migration and the reclassification of rural to urban areas" (Awan, Nasir; 2010) elucidate the persistence of urban poverty, while indicating the solution in itself.

Urban poverty statistics reveal that it has been "moving like a business cycle" (Awan, Nasir; 2010), which explain not only why it declined over certain periods (such as rapid economic growth, rise in per capita income, large inflow of remittances and better economic and social policies of the government) but also which factors have a positive incidence on the existing level of urban poverty (such as high inflation, global financial crisis and recession in domestic economy). Poverty has been fluctuating up and down over the past few decades, similar to a business cycle form. However, urban

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poverty, unlike overall poverty and/or specifically rural poverty, reveals a continuous decline such that by the 1990's, its relative significance has almost diminished to nil. (Zaidi; 1999) The core issue, which still needs to be addressed, is to determine the root cause (s) of incidence of urban poverty. The above-suggested factors are strictly the cure of the symptomatic urban poverty, but not the diagnosis in itself.

The poverty statistics reveal that till the late 1980's, Pakistan's poverty was at decline. Economists analyze the potential policy measures/factors that were effective in poverty alleviation back in the decade of 1970's-1980, which include the role of high sustained economic growth, foreign remittances and public policy focused on government spending. Yet from that time onwards, the process has reversed and there has been a very persistent incline in the poverty incidence and severity. (Zaidi; 1999).

Another aspect of development in the notion of poverty is the nature and characteristics of poverty, in terms of rural and urban poverty. At an onset, urban poverty is assumed to distinct from rural poverty given its demographics, economy and political scenario (Awan, Nasir; 2010). However, given that the economy and the livelihood of the rural and the urban households are vitally interconnected (Fan, Chan-Kang, Mukherjee; 2005), there is a precedence relationship between them, as explained by “ natural population growth, rural to urban migration and the reclassification of rural to urban areas” (Awan, Nasir; 2010). Such factors put an undue pressure on scarce resources of urban setup; consequently leading to poverty incidence in urban areas. And still they are different as the social and economic dynamics of rural and urban areas differ so much in nature.

A look into the poor household gives a meaningful insight of which implicit factors feed urban poverty to persist. Aspects such as “ family size, dependency ration, sex of the head of the household, age composition and literacy of the head of the household” (Awan, Nasir; 2010) imply that the extent of burden of financial liabilities, gender (bias towards females) and (lack of) education play a crucial role in the occurrence of absolute poverty in a household. Even as poverty persists within a household, (the lack of) two external factors further deepen(s) its roots at a wide scale, namely development of “ human capital” and access/” provision of public amenities/services”.

With the incident of increase in urban poverty, informal markets and linkages have been formed in major cities. The typical poor do not get work in the formal labor market (illiteracy is the reason). Poverty assessments in Pakistan, suggest that the poverty is highest in case of household where the head of the family employed is a wage worker this leads to affect women as well where women needs to work too in the informal sector as it becomes the single most important urban survival strategy. (Gunewardena; 1999) One time employment alone does not ensure a save from poverty trap. (Awan, Nasir; 2010) It is job security and a consistent flow of income that alleviates the poverty status. Other than the obvious inability of the unemployed poor (people) in the urban areas to fulfill their basic caloric needs, the workings of the informal sector (such as construction sector) embed the same incapability even in those who are employed, by putting further pressure on already scarce urban resources. Other than the different tendencies of

sectors, it is also the nature of occupation that induces the poverty trap (such as daily wage workers).

The discussion on informal sector is incomplete without discussing the lack and even absence of education resulting in child labor. There are 19 million children working in Pakistan, which contributes from a little over than one third of household income for households earning less than Rs. 500 to one tenth of household income of Rs. 6000 or above. Median age of children entering the Pakistani workforce is seven years and children make up 90% of Pakistan's carpet industry's workforce. (Gunewardena; 1999) The relationship between poverty and child labor is such that poverty forces and leads to child labor and it also takes away the opportunity to go to school hence another generation gets deprived of education leading to a vicious cycle of illiterate, partially skilled and low income group in a society. This goes to the point of violence and crime in society. Poverty and specifically in case of urban poverty where there is large income differential, leads to frustration and anger, which consequently leads to crime and even a social failure.

Now we move onto the debate about the economic growth and the reduction of poverty as a complementary gift of it. Theoretically, economic growth acts as a catalyst for poverty alleviation. However, the empirical evidence does not support the stance, thereby calling for a detailed insight into the “ context, nature and impact of growth”. (Awan, Nasir; 2010) Technological advancement single handedly explains the trends of urban and rural poverty (especially in the decades of 1960-1970): while induction of technological progress brought about tremendous growth in agricultural

output/productivity, it left a significant proportion of rural population as poor landless paupers or tenants; thereby increasing rural poverty. On the other hand, the greater focus of development strategy and investment in the urban areas lead the urban-based manufacturing sector to grow, eliminating the incidence of urban poverty. However, considering how rural poverty can potentially lead to the incidence of urban poverty, the increase in the overall poverty of Pakistan can very well be explained.

As opposed to the orthodox view, economic development, measured in terms of rate of growth of GNP, does not reduce poverty but bring about manifold economic as well as social problems. Poverty is a social phenomenon, which hurts the potential of people from the very root level. It is the “ structure of growth process” that reproduces poverty itself.

Simplified notions of development cannot tackle the deep-rooted poverty, which needs very acute attention. (Hussain; 1994) Therefore, the notion of trickledown effect no longer holds validity. The need of the hour is to generate income-generating activities, savings and, thereafter, asset creation at local level(s) of society. What needs to be financed to support such local independent development (for poverty alleviation) is the provision of basic necessities and an appropriate infrastructure, so that, in the long run, there is sufficient human capital to nourish the process of poverty alleviation, and a long run “ income generating process”. But there is another side of this coin. Empirical evidence from many economies supports the hypothesis that there is strong correlation between higher growth rate and poverty reduction; recent examples are India and China. (Husain; 2005) Economists explain that growth is a necessary condition for poverty

reduction but not sufficient condition as there are other necessary conditions along with economic growth to realize reduction in poverty and one such argument is the case of inclusive growth where the non- elite/poor have their part in the growth and success.

In the major cities of Pakistan, housing and shelter is one of the major problems due to increased demand because of increase of population and rural-urban migration. On the supply side, there have been hardly any initiatives from the government side or even any sort of private investment until very recently.

A study has been conducted by (Awan, Nasir; 2010) to see the poverty incidence in a medium-sized city (Sargodha). The explanatory variables used in the study are discussed in the latter part of the literature review. The household size in numbers showed a positive correlation with the poverty incidence at 5% level of significance. In other variables under the category of public amenities/services, except gas connection, sewerage facility, water supply facility, landline telephone facility, all showed a statistically significant negative correlation with poverty incidence. In the category of variables under education, all levels of education from middle up to professional and bachelors, all the variables have a negative correlation with the poverty incidence at a significance level of 5%.

Economists look onto factors, which brought about poverty alleviation in the first place, which are being discussed in the following part. An effective implementation of land reforms can have manifold affect on poverty; urban as well as rural. In urban poverty cases, most poverty is imported from rural

areas as a result of rural to urban migration. In case of land redistribution, it can do wonders as basically it would provide asset to poor population that can be spent of anything from education to self employment. Nationalization of banks, leading to greater outreach of credit to agriculture would also reduce the poverty from being exported to urban areas. Increase in urban wages and employment especially in the informal sector will also help in reducing urban poverty. In previous decades, migration towards West Asia has been a successful strategy for Pakistan. It simultaneously brings in net income to GDP, relieves the population pressure on scarce resource, adds to foreign reserves, favors the balance of trade and brings in foreign investment to some extent. (Zaidi; 1999)

Domestically, in our local urban economies, we have unemployed educated youth present along with huge shortage of skilled manpower in almost all categories. In such a complex case, government intervention deems necessary in establishing technical and vocational training institutes (Husain; 2005). We have a huge potential of outsourcing services in Pakistan because of cheap labor, in software applications and call centers which is yet to be explored in order to provide employment to youth. But unfortunately, the political and bureaucratic structures favors the rich and blessed ones not the poor which is the source of growing income disparity. Pakistan desperately needs to overhaul the state institutions such that economy could move ahead while taking the poor along; that is the concept inclusive growth, which reduce the inequality between rich and poor and hence reduces poverty.

The simple and straightforward recommendations that can be extracted from the literature are to “ focus on the education of the poor”, “ formulate programmers that help poor people manage income risk”, “ increase local organizations capacity”, “ help in promotion of community development” and “ formalize the informal sector...” (Awan, Nasir; 2010)

After the 1990’s, there has been a consistent decline in “ public expenditure on development and social sectors”, the remittances from the west and a much greater dependence on donations/aid form IMF. Therefore, now that poverty has seeped down to the roots of massive population, it would take much greater force and effort before the country can be pulled out of the vicious poverty trap, even if the previous successful policies were to be replicated as such. To conclude, the bigger picture is to bring about poverty alleviation along with “ modern industrial base” (Hussain; 1994) such that it brings about democracy, national reconciliation and unity.

3 – METHODOLOGY AND ANALYTICAL CHOICE:

3. 1: Research Type:

Any research is defined on the basis of its method or by its purpose. If we categorize it by method, then it falls into the category of inductive research or deductive research. On the other hand, if we categorize by its purpose, it falls into two major categories: Basic Research and Applied Research. Basic Research; also called Pure or Fundamental Research that is usually done in our daily lives just for the sake of increase in our knowledge and is usually based much more on the fundamentals and laws. It is assumed to be the research just for the sake of research with hardly any immediate benefit or solution to an existing problem or an issue at hand. Basic research is purely

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theoretical but only one fruit which comes along a basic research is a new way of thinking and forms the basis of applied research in the long run.

Applied research is the use of basic research, past theories, current knowledge, methods and current data to solve existing practical problems. Applied research focuses on uncovering what needs are not being met and use that information to draw conclusions and form strategies based on that to work out issues that are being faced in the real world. For the scientific study of “ Urban Poverty and its immediate causes”, applied research technique is used for it being applicable and practical.

3. 2: Data Type:

There are two types of data available; primary data and secondary data. Primary data is data observed or collected directly from first-hand experience where as on the other hand Secondary data is the data that has already been collected and collated by somebody for some reason other than the current study. It can be used to get a new perspective on the current study. Urban Poverty is a macroeconomic variable/issue. Usually for a macroeconomic variable, that is collected and published by the government, NGO's or the concerned authorities therefore the data used for this research is secondary, not primary, in nature.

The date collected has already been subjected to processing/manipulation, by the appropriate authorities, giving values of each variable in its respective standard unit(s). The sources of the data compiled and studied are the Federal bureau of Statistics (Pakistan) and the State bank of Pakistan

(websites). The data is reliable, verified and consistent with the international standards.

3. 3: Reference Period for Research:

The reference period of this research is from June/July 2001 to June/July 2010.

3. 4: Research Hypothesis:

(H0: $B_0 = 0$): To test the hypothesis that the purchasing power of income (measured with CPI) has no significant impact on Urban Poverty.

(H1: $B_0 \neq 0$): To test the hypothesis that the purchasing power of income (measured with CPU) has a significant impact on Urban Poverty.

(H0: $B_1 = 0$): To test the hypothesis that per capita GDP growth (PPP) has no significant impact on Urban Poverty.

(H1: $B_1 \neq 0$): To test the hypothesis that that per capita GDP growth (PPP) has a significant impact on Urban Poverty.

(H0: $B_2 = 0$): To test the hypothesis that the rate of unemployment has no significant impact on Urban Poverty.

(H1: $B_2 \neq 0$): To test the hypothesis that the rate of unemployment has a significant impact on Urban Poverty.

(H0: $B_3 = 0$): To test the hypothesis that the population growth has no significant impact on Urban Poverty.

(H1: $B_3 \neq 0$): To test the hypothesis that the population growth has a significant impact on Urban Poverty.

(H0: $B_4 = 0$): To test the hypothesis that the minimum wage level has no significant impact on Urban Poverty.

(H1: $B_4 \neq 0$): To test the hypothesis that the minimum wage level has a significant impact on Urban Poverty

3. 5: Theoretical Framework & Variables under Consideration:

Per Capita Income:

The increase in per capita GDP (gross domestic product).

(Awan & Iqbal, 2010) 1

(Hussain, 1994) 3

(Husain, 2005) 6

(Burki, 1984) 8

Rate of Unemployment:

Percentage of total workforce in Pakistan, who is unemployed and is looking for a paid job.

(Hussain, 1994) 3

(Mahmood, November 2005) 4

(Gunewardena, 1999) 7

Urban Poverty:

Percentage of poor population in urban areas.

(Awan & Iqbal, 2010) 1

(Zaidi, 1999) 2

(Gunewardena, 1999) 7

Minimum Wage Level:

The Minimum Wage set across the economy (as set by labour policy)

(Mahmood, November 2005) 4

(IMF, 2004) 9

Purchasing Power of Income / Inflation (CPI):

Rise in the general level of prices in an economy over a period of time.

(Zaidi, 1999) 2

(Burki, 1984) 8

Population Growth Rate:

The rate at which the population grows, expressed as a percentage.

(Awan & Iqbal, 2010) 1

(Fan, Chan-Kang, & Mukherjee, August 2005) 5

(Zingel, 1998) 10