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Inaugural Address

SARTAJ AZIZ

Dr Asad Zaman, Distinguished Guests, Ladies and Gentlemen,

I am very pleased to return to this landmark event, the Annual Meeting of Development Economists, after a long interval and that also on the 30th Anniversary of PIDE. This gathering of intellectuals, economists, worthy panelists and other participants of the conference is important for the academic community and policy-makers alike, to debate current socio-economic challenges and their solutions.

The topics for discussion by many eminent scholars and policy-makers over the next 3 days are both important and topical. We would look forward to the recommendations emerging from the Conference, specially on topics like “Inclusive Growth”, “Addressing inequality”, and “Alternate Strategies of Poverty Alleviation”.

Ladies and Gentlemen;

Poverty as an issue has received unprecedented international attention in the past two decades; on the other hand, the number of people living in absolute poverty has increased dramatically. An estimated 3 billion, or half the world population, are living on less than USD 2 a day. About 1.2 billion people are extremely poor and have to subsist on only USD 1 a day. The most common indicator of poverty is a pre-determined *income level* below which a family cannot survive. Another useful concept is that of consumption based poverty, (minimum food per capita, access to clean drinking water, basic health facilities or primary education). The supplementary indicators of poverty are, of course, dependent on family income, but not entirely. In some countries a given level of per capita income may not be accompanied by a corresponding level of food security or access to basic needs. These relationships vary enormously from one country to another. A careful analysis of this relationship and the variation from one country to the other can provide a very good starting point for evolving a national strategy for poverty reduction.

While efforts are underway to reduce poverty across the globe, outcome has been very uneven. Since 1980, China alone accounts for most of the world’s, decline in extreme poverty. Even though there has been a huge rise in income inequality within China, economic growth has been so strong that hundreds of millions of people have risen out of extreme poverty and the poverty ratio has plummeted. Sub-Saharan Africa, at the other extreme, has seen its poverty headcount continue to rise; the negative impact of low economic growth has far outweighed modest improvements in income inequality.

The root causes of poverty are deep and complex and spring basically from the power structure of a society, marked by skewed distribution of assets and an economic

Sartaj Aziz is Advisor to the Prime Minister on Foreign Affairs, Government of Pakistan, Islamabad.

system often dominated by feudal, tribal or ethnic elites in most developing countries, The benefits of economic growth or improvement in agricultural productivity in such a society will inevitably accrue to those who own the land and have access to irrigation water, credit or markets. Continuing population growth further reduces the per capita land holding or other assets of the family. The poor in any society are not a homogeneous group, but an amalgam of different groups, each with its own social or ethnic handicaps and political alignments.

These inherent causes of poverty are often compounded by man-made policies that discriminate against the poor. A considerable proportion of the resources allocated for education and health services are, in practice, pre-empted by expensive schools, colleges and hospitals in urban areas for the benefit of relatively well-off members of the society. Macro-economic policies in most developing countries also have a persistent urban bias as they generally provide positive incentives and high tariff protection to industry and negative protection to agriculture, to provide cheap raw materials to industry and also to keep wages low through lower food prices. These adverse terms of trade not only affect overall agricultural incentives, but also have a devastating effect on the livelihood of small and marginal farmers.

Renewed international concern with poverty reduction, in the past decade, has coincided with the advent of globalization with its focus on the free market philosophy. Globalisation with its strong emphasis on reducing the role of state in almost every sphere of activity has not been very helpful in reducing poverty. The driving force of globalization is competition and by definition, poor people and poor countries are at the lowest rung of the competitive ladder. The inherent limitations of an unregulated market system and the resultant need to protect the consumer, the small businesses and the under-privileged communities are fully understood in the more advanced societies, leading to large scale state interventions in different sectors of the economy, but at the global level and in devising policies for the international financial institutions, these realities are often ignored.

The adjustment policies advocated to the developing countries by international financial institutions also have negative impact on the poor. By cutting down public expenditures, reducing subsidies, raising taxes and utility charges, these policies invariably lead to a bitter mixture of rising unemployment, growing inequality, and shrinking social services. In such conditions, the poor have to bear a disproportionate share of the burden in lean periods caused by an economic slowdown or a natural disaster. At the same time the developed countries sometimes do not practice what they preach, and are currently providing over $300 billion a year as agricultural subsidies. As a result, these is no level-playing field for agricultural trade, with adverse consequences for millions of poor farmers in the developing world.

Empirical research on successful efforts to reduce poverty, has identified several pre-requisites for poverty reduction. These can be summarised as follows:

(1) The pattern of land ownership, the degree of skewness and the prospects for land reforms.

(2) The political power base of the government in power and the actual nexus between the power structure and major stakeholders and extent to which the country's elites are committed to development.
(3) Extent of decentralisation of the governing structure and its nature. Is the governing structure at the provincial and lower levels bureaucratic in nature or is it the product of an electoral process?
(4) Extent of power sharing and participation of the poor in governance and process of development, at different levels.
(5) The degree of tribal, religious, ethnic or racial polarisation in the country.
(6) Capacity of the administrative structure to implement economic and pro-poor reform programmes.
(7) State of political rights and civil liberties in the country as a whole and effectiveness and independence of judiciary and media.
(8) The relative terms of trade for the agriculture sector in relation to the industrial and urban sectors.
(9) The proportion of budgetary resources for social sector expenditures like education and health that actually reach the poor.

It is unlikely that all these pre-requisites can be met simultaneously but a critical combination can vastly improve the prospects for the adoption and implementation of pro-poor policies, and that in turn would depend on one important factor i.e., the political power structure of a country which should be genuinely pro-poor.

In many countries today, the issue of inequality has come to the front burner of international and national discourse with a view to finding solutions. In addition to equity reasons, there are good economic and political reasons to be concerned about inequality, its various dimensions, and societal impacts. Indeed, many authors and commentators argue that income inequality is among the most pressing current problems of our era and show that income inequality has a dramatic impact on people's everyday lives. For example, greater inequality seems to lead to general social dysfunction; but in more equal societies homicide rates are lower and children experience less violence, people trust each other less in more unequal societies; and tend to do worse when it comes to health, education and general well-being.

Economic growth is created by the discovery of new resources, by more intensive use of existing resources, by the exchange of resources and services to maximise value, and by the development of more innovative ways to employ services and resources. The most important determinant of economic growth is innovation: conducting existing tasks in new and improved ways; organising and reorganising production to increase output with the same or fewer resources; expanding the value and resourcefulness of existing talents; creating new skills or products to provide value that had not existed before. Economic growth is enhanced in each of these ways, and is maximised where each citizen is given the opportunity to improve his or her economic contribution to the maximum. This, in my view, is the right approach for promoting inclusive growth.

I Thank You All.