

Social Inequality Dialogue

Workshop Brief 2024



The Social Inequality Lab organized a one-day workshop on 1st March 2024, featuring distinguished speakers and thought-provoking topics on inequality. This event was graced by the former federal minister Aisha Ghaus Pasha and her presence underscored the urgency of nuanced understanding and actionable policy initiatives in combating social inequality. Akbar Zaidi, Executive Director, IBA and Asma Hyder, Dean SESS, gave the welcome note and introduction of the lab. The objectives of the Lab along with the recent activities were presented. Invited speakers contributed diverse perspectives to enrich the scholarly dialogue. Renowned academician and economists from IBA, LUMS, other universities and institutions participated in the discourse. There were four presentations each followed by in-depth discussion on that dimension of inequality. The following sections provide a summary of the research presented, the discussions in the presentation and the suggested way forward.

1) Losing to Inflation: Unmasking Inflation Inequality among Households

Dr. Muhammad Nasir presented his work titled “Losing to Inflation: Unmasking Inflation Inequality Among Households” discussing household disparities and monetary policy. It discussed how the differential inflation rates affect different social groups. This was a joint paper co-authored by Shabana Kishwar (IBA), Moritz Meyer (World Bank Group), and Oscar Barriga-Cabanillas (World Bank Group). This research contributed valuable insights into the complex dynamics of inflation inequality among households in Pakistan, providing a basis for evidence-based policy interventions aimed at safeguarding the welfare of vulnerable populations. The study sheds light on the nuanced impact of inflation across different income groups in Pakistan. The research employed household-level inflation measurement methodologies to uncover inflation heterogeneity, going beyond aggregate inflation rates. Using data from the Pakistan Bureau of Statistics (PBS) Household Integrated Economic Survey (HIES) 2018/19, which covered 24,809 households across four provinces, the study categorized 283 expenditure items into 12 main categories based on COICOP classification. Decile-wise inflation rates were calculated, revealing that poorer households consistently experienced higher inflation overall, with notable disparities exacerbated during the COVID-19 pandemic. There was higher inequality between April 2020 and January 2021 i.e. the COVID period. During that period, there was low energy inflation (-2.4%) but double digit food inflation. As per the discussion, the key drivers of the inflation in Pakistan include; expansionary fiscal and monetary policy in response to COVID-19, rising commodity prices especially food and fuel, phasing out blanket subsidies and decreasing energy tax exemptions, depreciating exchange rate, local and global shocks affecting productivity of agricultural sector, and the Russia-Ukraine war. By analyzing household consumption baskets and estimating decile-specific inflation rates, the research reveals significant disparities in inflation experiences between lower and higher income households. Key findings indicate that between November 2018 and August 2022, lower income households faced inflation rates approximately 1 percentage point higher than those experienced by the wealthiest households. The study underscores the heightened sensitivity of poor households to food inflation, while increases in fuel and transport prices disproportionately affect households in the top deciles.

Way Forward:

In light of these findings, the study proposes several policy recommendations to mitigate the adverse impacts of inflation on vulnerable households:

- **Targeted Social Protection Programs:** Instead of blanket subsidies, which are fiscally costly and unsustainable, policymakers should consider targeted social protection programs to provide relief to the most vulnerable segments of society.
- **Indexation of Wages and Pensions:** Indexing wages and pensions to average inflation rates may not sufficiently mitigate the negative welfare shocks caused by rising prices. Therefore, policymakers should explore the feasibility of indexation mechanisms tailored to address inflation heterogeneity.
- **Enhanced Data Collection:** To better understand and address inflation heterogeneity, there is a need for frequent and representative data collection efforts. Increasing the number of markets surveyed could provide more disaggregated price statistics, offering a more accurate reflection of consumer experiences.

2) Thirty years of income, and wealth inequality in Pakistan.

Presented by Abid Aman Burki (Lahore School of Management Sciences), this research provides valuable insights into the drivers and implications of income and wealth inequality in Pakistan, laying the groundwork for evidence-based policy interventions aimed at promoting inclusive growth and reducing socioeconomic disparities. He elaborated on the trends of wealth and income inequality in Pakistan and why do these trends exist. The study provides a comprehensive analysis of inequality trends spanning from 1991 to 2020-21. By examining data from 30 household surveys and employing various decomposition techniques, growth incidence curves, and summary inequality measures, the research elucidates the complex factors influencing income and wealth distribution over the three-decade period. Drawing on multiple rounds of household surveys, the research focuses on the 3rd to 97th percentile to mitigate measurement error. The study reveals that wealth disparity tends to exceed income inequality, with income inequality experiencing fluctuations over time. Labor market analysis underscores rising wage disparities as a key driver of earnings inequality, impacting individuals across different demographic groups. Notably, the study identifies a strong positive correlation between the top quintiles of income and wealth, indicating a concentration of economic resources among higher-income groups. Key findings include fluctuations in income inequality, with notable spikes during the early 2000s and a sharp decline during the COVID-19 pandemic in 2019-20. While discussing the factors that contribute to changes in income inequality, Dr Burki started with decomposition of income inequality into four traits: a) Labor versus non labor income b) Male and female income c) Main earners and other earners, and d) Educational attainment. Additionally, the study highlights rising wage disparities as a primary driver of increased earnings inequality over the 30-year timeframe, affecting both men and women. Furthermore, the results showed some brighter side while showing that gap between male and females wages is declining and is has been subsided while there are other factors that are contributing to the gender inequality. Between group

inequality in terms of education has increased. While within the group inequality has decline. The role of education has taken central stage due to technology and kind of jobs offered. More jobs are created for those who are more skilled and less for the less skilled.

Way Forward:

The research offers insights into the evolving landscape of income and wealth inequality in Pakistan and suggests avenues for further investigation and policy intervention:

- **Continued Monitoring:** Continued monitoring of income and wealth distribution dynamics through robust data collection efforts is essential to track trends and inform policy responses.
- **Addressing Labor Market Disparities:** Addressing rising wage disparities through targeted interventions such as skill development programs, labor market reforms, and gender equality initiatives can help mitigate earnings inequality.
- **Education and Skill Development:** Given the significant contribution of educational attainment to income inequality, investing in education and skill development initiatives to enhance human capital can play a crucial role in reducing inequality.
- **Improve Educational Quality:** Focus on improving the quality of education provided, ensuring that students receive relevant skills and knowledge that are applicable in the job market. This might involve updating curricula, enhancing teacher training, and providing modern educational resources.
- **Expand Access to Higher Education:** Make higher education more accessible by reducing financial barriers such as tuition fees and providing financial aid and scholarships for low-income students. Encourage enrollment in vocational and technical training programs as well.
- **Promote Lifelong Learning:** Encourage continuous learning and skill development throughout individuals' lives to adapt to changing job markets. This could involve subsidizing adult education programs and offering retraining initiatives for displaced workers.
- **Support Small Business and Entrepreneurship:** Foster an environment conducive to small business creation and entrepreneurship, as these avenues can provide opportunities for individuals to create their own wealth independent of traditional employment.
- **Policy Alignment:** Ensuring coherence and alignment between economic policies, social protection programs, and labor market interventions can help create a more equitable economic environment and reduce disparities in income and wealth distribution.

3) Topic; Taxes, Transfers, Poverty, Inequality

Presented by Jon Jellema (World Bank Group), this research provides a roadmap for fiscally feasible and socially desirable fiscal policy reforms in Pakistan, aiming to mitigate poverty and inequality effectively. It unpacked how the fiscal policies in Pakistan cater for the income distribution in Pakistan. The analysis reveals the shortcomings of Pakistan's fiscal policy in addressing poverty and inequality. He discussed that in Pakistan the reason behind failure of fiscal policy in reducing income inequality can be attributed to government's miscalculation regarding fiscal priorities. While supporting his argument with data (2018-2019) Dr Jellema added that government keeps subsidizing the energy and agricultural sector in a way that do not cater for the development of the lower income people. Substantial subsidies on energy and agricultural goods primarily benefit non-poor households, exacerbating inequality. Indirect taxes burden all consumers, while direct transfers are insufficient and direct tax collection rates are low. While on the revenue side, the relative size of indirect taxes is more than direct ones. He further added that in Pakistan the failure of fiscal policy in reducing income inequality is a result of both; inefficiency and enforcement. He discussed that subsidies and taxes work as demand and supply. Subsidies are targeting a particular good but indirect income taxes are not targeting particular good. Moreover, Pakistan's tax system is not sufficiently progressive, meaning that the burden falls disproportionately on low- and middle-income earners rather than on the wealthy. This can contribute to widening income gaps. In-kind service delivery contributes to increased inequality, with wealthier households often opting out of public services. Pakistan's fiscal policy fails to effectively alleviate poverty and reduce inequality also due to inadequate social spending. Despite targeted social protection spending, the impact remains limited, and public investment in essential services like education and healthcare is inadequate. The fiscal system exacerbates income inequality, with subsidies rewarding higher consumption and indirect taxes creating burdens for all consumers. The analysis underscores the need for comprehensive fiscal reforms to rebalance the tax structure, enhance social protection mechanisms, and invest in human capital.

Way Forward:

- **Progressive Tax Structure:** Shift from regressive indirect taxes to progressive direct taxes to ensure a fair distribution of the tax burden.
- **Enhancing Social Protection:** Scale up targeted social protection spending to effectively alleviate poverty and reduce inequality. Strengthen social safety nets such as cash transfer programs, food assistance, and healthcare subsidies to provide a basic level of support for the most vulnerable populations. Target these programs effectively to ensure they reach those most in need.
- **Investing in Human Capital:** Prioritize public investment in education, and skill development to empower individuals and foster inclusive growth. There is a need for education reform and investment to ensure access to quality education for all citizens. This

includes improving infrastructure, teacher training, curriculum development, and increasing enrollment in schools, especially in rural and underserved areas.

- **Promote Financial Inclusion:** Expand access to financial services, including banking, credit, and insurance, especially for marginalized populations. This can empower individuals to start businesses, invest in education, and save for the future.
- **Encourage Job Creation:** Implement policies that stimulate job creation, especially in sectors with high potential for growth such as information technology, renewable energy, and manufacturing. This can include incentives for businesses to hire and train workers, as well as support for entrepreneurship and small business development.
- **Subsidy Reform:** Gradually phase out blanket subsidies and redirect resources towards targeted subsidies for the most vulnerable segments of society.
- **Building Fiscal Resilience:** Strengthen fiscal institutions and governance frameworks to improve revenue collection efficiency and fiscal management.
- **Invest in Infrastructure:** Improve infrastructure, including transportation, energy, and water sanitation, to facilitate economic development and improve living standards, especially in rural areas.

4) Spatial Disparities, Persistent Poverty, and Public Investments

Moritz Meyer (World Bank Group) presented his research which emphasizes the importance of addressing spatial disparities and enhancing public investment to promote equitable development across Pakistan. It focused on the extent there is income inequality among regions in Pakistan and which areas are facing higher poverty rates. In 2018-19, Pakistan's national poverty rate stood at 21.9%, but this average masks significant regional variations in household welfare. There is considerable heterogeneity in poverty rates at both the provincial and district levels. Poverty rates differ markedly across provinces and districts, ranging from as low as 3.5% in Islamabad to as high as 76.9% in Tharparkar. While major cities like Karachi, Lahore, and Islamabad boast low poverty rates, districts in Balochistan exhibit the highest poverty rates. Despite this, three of the five districts with the highest poverty headcounts are in Punjab, each with over a million poor residents. Dr Meyer highlighted that as per his study place and location matters in Pakistan when it comes to income inequality i.e. within the region disparity is less than between the region disparity. He explained that income is not the only difference between the regions. Some regions are systematically falling behind which means a region falling behind in one dimension is falling behind in other dimensions as well. Places where multidimensional poverty is higher, monetary poverty is also higher. He also added that besides being systematic, the regional disparity in Pakistan is also complex (with overlapping deprivations across dimensions) and persistent (with limited convergence over time and across space). Moreover, districts with large poor populations also has gap in human capital and labor market outcomes, thus maintaining intergenerational poverty. Location-specific factors influence income generation capacity and poverty rate. Districts with high poverty rates also exhibit deficiencies in human capital and labor market outcomes,

suggesting a multidimensional nature of poverty. To foster inclusive growth, policymakers must understand the spatial distribution of poverty to efficiently allocate limited resources and improve the targeting of programs and policies. Comparing two periods, 2004-05 and 2019-20, Dr. Meyer said that some districts have reduced poverty rates. For most of the parts the poverty rate has declined in later period. But this good news had a worrisome side as well. In Balochistan and Sindh many places have not been able to reduce the poverty rate. The correlation between poverty rates in 2004 and 2019 suggests the persistence of poverty across generations in these regions. Hence again the regional disparity is a problem. Dr. Meyer concluded with a remark that each province is not converging to the same point but are reaching some equilibrium.

Way Forward:

- **Enhanced Spatial Targeting:** Utilize data-driven approaches to identify geographic hotspots of poverty and tailor interventions accordingly. Prioritize areas with persistent poverty and low human capital for targeted investments and development initiatives.
- **Investment in Human Capital:** Allocate resources towards improving education, healthcare, and skills development in disadvantaged regions to uplift communities and break the cycle of poverty.
- **Policy Coordination and Monitoring:** Foster interagency collaboration to ensure effective implementation of policies aimed at reducing spatial disparities. Regularly monitor and evaluate interventions to assess their impact on poverty reduction and welfare improvement. By adopting a targeted and collaborative approach, Pakistan can work towards reducing spatial disparities, promoting inclusive growth, and improving the well-being of all its citizens.
- **Inclusive Policies:** There must be inclusive policy making which ensures that development policies and programs are inclusive and address the specific needs and priorities of marginalized communities and regions.
- **More provincial autonomy:** Along with provincial autonomy, proper check and balance must be kept of the funds and powers granted to provincial government.
- **Right mechanisms:** Establish mechanisms for monitoring progress, evaluating impact, and adapting strategies based on lessons learned and evolving needs. This ensures accountability, transparency, and continuous improvement in spatial development efforts.

5) Concluding Remarks

The dialogue was concluded with remarks from Aisha Pasha. She stressed that it is important to prioritize the reduction of inequality in the country. She appreciated the Lab for taking the initiative to discuss these important issues. She stated that the gains achieved in paradigms such as poverty have been eroded due to the high inflation. The high macroeconomic stability has severely jeopardized the economic development. She attributed the income inequality in Pakistan greatly to the inefficiency of the financial sector, tax evasion and the ever increasing debt burden. She suggested that the government needs to collect taxes from landlords, real estate and service

sector. Pakistan was earlier proud to be an agrarian economy but now we are unable to have enough production to even sustain the domestic market. There is a need to improve the fiscal policy. There is a need to significantly improve the tax collection mechanism. The small amount of the social protection given to the marginalized segment is not enough to fill the poverty gap. This is primarily due to the small pockets of the government. The government needs to increase its revenue to be able to make the right amount of expenditure. Primary health care, water supply, sanitation, transport are all in the provincial domain and there is a need to focus on the improvement.