that it has overcome one-third of Pakistan's poverty problem within just four years. It may be useful to subject this claim to scrutiny in this brief note.

Government's claim

The government has claimed that poverty has declined from 34.46 percent of the population in the year 2001 to 23.90 percent in 2005, i.e. a ten percentage point reduction in poverty, which means that one-third of Pakistan's poverty problem had been overcome within a period of four years. If this were true, then the government had brought off one of the most dramatic feats of poverty reduction, within the shortest period of time, in the history of the developing countries over the last 100 years.

A number of questions, however, arise with respect to the government's claim. It is important for independent experts in civil society to determine whether or not poverty has declined substantially during the tenure of this government. If poverty has not declined substantially, then a redesigning of the government's economic strategy would have to be undertaken in order to achieve a high GDP growth that is both pro-poor and sustainable.

Questioning the government's claim of poverty reduction

The government's claim can be questioned at a statistical level in terms of three aspects of poverty reduction:

Sources and pattern of growth: The government's claim of having wiped out one-third of the poverty problem in Pakistan, over a period of four years, is not consistent with the sources of GDP growth and the pattern of agriculture growth.

For example, the agriculture sector, where the predominant proportion of Pakistan's poor population subsists, has shown sharp fluctuations in agricultural output which would be expected to increase, rather than decrease, poverty. During the period 1999-2000 to 2004-05, the index of production for major crops was substantially less than in the base year in two out of the six years. For food crops, in four out of the six years, the index of production was substantially lower than in the base year (1999-2000).[5]

When there is a bad harvest in any particular year it throws marginal farmers into poverty. They are forced to borrow money to buy food, and are unable to invest in seed, water and fertilizer for re-constituting the production cycle the following year. Thus, such a high frequency of bad harvests in the major crops sector means that marginal farmers have fallen into poverty. This suggests an increase, rather than a decline, in poverty. Moreover, the sharply increased inflation rate of wheat and other food items means that the poor have fallen deeper into poverty. (While the average inflation rate in 2004-05 was 9.3 percent the food inflation rate was 12.5 percent).[6]

When there is a bad harvest in any particular year it throws marginal farmers into poverty. They are forced to borrow money to buy food, and are unable to invest in seed, water and fertilizer for re-constituting the production cycle the following year. Thus, such a high frequency of bad harvests in the major crops sector means that marginal farmers have fallen into poverty. This suggests an increase, rather than a decline, in poverty.

The growth in the large-scale manufacturing sector in Pakistan has been predicated on the output growth of just four industries: automobiles, consumer electronics, textiles, and construction. Three out of these four industries neither produce goods for the poor, nor employment. This is because they are highly capital intensive, and whatever little employment they generate is for the highly skilled. Moreover, even though there was some increase in installed capacity, most of the growth in the large-scale manufacturing sector is attributable to better utilization of existing production capacity.[7]

The third component of GDP growth is the services sector whose growth has been predicated primarily on banking (15.2 percent growth in the year 2003 and 14.4 percent growth in 2004) and telecommunications (68.8 percent growth in 2005). The growth of the commercial banking sector, which was a key determinant of overall GDP growth, cannot be said to be generating employment, income or credit for the poor. Similarly, telecommunications which, while providing mobile telephones to a much larger proportion of the middle and lower-middle class, provided neither substantial employment nor cheaper consumer goods to the poor.

Bias in poverty reduction estimate due to base year selection: Poverty level in the year 2006, which was a good harvest year, has been compared with the base year of 2001 which was a particularly bad harvest year. For example, in the year 2001 rice production declined by 19.2 percent compared to the preceding year, while in 2006 rice production increased by 10.4 percent compared to the preceding year.

Similarly, the growth rate of wheat was negative in the year 2001, while it was positive in the year 2006. Clearly the selection of 2001 as the base year would tend to give an upward bias to poverty reduction. The government and multi-lateral agencies, in the interests of intellectual integrity, ought to have done a sensitivity test to examine the magnitude of the bias due to the base year selection. We really have no way of knowing if, for example, the year 1999 was selected as the base year rather than 2001, whether poverty would have declined or increased in the year 2006.