

Can We Solve the Issue of Poverty Without Solving the Issue of Conventional Economic Paradigm: A Critical Review

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1. INTRODUCTION

The primary focus of economics is to allocate resources in order to achieve the well-being of humans. Wellbeing has many dimensions, ranging from the level of mere subsistence to the equality of opportunities to accumulate, and to safeguard life and wealth. Poverty, thus, is one of the parameters for measuring the welfare of society in general. Given this importance, the Millennium Development Goals aim at halving the world poverty by 2015. Many organisations in the world set poverty eradication as one of their key objectives. Likewise, poverty reduction has got a central place in the international politics. Accordingly, each country including Pakistan has launched programmes for the alleviation of this great menace. The election manifesto of all the mainstream political parties in Pakistan includes poverty alleviation as one of their main goals. Additionally, poverty alleviation is one of the major subjects of talks in electronic media and in the editorials of newspapers, both at the national and at the international level. Nevertheless, poverty is still a major problem of humanity across the globe.

There are four different understandings of poverty in the existing literature, i.e. the monetary approach, the capabilities approach, the approach of social exclusion, and the participatory approach [Laderchi, *et al.* (2003)]. However, in practice, the monetary approach mostly retains its global dominance in both the descriptions and analysis. Under this approach, poverty is defined as “a state or condition in which a person or community lacks the financial resources and essentials to enjoy a minimum standard of life and well-being that is considered acceptable in society” [*Pakistan Economic Survey* (2014)]. Likewise, according to the World Bank (1990), poverty is basically the “inability to attain the minimal standard of living and having insufficient money to purchase the basic necessities of life such as food, clothing, housing, elementary education etc.” Alternatively, the poor people are those who do not have sufficient income or consumption to put themselves above some minimum threshold of wellbeing in the society.

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Given the global prevalence of this menace, there is considerable amount of resources kept aside in the budgets of most of the developing countries for eradicating it. Besides the domestic resources, the international donor agencies like the World Bank, the International Monetary Fund (IMF), the Asian Development Bank, the United Nations and its various subsidiaries etc. spend enough resources for its eradication.¹ Most of these agencies work almost in all of the developing countries in the world. In Pakistan, besides the above organisations, many governmental and non-governmental organisations work in this field. For instance, the organisations like the Benazir Income Support Programme (BISP), the Pakistan Poverty Alleviation Fund (PPAF), Pakistan Baitul Mall (PBM), AKHUWAT, Khusli Bank Pakistan (KBP), Al-khdimat Foundation, Edhi foundation, National Rural Support Programme (NRSP) etc. are actively working for the eradication of poverty. In addition to the field work, a number of academic and research seminars/conferences are conducted on the issue of poverty in the world as well as in Pakistan.² Such seminars or conferences have three purposes. First, they are aimed at creating the awareness regarding poverty. Second, they identify its various dimensions. Third, they provide academic inputs to the policy practitioners and donor agencies about how to target the identified dimensions of poverty.

Given the set of activities, one may expect that poverty in the world as well as in Pakistan might have dropped to a negligible level. However, this is not the case as is indicated by the recent trends in poverty across the globe. For instance, the current situation of income-based poverty in the world shows that there are 1.2 billion poor people in 104 developing countries [*Human Development Report* (2014)]. This figure is based on the definition of \$1.25 a day. In terms of multidimensional poverty headcount, there are 1.5 billion poor in 91 developing countries. The Multidimensional Poverty Index (MPI) measures deprivations in the three dimensions i.e. health, education and living standards. Although, the world poverty is declining overall; however, almost 800 million people are still at risk of falling back into poverty if any setback occurred. There are many people in the world who face either structural vulnerabilities or life-cycle vulnerabilities. This is in spite of the fact that over the past three decades, the extent of global poverty has been declining consistently. For instance, the percentage of people living in the extreme poverty in 2013 is less than half of what it was in 1990 [UNDP (2013)].

Likewise poverty, the income inequality in the world shows that 40 percent of the world's population lives on less than \$2 a day. Their share in the global income accounts for just 5 percent. Another indicator shows that the 85 richest people in the world have the same wealth as the 3.5 billion poorest people. The share of the richest 20 percent people is three-quarters of the world income. According to the *Human Development Report* (HDR) (2014), the income inequality in developing countries rises by 11 percent from 1990 to 2010. The whole region of sub-Saharan Africa has been left behind: it will

¹For instance, the main subsidiaries of the United Nations that are working in the field of poverty and human development are the United Nations Educational Scientific and Cultural Organisation (UNESCO), the United Nations Development Program (UNDP), the United Nations International Children's Emergency Fund (UNICEF), International Labour Organisation etc.

²For instance, the research and development agencies such as Pakistan Institute of Development Economics (PIDE), Sustainable Development Policy Institute (SDPI), Innovative Development Strategies (IDS) etc. regularly organise conferences on the issue of poverty

account for almost one-third of the world poverty in 2015 as compared to its status of one-fifth in 1990 [*Human Development Report* (2007)]. In a recent keynote address to the policy forum on income inequality of Organisation for Economic Cooperation and Development (OECD), Richard Freeman (2011), professor of economics at Harvard University, noted that “*the triumph of globalisation and the market capitalism has improved the living standards for billions while concentrating billions among the few. It has lowered inequality worldwide but raised the inequality within most countries*”.

The situation of poverty in Pakistan is not very different from the other developing countries in the world. In Pakistan, every third person is living below the poverty line [Naveed and Ali (2012)]. Naveed and Ali (2012) measure poverty on the basis of five dimensions, i.e. education, health, water supply and sanitation, household assets/amenities, and satisfaction from service delivery. In a province-wise comparison, the same study shows that 52 percent of the total population in Baluchistan is living below the poverty line. This is in spite of the fact that Baluchistan is considered as the land of minerals. In the same way, 33 percent of the Sindh’s population is living below the poverty line, followed by the Khyber Pakhtunkhwa (KPK) which is having 32 percent of its population living below the poverty line. In Punjab, the percentage of poor people is lower as compared to those of the other provinces, i.e. 19 percent of its population lives below the poverty line. Similarly, the Human Development Report (2013) ranks Pakistan as 146th in 187 countries in terms of human development, i.e. its Human Development Index (HDI) is 0.515. Likewise, Pakistan’s Inequality Adjusted Human Development Index (IAHDI), the Multi-Dimensional Poverty Index (MDI) and the Gender Inequality Index (GII) are 0.356, 0.264 and 0.567, respectively. These indices show that there is threatening level of inequality combined with the existence of non-income dimensions of poverty in Pakistan [United Nations Development Programme (UNDP) (2013)]. Besides, the gap between the poor and the rich is increasing day by day. For instance, the Gini coefficient in Pakistan shows an increase of about 17 percent from 1987-88 to 2004-05, i.e. its value increases from 0.35 in 1987-88 to 0.41 in 2004-05.

Here a question arises that why the conventional economics fails to achieve the single objective of human wellbeing as was farsighted by the earlier philosophers like Adam Smith. The purpose of this paper is to discuss the answer of this question. In this study, we conjecture that there exists a flaw in the philosophy of conventional economics, i.e. the conventional economics does not incorporate all the dimensions of human behaviour. This inconsistency is probably the root cause of the global poverty and income inequality. Until, this inconsistency is removed, probably, we would not be able to see an endless solution to these global issues. The economists and policy practitioners set the goals of eradicating poverty and inequality from the globe, which is fundamentally, a normative aspect; however, the strategy they adopt for the solution of these issues is derived mainly from the philosophy of invisible hand, which is inherently a positive aspect. Due to this inconsistent approach, the world is facing continuous problems of poverty and income inequality. Rest of the paper is organised into four sections. Section 2 sheds lights on the conventional approach for the eradication of poverty. In Section 3, we discuss the inconsistency in the conventional approach regarding the solution of poverty. Section 4 offers how to make the strategy of poverty reduction in line with the social objectives while Section 5 concludes the paper.

2. CONVENTIONAL APPROACH FOR THE ERADICATION OF POVERTY

The focus of the conventional approach is to eradicate poverty by the structural transformation of the traditional third world agriculture-based economies into the modern industries-based capitalist economies. In this regard, poverty has not always been the prime concern; rather, the primary concern remains on the accumulation of capital and wealth. The reason is that the conventional theory is firmly moulded in the structure of Adam Smith's (1776) Theory of Invisible Hands. Alternatively, in this structure, the individuals are allowed to maximise their private gains. Invisible hands will help the poor though helping the poor will not be the objective of those involved in the maximisation of their private gains. This presumption has played a vital role in diverting the economists' and other policy practitioners' attention primarily towards the wealth-generation regardless of its distribution among the various segments of the society.

As far as the wealth distribution is concerned; the mainstream theory is of the view that there exist trade-off between equality and economic growth. It is assumed that the Marginal Propensity to Save (MPS) of poor is lower than the MPS of the rich. This, in other words, implies that inequality is a precondition for higher savings, higher investments and higher economic growth. This is based on the presumption that higher savings though combined with the initial unequal distribution of income leads to higher investment which, in turn, increases the demand for labour in the next stage of growth process, leading to higher wages and higher share of labour in the economy. This hypothesis is summarised in the famous Kuznets Curve which proclaims that poverty and inequality could be resolved over time through the "Trickle-Down Effect". Under this traditional approach, the solution of poverty requires the implementation of the three D's namely Deregulation, Decentralisation and Denationalisation [Ghayur and Burki (1992)]. It is hypothesised that such policies will result in higher economic growth and will lead to lower poverty without any intervention in markets. Besides, the advocates of this approach recommend the elimination of general or non-targeted subsidies as such subsidies are considered as leading to price distortions which have negative implications for economic performance. In return, the "social safety net" and "paying cash subsidies" is introduced to compensate the negative welfare effects of those who are suffered from higher prices during the adjustment period.

Once the conventional approach could not give the desired outcomes; the proponents devised a series of poverty-reducing strategies, including the basic needs strategies in the 1970s. However, according to Comia, *et al.* (1987), such policies were again faded away in the 1980s when the stabilisation and adjustment policies took place. For instance, the Structural Adjustment Programme (SAP), and the other market-oriented policies such as liberalisation were the main focus of the era. Most of these policies were in the framework of the famous "Washington Consensus" which was based on the conventional approach that pro-growth policies will reduce poverty at the global and national levels [Dini and Lippit (2009)]. However, the occurrence of mass poverty in African, South Asian, and Latin American countries shows that the policies of liberalisation era did not work. The estimated data, based on United Nations Development Programme (UNDP) database, shows that inequality in the distribution of world wealth has increased dramatically from 1960 to 1994. For instance, the share of

industrial countries has increased from 77.3 percent in 1960 to 81.4 percent in 1994. Alternatively, the share of developing countries has decreased from 22.7 percent in 1960 to 18.6 percent in 1994.

Thus, the poor economic performance combined with the sharp rise in poverty in many countries in the 1980s led to the renewed interests in the reduction of poverty. In particular, the adverse results, particularly in African countries were so huge that the international financial institutions like the International Monetary Fund (IMF), the World Bank and the others were forced to pose the idea of social safety nets [Stewart (1995)]. In this regard, the UNICEF's "Adjustment with a Human Face" in 1987, the UNDP's first "Human Development Report" in 1990, and the World Bank's "World Development Report" on poverty in 1990 made poverty reduction as a central agenda of the international development. For instance, in the early 1990s, the World Bank president, Lewis Preston declared that "poverty is the benchmark against which we must be judged" [Dini and Lippit (2009)]. Along with this change, the emphasis also shifted from income growth to unemployment, income distribution and the basic needs.

According to the basic need approach; development is the enhancement of human freedom by ensuring the opportunities to lead a freer-life [Streeten (1995)]. In the same way, Sen (2001) asserts that people cannot be free if they do not have the resources to do what they like to do. In other words, the core of basic needs is to favour the creation of conditions in which people have the real opportunities of living the kind of lives they would like to lead, and to focus, particularly, on peoples' capabilities to choose the lives they have reason to value [Sen (2001)]. Thus, the focus has to be on the freedom generated by commodities, rather than on the types and usefulness of commodities. Alternatively, according to the social judgment approach, adequate nutrition, safe water, better medical services, better basic schooling, decent shelter and continuing employment are all considered as parameters on which the success of society could be measured. Since the provision of these goods cannot be ensured by the market forces; therefore, the basic needs approach attribute primary role to the institutions of state to redistribute resources towards the deprived segments of society. Wolfensohn (2000) is of the view that "a balanced and holistic understanding of the causes and effects of poverty can lead to reforms that promote inclusion, economic growth that reaches the poor, and social development—these are key to sustainable peace ... our job will be to help the countries harness the trends ... to promote growth, poverty reduction and social harmony" (pp. 7–8).

3. INCONSISTENCY IN THE CONVENTIONAL APPROACH

The main focus in the conventional approach remains on growth; however, over the time, it focused on the different dimensions of growth. As stated earlier, the principle argument in the conventional approach is that the mass structural poverty would be eradicated by the capitalist-induced growth; however, the poverty management exercises like the compensation and resettlement, the social protection and social risk management etc., is assumed to supplement, support and harmonise this process of growth. Most of these poverty management exercises are seemingly contradictory even including those of the World Bank. This is justified by the fact that first they consider that poverty is structurally determined by the backward institutions. In order to eradicate poverty, such

institutions should be transformed in order to make them in line with the forces of free market. Onwards, they emphasise the need for the benevolent handholding of the poor through the social protection mesas the poor in the world has come out as a negative externality of the strategy of free market forces. This, in other words, implies that the capitalist approach of growth first makes the people poor; and then suggests how to provide relief to them.

Thus, the growth based on the theory of invisible hand could not be a solution of poverty. For example, Harris-White (2006) argues that the poverty cannot be eradicated in capitalism. On the contrary, poverty is constantly being created and re-created under the institutions of capitalism. Capitalism is a mode of production in which capital in the form of money and credit, physical machinery, stocks of goods and labour—is privately owned. Production is for sale, labour is for sale; and sale is mediated through money. The owner of the means of production, often operating through specialised managerial labour, controls the hiring, firing and working conditions of labour, the choice of technology, the commodities produced, and the exchange of the output. This owner has access to the credit from the specialised financial institutions, even though he may challenge their control. An employer's control over the capital takes place in the context of competition for market shares. However, it is widely believed that the objective of profit maximisation forces the capitalist to adopt new techniques leading to unemployment. For instance, Burkett (1991) is of the view that politicians, the mainstream media, and the orthodox social science have all been telling us that capitalism is the only viable option for solving the world's problems. Yet, the global capitalist system is itself entering the third decade of a profound structural crisis, the costs of which have been borne largely by the exploited and oppressed peoples of the underdeveloped world. Burkett (1991) further states that the World Bank's assertion that the free-market policies are consistent with the effective anti-poverty programmes does not confront the class structures and the global capitalist interests bound up with the reproduction of mass poverty in the third world.

The inconsistency in the approach of conventional economics can be judged from an old report on human development, i.e. UNDP (1998). According to this report the global spending on luxuries were sufficiently enough to educate all and to provide them with the basic health services. This fact is shown in Table 1. As is visible from the table, only the spending on cigarettes in Europe would have been enough to educate all and to provide the basic health facilities to them. For instance, the spending on cigarettes in Europe is \$50 billion while the need for the global basic services was only \$40 billion. If the preferences of individuals incorporate the regards for others; then the luxuries like cosmetics, perfumes, ice-creams etc. could easily be given off for the welfare of the vulnerable class of the society.

Given the above discussion, it is understandable that there remains fundamental flaw in the approach for tackling the issue of poverty. Due to this reason, poverty has come out one of the serious issues in the world. The above thesis also shows that the lasting solution of poverty is not in what the conventional approach presents. Hence, a question arises that what the solution, then, is? The following section provides a brief answer of this question.

Table 1

<i>Global Priorities and the World Need of the Basic Social Services</i>			
Global Priority	Billions U.S. Dollars	The Cost of Achieving Universal Access to Basic Social Services in all the Developing Countries	Billions U.S. Dollars
Cosmetics in the United States	8	Basic Education for all	6
Ice Cream in Europe	11	Water and Sanitation for all	9
Perfumes in Europe and the United States	12	Reproductive Health for all Women	12
Pet Foods in Europe and the United States	17	Basic Health and Nutrition	13
Business Entertainment in Japan	35		
Cigarettes in Europe	50		
Alcoholic Drinks in Europe	105		
Narcotics Drugs in the World	400		
Military Spending in the World	780		
Total	1418	Total	40

4. MAKING THE STRATEGY IN LINE WITH SOCIAL OBJECTIVES

Poverty alleviation itself is a normative goal. Therefore, the strategy to alleviate poverty should be, accordingly, normative. Alternatively, poverty could not be only achieved with a positive strategy. The current strategies in the path don't judge the individual behaviour on the basis of whether it is leading us to our desired goal or not? We can resemble the current situation of the world economies with a school where the objective is to have a result with the highest number of students with "A" grade. However, the administration of the school allows every student to schedule their time and activities the way they wish. If the students use their freedom for non-academic activities; then it is less likely that the school would achieve its desired goal. For instance, if, instead of study, the students allocate more time to activities such as plying games, surfing internet etc., then it is less likely that they would achieve A grade. Thus, in order to achieve the desired objective, the administration of the school needs to judge the behaviour of students on the basis of the objective set for the school. In the same way, we have a normative target of poverty alleviation; but the conventional approach positively allows every individual to allocate their resources the way they desire. Alternatively, the freedom and the maximisation of self-interest are protected in this system.

Besides, the freedom regarding the allocation of resources is not subject to moral or any other societal constraint. It only assumes that the phenomena of free market forces where all individuals pursue their private interests will lead to the alleviation of poverty. As stated earlier, this assumption is very unrealistic and the current trends in the poverty

of the world contradict this assumption. According to the orthodox approach, individuals are myopic and are only motivated by their personal interests. In other words, they are unable to match the desirability of their private demands with what is required for the overall welfare of society. Hence, they need some scale for judging the matching of their private demands with the interests of society. For example, it is common in our day-to-day life that we pass moral judgment on the demand of family members for having an excursion trip to Europe if their brothers or sisters are starving to death as it contradicts with the interests of the family. Likewise, we need to pass moral judgment on the behaviours of individuals if they don't fall in line with the interests of a global family. If this world is like a village; then, it not possible to say that let the people enjoy their lives while most of them are facing the abject level of poverty. Thus, a village with such inconsistent philosophy for its dwellers can never see the dawn of a day with poverty eliminated.

The true solution of poverty is a paradigm shift where the freedom of individual is judged on the basis of its consistency with the moral objectives set for the society as a whole. We need to reconsider the philosophy of market economies which is based on the theory of invisible hands. Alternatively, the academicians and policy practitioners need to promote a world where the freedom of individuals is ensured in line with the moral objectives set for the society. Moudoodi (2010), while redefining the thoughts of an eminent Muslim Scholar *Shahwiullah*, mention that the fundamental difference between the needs of human beings and animals is that humans not only want the satisfaction of their needs; but they also seek the grace in it. The level of seeking grace in the demand is so heterogeneous that sometimes it exceeds the level of optimality. Human beings are unable to clearly know and understand this level of optimality. For example, one can drink water in any glass, but taking grace or pleasure from drinking may lead to having it in the golden glass. Likewise, the need of human beings is to conceal their bodies from the vicissitude of weather and other environmental effects; however, the satisfaction of this need could be done by attiring simple dress. In contrast, wearing fashionable dress, fancy clown, golden cuffs are just the personification of this grace. This, in other words, implies that intervention from the outside is required to curb the level of pleasure that crosses the level of optimality. In this regard, a fundamental requirement is that an individual has to judge his behaviour on the basis of some ethical constraints. For instance, he has to give up pursuing his self-interest if it clashes with the interests of society [for related discussion, see also, Chapra (1991); Keynes (1926); Zaman (2012)].

To work against one's self-interest for the sake of protecting the social interests requires a very strong motivation. This motivation is not possible without incorporating the sense of accountably in individuals. For instance, telling them that any action of theirs' which is against the interests of society, they will be held responsible. This does not necessarily means that such motivation may come just from the public authority as it is impossible for public authority to monitor individuals all the time. In other words, some inherent forces must exist permanently in individuals in order to prevent them from hurting the social interests. For instance, one such force is the internal conscience of individuals. However, the limitation of internal consciousness is that it sometimes becomes weaker in preventing the individuals from hurting others. Hence, the only solution is the fear of punishment in the life here after for any wrong-doing in this world.

This idea, however, is not new in economics; and even Smith (1872) is of the view that fear of God may result in coinciding the private interests with the interests of society by providing moral sacredness to actions. Here we quote a very famous statement of Adam Smith:

“When the general rules which determine the merit and demerit of actions, come thus to be regarded as the laws of an all-powerful Being, who watches over our conduct and, who, in a life to come, will reward the observance, and punish the breach of them: they necessarily acquire a new sacredness from this consideration”(Smith, 1872: Part III, Chapter V).

The concept of punishment and reward in the life hereafter exist almost in all religions. We need to strengthen this belief further so that whenever a clash between the private and social interests arises, one must stop there without any coercive force of the government. Rather, an individual should fear the bad consequences of any wrong act in the life hereafter. So the belief of life hereafter is inevitable for the optimal allocation of resources as far as the social welfare is concerned. Without a strong belief in the life hereafter, it is almost impossible to stop individuals from maximising the selfish gains at the cost of social cost. If this is not the case; then, we will remain counting poverty for another 100 years, but we will never eradicate it. Alternatively, defining the preferences of economic agents just on the basis of self-interest is not a complete description of the human behaviour; rather morality should be given a role in specifying both the preferences and the constraints of individuals. Hence, the promotion of morality-based behaviour is the only solution of the current poverty in the World.

5. CONCLUSION

The current economic system which is based on the Adam Smith's theory of invisible hands has side effects in the form of poverty and income inequality. The theory of invisible hands is based on the ideology of individual freedom. Alternatively, it does not give any role to institutions in specifying the preferences of individuals. For instance, according to the conventional ideology, the individuals are free from any moral, religious or social obligations in satisfying their demands. Thus, accompanied by the assumptions of perfect knowledge and selfishness-based rationality, economic agents are characterised by preferences which are self-regarding, exogenous, and stable. Given this structure, the ultimate purpose of individuals is to maximise their material gains. Since the beginning of formal economic thought, this ideology has been dominant and persistent. However, it has not been able to produce the outcomes which Adam Smith had foreseen at the time of developing the basics of this theory. In other words, the outcomes of the mainstream economic thought have been controversial as far as the welfare of society is concerned. For instance, it is concentrating the resources in the hands of few; and the issues like poverty or inequality are the production of this ideology. Still, there are no successful instruments with this ideology in order to eradicate these crucial issues.

In the current framework, there have been persistent attempts being made in order to reduce the issue of poverty. So far, however, there are no considerable achievements in this regard. Still, the 85 richest people in the world have the same wealth as the 3.5 billion poorest people. In Pakistan, every third person is living below the official poverty

line. A significant fraction of the population almost in all of the provinces of Pakistan has no access to the basic services. The gap between the rich and poor is widening day by day. While the theoretical and empirical literature on poverty and poverty reduction is huge; however, the real impact of such work appears to be insignificant. In this study, we argue that the fundamental problem lies in the approaches for solving poverty. For instance, all of the current approaches while considering poverty as a negative externality try to internalise its effects. In other words, these approaches don't try to fix the real root of this problem. The root cause of poverty is the philosophy of self-interest. Thus, until we do not address the morality-free selfishness and freedom, the elimination of poverty is unlikely. For instance, the new approaches to the reduction of poverty should incorporate in their agenda the role of morality in curbing the selfishness. Besides the informal institutions, there should be some central authority which could look at the moral obligations of individuals in the society. Our analysis suggests a complete shift in the paradigm of economics for tackling the issue of poverty. We conjecture that without such shift, we cannot see the dawn of a poor-free global village for another 100 years.

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Comments

- The paper asserts that paradigm of conventional economics is based on the invisible hand theory of Adam Smith. Under free market forces, individual maximise private interest (utility/profit). Helping poor is not incorporated in the objectives of economic agents. Hence, poverty and income inequality come out as negative externalities of this paradigm. This paper suggests that until the problem in the roots of conventional economics is not solved, just working on to fix the negative externalities may not solve the issue of poverty.
- Author raise question on organisations that why poverty in the world and Pakistan not dropped as in 104 developing countries 1.2 billion people had an income of \$1.25 or less a day and in 91 developing countries 1.5 billion are MPI. And 800 million are at risk to be fall into poverty.
- Sir I agree to you that theoretic foundations of conventional approaches might lead to rising inequality. Under trickledown effect, you have explained three D's namely deregulation, decentralisation and denationalisation that they will reduce the poverty and growth. So now it depends on the country how it implement this D and what is state re-distribution policy, i.e. decentralisation in Pakistan not reap benefit while in China and some other countries remained successful. West is spending a lot on re-distribution along with progressive tax structure while our tax structure is regressive. Yesterday we have discussion that safety net is unable to eradicate poverty so that's why importance of inclusive growth is now stressed by majority of the literature that the benefits of growth will reach to all the segments of society.
- Poverty is a mental and psychological phenomena as well, therefore there is no consensus on the definition of poverty. I am just your student in experimental economics, if you conduct experiment from both extreme poor and upper middle class. Let say a poor have income of Rs 12000 and upper middle have around 50,000. Both will say that we are hardly surviving. Poor will say I need 2, 3 more while upper middle say that I need 20 more.
- With due apologise, poverty and inequality depends on priorities and needs as you mentioned in table 1 rather than capitalism. So if you apply the definition of developing countries in west i.e. dollar a day or 2350 calories or social inclusion, despite of capitalism, they have less poverty, deprivation and a well-defined social protection system. China is an example that during communist period (1948-78) they have more poverty than Africa, but 1978 to onward, they move toward capitalism and globalisation and not only reduce poverty in percentage but also in numbers. China did successful land reforms late 70s but our 3 land reforms fail.
- There is too much debate on poverty but our policies lack that how to include the poor and what he/she need. We have mainly focused on targeted safety nets

but we are unable to build their asset creation (soft and physical). In our developing countries including Pakistan, markets are not complete so the invisible hand is not working properly. The issue is that our growth is not inclusive (see 60s decade and 2006-10) with macro instability as well. Economic benefits are also skewed to our ruling class. We are not reaping the benefits from demographic transition because our institutions and governance system is not benefiting the poor and we are unable to absorb our youth so they are facing vulnerable employment and under-employment. Despite of all resources, we are not utilising our potential momentum, including growth, tax collection, etc.

- We are investing only 2.5 percent of GDP on human capital and our educational system is not producing the right quality skilled labour as per our need. Our graduates are searching jobs because they don't have entrepreneurial skills while our employer is unable to create jobs. Our educational institutes and our labour policies are not at same line. Due to lack of social health protection, 98 percent of population especially the poor and informal worker purchase health facility from their pocket so they are vulnerable to health and other shocks. The World Bank report of "Doing Business" shows that doing business in Pakistan is quite difficult, Pakistan was at 66th rank/175 and now we fall to 128/189. We have huge disparities across the regions and lack of infrastructure. We have to borrow from outside because we have only 13 percent saving so cannot invest. Being lack of R & D, our agricultural productivity is stagnant over the last 30 years, and in absence of crop insurance and weak market structure, our farmer is dependent on *artis*.

At end I agree you that to stop individual from working against his self-interest for the sake of social interest require a very strong motivation. This belief of day-of-judgment must be strong enough so that whenever a clash between private and social interest arise, he must stop there without any coercive force of government. I think if individually we get this level of spirit, all the issues would resolved if we forgo our interest on societal interest.

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