

*Working Paper 2*

# LABOUR MARKETS AND POVERTY IN PAKISTAN: INSTITUTIONAL ARRANGEMENTS AND POLICY

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## **Introduction**

### **Objective**

The aim of this paper is to contribute to Pakistan's poverty reduction policy framework by improving the understanding of labour market issues relevant to poverty and poverty reduction in the country. The paper will provide a strategic review of the labour market-poverty linkage in order to facilitate better correspondence between labour and poverty-reduction policies.

### **Background**

Pakistan is evolving a framework for poverty reduction under the Poverty Reduction Strategy Paper (PRSP) process. Any framework for poverty reduction must implicitly or explicitly incorporate an understanding of labour markets and other labour arrangements in the economy. The efficiency of the growth-poverty linkage, for example, crucially depends on how the labour market responds to different types of growth paths. Likewise, the extent to which anti-poverty programmes such as those for employment generation, public works, and self-employment (through microfinance) will succeed depends on how the labour market is structured. Moreover, policy changes that imply changes in the bargaining power of labour are likely to have implications for poverty and poverty reduction.

Existing policy thinking on poverty reduction, however, tends to deal with labour markets and other labour arrangements as marginal rather than core issues of concern. Labour policy, on the other hand, also appears to be focused on the concerns of existing stakeholders – viz. organized labour, employers and government – largely to the exclusion of the poor.

It is possible to address some of the policy mismatch between poverty reduction and labour issues by initiating an examination of the labour market in Pakistan. What is its structure and what have been the major trends? What is the nature of poor peoples' participation in the labour market? In what ways is the labour market segmented, and how does labour market segmentation correlate with poverty? What are the significant labour arrangements outside of labour markets: are there important segments of labour, e.g. bonded labour, that do not answer to the description of market? What can be said about workers and potential workers who face various degrees of social disadvantage? This paper will attempt to answer some of these and other questions.

### **Methodology**

This paper will propose, adapt and develop the theory of 'segmented' labour markets in order to understand the prevailing labour arrangements. It will attempt to link the segmented labour markets framework with concepts such as 'social networks' in order to make a clearer conceptual linkage between poverty and labour arrangements.

The paper is based on a review of existing data and literature on poverty and labour market issues. Statistical sources such as the Labour Force Survey and the Pakistan

Integrated Household Survey will be used to analyze patterns and trends in the labour market, particularly in relation to poverty.

Besides quantitative data, there are also qualitative data that can be used to develop a better understanding of poverty and labour issues in Pakistan. Insights from qualitative data can be crucial in understanding institutional issues in labour – such as labour market segmentation, changing contractual arrangements, and non-market labour arrangements.

## **Outline**

This report consists of four substantive chapters. Chapter 1 provides a statistical review of labour and poverty issues based on the analysis of secondary data from the Population Census, the Labour Force Survey, the Agricultural Census and the Pakistan Integrated Household Survey. This chapter constructs a profile of labour and poverty in Pakistan, and comments on recent and emerging trends.

Chapter 2 develops an institutional analysis of labour and poverty issues. It begins with a brief sketch of the dominant “competitive labour markets” paradigm, and then uses recent field-based research on institutional aspects of labour and poverty to develop a more nuanced understanding of labour arrangements. It proposes “segmented labour markets” as an alternative to the “competitive labour markets” paradigm.

Chapter 3 reviews existing policies on poverty and labour issues. It takes the Poverty Reduction Strategy Paper as its point of departure, and also examines elements of the new labour policy such as the Minimum Wage Ordinance 2001, and the Industrial Relations Ordinance 2002. The review of existing policies is carried out in the light of the understanding of labour and poverty issues reached in Chapters 1 and 2.

Chapter 4 concludes with proposals and recommendations in two broad areas: policy, and future research and data collection. This chapter identifies areas where the PRSP framework as well as the new labour policy can be strengthened, developed and refined. The existing policy framework is a sound platform to elaborate specific policies in the light of new research. For each direction of policy work, the chapter also suggests possible indicators of achievement. Finally, the chapter identifies areas where future research and data collection might be needed in order to support the existing and proposed policy framework.

## **Chapter 1: Review of Statistical Data**

This chapter will use secondary data in order to provide an overview of the labour market in Pakistan. The overview will include the identification of key patterns as well as key trends in labour since the early 1990s. The statistical review will attempt to draw a correspondence between labour and poverty data. The chapter will pay attention to overall economic trends as well as changes in labour arrangements. In addition, specific issues such as youth employment, women's employment, child labour, opportunities for special persons, and bonded labour will receive attention here.

### **1.1 Data Sources**

Data on labour is available from a variety of official and unofficial sources. The Population Census, which is a statutory record of demographic and socio-economic data, is one of the fundamental sources. Not only does the census provide information on the broad patterns of labour in the country, it also constitutes the sampling frame for statistically representative large-scale surveys of labour, poverty and other related issues. The most recent census was carried out in 1998 after a gap of seventeen years.

The Labour Force Survey (LFS) is one of several large-scale sample surveys conducted by the Federal Bureau of Statistics using the Population Census as the sampling frame. The most recent round of the LFS was carried out in 1999-2000, after surveys in 1990-91, 1992-93, 1994-95, and 1996-97. The methodology, definitions and the implementation of the LFS have seen steady development and improvement. The 1999-2000 LFS was based on a sample of over seventeen thousand households.

Other valuable sources of information on intra-sectoral patterns of labour are surveys such as the Agricultural Census, and the Census of Manufacturing Industries (CMI). These data-sets are not censuses, as their titles suggest, but sample surveys. The Agricultural Census is a relatively large survey of "agricultural establishments" defined as farms, households and other operational holdings engaged in crop production or the keeping of livestock. This survey is conducted once every ten years, with the most recent one having been completed in 2000. The Agricultural Census is a particularly useful source of information on patterns and trends in contractual arrangements in agriculture.<sup>1</sup>

In addition to these above-mentioned sources, one of the most valuable source of data on labour issues, particularly with reference to poverty, are the large-scale household economic surveys conducted periodically by the Federal Bureau of Statistics. Two such parallel series – namely, the Household Integrated Economic Survey (HIES), and the Pakistan Integrated Household Survey (PIHS) – were merged in 1998-99 into

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<sup>1</sup> Although the Agricultural Census is not compatible with the Population Census in the technical sense of the term – i.e. the sample design is not explicitly based upon the Population Census – the Agricultural Census has its own well-defined sampling and quality control systems. Its large sample size makes it a particularly useful source of secondary data in Pakistan, and results have been found to be broadly consistent with Population Census-based surveys.

a revised PIHS. These FBS data-sets are typically based on smaller samples than the LFS or the Agricultural Census. Their value, however, lies in the fact that they collect data on a range of demographic, economic, social, and welfare characteristics of households. The most recent PIHS was carried out in 2000-2001 and some of its results are available in tabulated form. The 1998-99 PIHS, however, is the most recent such data-set which was available in unit form at the time of writing.

The key feature that distinguishes the PIHS from other data-sets mentioned above, is the fact that it is possible to estimate household income and expenditure, and therefore to carry out poverty analyses using these data. In addition to income and expenditure, the PIHS also includes information on work and employment, education, health, and other characteristics of households and individuals. The definitions used in the PIHS on work and employment issues correspond closely with the respective definitions in the LFS.

This chapter will make extensive use of unit-level data from the PIHS 1998-99 in order to construct a profile of labour in Pakistan. Published results from other data sources such as the Population Census, Labour Force Survey, and Agricultural Census will be used to contextualize and complement the analysis of the PIHS. While these various data sources give broadly similar answers to some questions, they also differ from one another on other important issues. Some variations are due to differences in sampling strengths, while others appear to arise from different ways of defining analytical categories. The similarities and the differences, however, offer interesting insights into methodological as well as substantive issues.

The quality of the secondary data is generally a matter of concern in most developing countries. Pakistan is no exception to this broad generalization, and the extent to which there are questions about data quality and reliability, any results from these data must be interpreted with a degree of caution. Given this caveat, it needs to be pointed out that the Federal Bureau of Statistics – the body responsible for producing the Labour Force Survey and the Pakistan Integrated Household Survey – has relatively robust and transparent systems of sample design, quality control, and survey implementation. Unit-level FBS data have been made available to national and international researchers, and have, therefore, been subjected to considerable peer review and scrutiny. They have been found to compare favourably with survey data from other developing countries.<sup>2</sup>

## **1.2 A Profile of Labour**

In the year of the most recent Population Census (1998), Pakistan's population was 132 million. Out of this number, 89 million or 67.5 per cent of the people lived in rural areas. The sex ratio – or the number of females for every one hundred males – was 92.4, among the lowest in the world. The younger age groups were demographically the dominant ones, with nearly one-third (30.5 per cent) of the population being under the age of ten years. Nearly half of the country (48.8 per cent) was younger than 18 years – or below the standard legal age of adulthood. Children aged between ten and fourteen years constituted 12.9 per cent of the population, and

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<sup>2</sup> Regular users of FBS data include organizations such as the World Bank (see, for example, World Bank, 2002, Pakistan Poverty Assessment 2001), as well as academic users who are particularly sensitive to quality issues.

youth aged between fifteen and twenty were 10.4 per cent of the population. The disabled constituted around 2.7 per cent of the population aged 10 or above.<sup>3</sup>

### **From Population to Workforce**

The Population Census as well as other statistical sources – such as the LFS and the PIHS – enquire about economic activities of people aged 10 years or above. These data, therefore, can be used to learn about child labour for children aged 10 and above, but not those below that age. According to the Population Census, the total labour force – defined as those people reported to be working or actively seeking work – comprised under a quarter (22 per cent) of the population. The labour force participation rate in the population aged 10 and above was 32 per cent according to the census.

Besides children under 10, the Population Census also excludes another important category – “domestic workers” or “home-makers” from the labour force. “Domestic work” was reported as the work activity of over 95 per cent of all females aged 10 and above. The female labour force participation, according to the Population Census, therefore, was only 2.2 per cent.

Sample surveys such as the LFS and the PIHS, which are based on the Population Census sampling frame, nevertheless use different definitions of work and labour force participation from the census. These surveys are, understandably, more detailed in their approach to the characteristics of households and individuals than can be expected from the Population Census. The criterion for including a person in the workforce in the LFS is that the person provides labour services for the production of goods and services defined as such by the United Nations System of National Accounts.<sup>4</sup> All persons above the age of 10 years who either worked for at least one hour during the reference period, or were unemployed but seeking work, are treated by the LFS as being part of the workforce.

The original LFS definition also ruled out people involved in domestic work and related activities from the workforce. Even so, the more elaborate definition involving questions about actual work done (as opposed to the summary categorization as in the Population Census), resulted in the LFS reporting far higher female and overall labour participation rates than the census. In 1999-2000, according to the LFS, 43 per cent of the population aged 10 or above was in the workforce. The female labour participation rate according to LFS 1999-2000 was 13.7 per cent -- some six times higher than the 1998 census.

Since 1995-96, moreover, the LFS definitions and methodologies have undergone further revision. Instead of ruling out people doing domestic work and related activities, now the LFS probes further as to whether or not a given individual has engaged in fourteen specified agricultural and non-agricultural activities. This “probing” exercise leads to a further increase in the female participation rate to 39.2

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<sup>3</sup> These figures are from Population Census Organization (2001), 1998 Census Report of Pakistan, Statistics Division, Government of Pakistan, Islamabad.

<sup>4</sup> For details see page 2, Labour Force Survey 1999-2000, Federal Bureau of Statistics.

per cent in 1999-2000. The overall labour force participation rate also rises accordingly to 55 per cent.<sup>5</sup>

The comparison between the different sources indicates that even basic statistics such as the size of the workforce are highly sensitive to the precise definition and methodology being used to collect and analyse data. The female labour participation ranges from around 2 per cent (Population Census) to 39 per cent (LFS 1999-2000). Estimates of the overall labour participation rate, correspondingly, range from 32 per cent (census) to 55 per cent (LFS 1999-2000).

The prevalent methods and definitions used in the main data sources also condition the analysis of other important features of labour. Since children under the age of ten years are excluded automatically from questions about economic activity, any analysis of child labour using these large data-sets is confined to children aged 10 years or older. Since published data are readily available for age groupings of 10 to 14, and 15 to 19 years, the present study will focus on the 10-14 age group for child labour, and the 15-19 group for the analysis of youth employment.

According to the LFS definitions, 10.9 per cent of the children in the 10-14 age group were in the workforce in 1999-2000. Given the estimated population in 2000 (137.5 million) and the ratio of the population in the 10-14 age group (12.9 per cent), this translates into 2.2 million child workers in the 10-plus group. The total number of child workers is likely to be higher considering the fact that at least some of the children aged below 10 might also be economically active. There had been a decline in the labour participation rate among children between 1997-98 and 1999-2000, which was entirely due to a sharp decrease (from 7.8 per cent to 2.8 per cent) in the female participation rate for that age group.

Using the more inclusive “probing” definition of labour force participation, however, the LFS 1999-2000 reported a labour participation rate of 24.2 per cent for the 10-14 age group. The corresponding number of child workers according to this definition, therefore, was 4.9 million in 2000.

Youth labour force participation (i.e. the 15-19 age group) was 34.4 per cent according to the conventional LFS definition, and 57 per cent according to the new “probing” definition. In other words, in the year 2000 there were 4.9 million youth workers.

Disabled workforce participation was available in the Population Census but not in the LFS. The proportion of the disabled who were engaged in economic activities was 18.4 per cent in 1998. This was considerably lower than the census estimate for overall labour force participation (32 per cent). It was not clear from the census data whether or to what extent the shortfall in the disabled persons’ labour participation was due to demand or supply factors.

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<sup>5</sup> Labour Force Survey 1999-2000, various tables.

## **Employment Status**

While the definition of the workforce poses one set of conceptual issues – with the attendant variation in results corresponding to definitional differences – the classification of the workforce raises another set of conceptual issues. What are different labour arrangements that are prevalent in the country? How do these labour arrangements correspond with economic opportunity and security? Are there significant numbers of people who while being in the workforce are not in the labour market due to extraneous economic and social conditions? What proportion of the workforce faces unemployment? Is there a considerable volume of unemployment that is disguised as underemployment?

Empirical answers to these types of questions are constrained by the architecture of the available data sources. While it is possible to answer some questions directly, other answers need to be based on rough proxies and informed guesswork in the interpretation of data.

The existing data sources use two main types of classifications of the economically active population. First, there is a distinction between the employed and the unemployed. Persons who are currently not working but actively seeking work are classified as unemployed. Second, among the employed, there is a further classification among four main categories: employers, self-employed, employees, and unpaid family help.

According to the 1998 Population Census, the rate of unemployment was 19.7 per cent – 20.2 per cent for males and 5.1 per cent for females. Out of the 4.8 million reported as “looking for work”, moreover, 1.9 million (or forty per cent) were under the age of 20. The LFS estimates of the unemployment rate, however, was considerably lower. According to LFS 1999-2000, 7.8 per cent of the civilian labour force was unemployed. In the LFS data too, a disproportionate number of the unemployed were in younger age cohorts – 33.7 per cent were aged between 10 and 19, while this age group accounted for 23.3 per cent of the total population. Although the census and the LFS yield different unemployment statistics, there are two features worthy of note. Firstly, the overall unemployment rate appears to be relatively high for a country without unemployment insurance. Secondly, a large proportion of the unemployed are children and youth.

The binary classification of the workforce between the employed and the unemployed does not adequately capture labour market conditions in an economy in which modern large-scale industrial and service sectors exist alongside more casual work arrangements in agricultural and small-scale activities. Since the definition of “employed” includes anyone who had worked for even an hour during the reference week, employment and unemployment statistics need to be supplemented with data on the intensity of work. The LFS does collect data on the hours of work in the reference period, and it is therefore, possible to have some idea about underemployment.

In 1999-2000, 14.3 per cent of the employed workforce worked for less than 35 hours a week. Those who worked less than 25 hours a week constituted 5.6 per cent of the employed, and only 1.8 per cent of the employed worked for less than 15 hours a week. The LFS defines underemployment as less than 35 hours of work. If the

unemployment rate is adjusted to include the underemployed, it rises from 7.8 to 8.9 per cent of the workforce. Labour market slackness, therefore, appears to manifest itself primarily in the form of outright unemployment rather than underemployment in Pakistan.

Comparing the educational profile of the population as a whole, the unemployed and the underemployed, is a useful way of understanding the nature of unemployment and underemployment in Pakistan. While the rate of illiteracy in the population as a whole was 53 per cent, it was 49 per cent and 58 per cent, respectively, among the unemployed and the underemployed (Table 1). The unemployed were better educated than the population at large while the underemployed were less well educated. This tends to support the hypothesis that many of those who are unemployed are people with education who are able and willing to sustain longer periods of unemployment in the search for well-paid jobs. The unemployed are also better educated than the population at large if we consider levels of education such as Matric (secondary schooling) and higher.

Table 1: Comparative educational status of population, unemployed and underemployed

	Population aged 10 and above	Unemployed	Underemployed
Illiterate	50.00	44.89	55.17
Literate	50.00	55.11	44.83
No formal education	0.52	0.50	0.34
Pre-Matric	33.50	54.61	26.07
Matric	9.29	30.47	7.65
Intermediate	3.57	13.70	4.99
Degree & post-graduate	3.11	5.19	5.78

Source: Labour Force Survey, 2001-2002

The LFS and other sources of secondary data classify the employed workforce into four broad types (Table 2): employers, self-employed, employees, and unpaid family help. The last category, or “unpaid family help”, requires some comment. Employment in this category implies that the basic unit of work is the family. Any unpaid family worker must be associated with another worker or workers in at least one of the other categories – employers, employees, or self-employed. It is likely, moreover, that an unpaid family worker is associated with a self-employed worker who maintains income and expenditure accounts on the behalf of other family members.

Table 2: Proportion (per cent) of workforce by type of employment

	All	Male	Female
Employer	0.8	0.9	0.3
Self-employed	38.5	42.4	15.7
Unpaid family helpers	20.8	16.4	46.9
Employees	39.9	40.3	37.1

Source: Labour Force Survey 2001-2002

The existence, and indeed the prevalence (being over a fifth of the workforce) of this category of worker complicates, at the very outset, any empirical or policy analysis of labour market conditions. These workers are market players only in a derivative sense through some other workers. A self-employed worker who loses his livelihood due to some reason might appear in the employment data as an unemployed worker. But it is not clear, *a priori*, what will happen to the associated unpaid family helpers. They might be counted as unemployed, or they might simply not show up as being part of the workforce any longer. Table 3 gives the classification of underemployed workers by the type of employment. The table shows that underemployment is, indeed, dominated by unpaid family helpers – while the proportion of unpaid family helpers is 21.4 per cent in the employed workforce (Table 2), it is 48.6 per cent among those who worked for less than 25 hours a week.

Table 3: Proportion (per cent) of the underemployed by employment status and gender

	Worked less than	
	25 hours	35 hours
All workers	100.00	100.00
Employer	0.36	0.42
Self-employed	30.40	30.30
Unpaid family helpers	48.56	40.87
Employees	20.32	28.27

Source: Labour Force Survey 1999-2000.

The prevalence of unpaid family workers raises other complex issues in the interpretation of labour market conditions. Some of these workers might be involved in economically remunerative family businesses, and for them, unpaid but otherwise well-compensated work might represent a superior option to salaried employment outside the family. In other cases, however, unpaid family work might represent a degree of “self-exploitation” because families pool their labour power and provide their services at low effective wages. This mode of exploitation might be particularly strong for women and child workers. It might also be the case, however, that family-based work is the only remunerative activity that is permissible, given existing social norms, for some workers, particularly for women.

While the category “unpaid family helper” is clearly a problematic one from the point of view of poverty analysis, there are also limitations in the use of the other categories used by the existing secondary data. The two main categories – “self-employed” and “employee” – both encompass a potentially wide range of activities, income levels, contractual conditions, and bargaining power.

The self-employed include people who work for themselves and enter non-wage economic transactions with other agents. This category potentially includes a well-established shopkeeper as well as someone peddling flowers at traffic junctions. The “self-employed” category is also likely to be a proxy for disguised unemployment. Data on underemployment do indicate this to some extent. The self-employed are over-represented among the underemployed; they form 24 per cent of the employed workforce but 30 per cent of the underemployed. Employees, on the other hand are under-represented among the underemployed. The data on underemployment,

moreover, are based on the number of hours worked, and in the case of many self-employment activities such as petty vending, the hours of work might not be a good proxy for the level of economic activity.

As in the case of the “self-employed” the “employee” category is also highly heterogeneous. It includes a salaried worker, a wage labourer, someone employed casually on a piece-rate basis, as well as any other person who works exclusively for one employer for a given period of time. A bonded labourer on a brick kiln is as much part of this category as a well-paid executive working for a large formal sector company. The Population Census, the LFS, the PIHS, as well as other large-scale survey data are unable to capture the precise nature of the contractual arrangement under which a person might be employed. While there is certainly scope for improvement – for example by adding sub-categories such as piece-rate work, as well as questions about the security of employment – other detailed information which might go into more focussed analysis of contract types is only available from qualitative studies.

### **Sector and Industrial Category**

All of the main sources of statistical data – census, LFS, and PIHS – use the National Income Accounts Systems classifications of industries. Agriculture is the largest single sector in terms of employment according to all three data sources. There are differences between the census and the two FBS surveys, however, in two important respects.

First, according to the census less than forty per cent of the employed workforce was in agriculture, while the other two surveys yield higher proportions for the sector – 48 per cent in the LFS and around 45 per cent in the PIHS. The main factor accounting for the difference is the greater inclusiveness with respect to female workers in the FBS data. Agriculture has a relatively high participation of female workers.

Second, the proportion of workers in construction was over twenty per cent in the census, but around a third of that in the LFS and the PIHS. As argued above, it is clearly better to use the Population Census for demographic analysis and sample design and LFS and PIHS for more detailed analysis of household and individual characteristics.

According to the LFS nearly one half (48.4 per cent) of the employed workforce was in agriculture, forestry, fishing and hunting. Nearly three-quarters of the employed female workforce was in agriculture. The more recent rounds of the LFS (from 1996 onwards) also provide a further breakdown of non-agriculture sectors into “formal” and “informal” activities. Two-thirds of all employed workers in non-agricultural activities were engaged in the informal sector.<sup>6</sup> Taken together, workers in agriculture and informal non-agricultural activities, making up over fourth-fifths of the workforce (Table 4), were employed in a relatively unregulated environment with respect to labour and welfare provisions. Employment relations in this unregulated segment of the workforce are characterized by informal, verbal and often personalized contracts premised on social and market norms rather than legal protection.

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<sup>6</sup> For a detailed definition of the “informal sector” in the LFS see Labour Force Survey 1999-2000, p 3.

Table 4: Workforce in Agriculture, Non-Agriculture and Informal Sector (Per Cent)

Sector	ALL AREAS		
	BOTH SEXES	MALE	FEMALE
Agriculture	42.09	32.63	9.46
Non-Agriculture	57.91	52.73	5.18
Formal	20.52	18.60	1.92
Informal	37.39	34.13	3.26

Source: Labour Force Survey 2001-2002

The sectoral distribution of the employed workforce is shown in Table 5 below. It is worth noting that manufacturing accounts for only 11.5 per cent of the workforce – behind “community, social and personal services”, and “trade, restaurants, hotels”. Construction accounts for 5.8 per cent of the workers, and transport for 5 per cent. The given sectoral distribution does not provide a finer indication of sectors that might be of some significance from the point of view of poverty reduction.

It is possible, however, to anticipate some patterns. It can be expected, for example, that work in agriculture (and related activities such as forestry, hunting and fishing) accounts for relatively low remuneration and a high incidence of underemployment. Similarly, much of the workforce in construction is likely to be made up of unskilled workers who do not have access to other positive economic opportunities. Construction is also likely to be a relatively volatile source of employment since demand for labour in this sector is likely to fluctuate widely in response to government as well as private investment in infrastructure. The “community, social and personal services” sector actually comprises a wide range of activities including teaching and medicine, as well as low-paid domestic service. These issues are taken up in greater detail in Chapter 2 below with reference to existing qualitative data.

Table 5: Sectoral distribution of employed workforce (per cent)

	Both sexes	Male	Female
	100.0	100.0	100.0
Agriculture, forestry, hunting and fishing	42.1	38.2	64.6
Manufacturing and Mining	13.8	13.6	15.2
Construction	6.1	7.0	0.3
Trade, restaurants, hotels	14.8	17.1	1.9
Transport and communication	5.9	6.9	0.4
Community, social and personal services	15.5	15.2	17.4
Others(include electricity, gas and water			
Finance and business services and activities			
Not adequately defined)	1.8	2.0	0.2

Source: Labour Force Survey 2001-2002

## Occupational Status

Survey data identify nine main occupational categories of which workers in four categories (managers and officials, professionals, technicians, and clerks) are unlikely to be among the poor (see Table 6). These four categories account for 19 per cent of the employed workforce according to the LFS. Out of the remaining five categories, four are likely to have a representation of the poor as well as the non-poor, viz.

service workers, skilled agricultural workers, crafts, and machine operators. These four categories account for another 63 per cent of the workforce. The last category – “elementary” or unskilled labourers – which account for 18 per cent of the workforce are likely to be among the poorest. The occupational structure is characterized, therefore, by two groups consisting of around one-fifth of the workforce each, respectively, at the top and bottom ends of the poverty scale, and a large mixed segment in the middle comprising three-fifths of the workforce.

Table 6: Occupational distribution of employed workforce (per cent)

	Both Sexes		Female
	Male	Female	
	100.0	100.0	100.0
Managers and officials	11.6	13.2	1.9
Professionals	2.1	2.0	2.5
Technicians	4.7	3.9	9.5
Clerks	1.7	2.0	0.3
Service workers	5.7	6.4	1.3
Skilled agricultural and fishery workers	34.7	33.0	44.3
Crafts	16.2	16.4	14.9
Machine operators	3.9	4.6	0.2
Unskilled labourers	19.4	18.5	25.1

Source: Labour Force Survey 2001-2002

### The Working Poor

The PIHS is the appropriate dataset for an analysis of employment and poverty. Besides collecting information on household and individual demographics and economic activities, the PIHS also collects information on incomes and expenditure. It is possible, therefore, to classify the population according to its poverty status and to identify patterns of labour and employment of the poor and non-poor. This is particularly helpful given that in Pakistan unemployment is not likely to be a very good predictor of poverty, and that the category of the “working poor” – or those who are employed but poor – will be a significant one for purposes of analysis and policy.<sup>7</sup>

Table 7 gives a summary description of the economic status of the population in the PIHS 1998-99 data. The analysis here focuses on the population aged between 15 and 65 years. It excludes child labourers about whom data tends not to be very reliable, and also the elderly. Around 28 per cent of the population in the PIHS sample was outside the relevant age group. Those who were in the relevant age group but not in the labour force accounted for around 33 per cent of the population. The ratio was much smaller among males (10 per cent) compared to females (55 per cent). The unemployed were around 2 per cent of the entire population and their proportion was much higher in urban areas compared to rural areas. This might be due to higher rates of underemployment in rural areas. The employed constituted 37 per cent of the PIHS sample. In this case too there was a sharp gender divide, with 57 per cent of males and only 16 per cent of females reported as being employed.

<sup>7</sup> On the empirics and policy implications of the “working poor” thesis see Nomaan Majid (2001), “The Size of the Working Poor Population in Developing Countries”, ILO Employment Paper 2001/16, International Labour Organization, Geneva.

Table 7: Per cent population by economic status and segment

	All	Rural	Urban	Male	Female
Not relevant age group (15-65)	28.7	29.5	26.6	30.2	27.1
Not in labour force	32.6	30.8	36.7	10.3	54.8
Unemployed	2.1	1.7	3.0	2.3	1.9
Employed	36.7	37.9	33.8	57.1	16.2

Source: Calculated from PIHS 1998-99

The population was then ranked according to its poverty status and five groupings were used to classify the sample. Households were first ranked according to per capita household expenditures, and were then grouped into population deciles.<sup>8</sup> Table 8 provides an analysis of the economic status of the population by poverty grouping. The six groupings are, respectively, the poorest 10 per cent, those in the 10-20 range, those in the 20-30 per cent range, those in the 30-40 per cent range, and the top 60 per cent of the population in terms of per capital household expenditure rankings.<sup>9</sup>

Table 8 shows that the age profile of the population varies with its poverty ranking. In the “Top 60” grouping the proportion of people outside the relevant age group was 27 per cent, compared with 29 per cent in the population as a whole, and 32 per cent in the “Poorest 10” decile. This indicates that the dependency ratio (the number of dependents per working person) is higher among the poor.

In the population within the relevant age group, labour force participation also appears to be correlated with poverty. It is the highest (59 per cent) in the poorest decile, and relatively low (53 per cent) in the “Top 60” grouping. This observation supports the assumption of the “working poor” thesis that in developing countries the poor “need” to work more than the non-poor. The higher labour force participation appears to be driven by a higher supply of labour from the poor.

The proportion of the workforce that is unemployed also appeared to be correlated with poverty status. The “Poorest 10” decile had an unemployment rate of 6.9 per cent, compared with 5.5 per cent for the entire workforce, and 5.2 per cent for the “Top 60” grouping. This finding indicates that unemployment is a factor in poverty in a way similar to the conventional view in developed countries. The poor, therefore, are more willing to offer their labour – as evidenced by their higher labour force participation rates – in line with some of the standard predictions of labour economics. At the same time, however, the absence of employment opportunities keeps people in poverty - as evidenced by the higher unemployment rates among the poor.<sup>10</sup>

<sup>8</sup> The PIHS only allows the identification of expenditure or income at the household level and not at the level of individuals. Expenditure was used to create poverty rankings because it is thought to be a more reliable proxy for permanent income.

<sup>9</sup> Poverty groupings were done using deciles rather than a poverty line because it was interesting to conduct the analysis with respect to different levels of poverty. The official poverty line yields a headcount ratio of around 30 per cent, and therefore the relevant category will be the lowest three deciles.

<sup>10</sup> Some of the predictions of the “working poor” thesis are premised on the observation that poor developing countries do not have functioning social security systems, and barring informal social security, the poor are forced to work for low wages. While this argument is largely intact, the findings here indicate that informal social security might be somewhat more robust in Pakistan than anticipated.

Table 8: Workforce participation and unemployment by poverty decile

	Poorest					
	10%	10-20%	20-30%	30-40%	Top 60%	ALL
Not relevant age group (15-65)	31.8	32.3	31.8	29.6	26.8	28.7
Labour force as per cent of population aged 15-65 years	58.7	57.3	57.1	55.8	52.6	54.4
Unemployed as per cent of workforce	6.9	5.8	5.5	5.1	5.2	5.5

Source: Calculated from PIHS 1998-99

While the rate of unemployment is relatively high among the poorest, the main proposition related to the “working poor” thesis – that in developing countries unemployment and poverty ought to be treated as distinctive policy issues – remains valid. Table 9 gives a breakdown of the workforce by poverty and employment status. For the sake of presentational facility the “poor” are defined as the lowest three deciles of the population ranked by per capita household expenditure.<sup>11</sup> Table 9 shows that the working poor (28.5 per cent) were around sixteen times as numerous as the unemployed poor (1.8 per cent), and over five times as numerous as all the unemployed taken together (5.5 per cent). Policies directed at reducing unemployment, therefore, will only partly address the problem of poverty, which requires attention to better terms of employment for those poor who are already in employment.

Table 9: Employment and poverty (per cent of workforce)

	Poor	Non-poor	
Employed	28.5	66.0	94.5
Unemployed	1.8	3.6	5.5
	30.3	69.7	100.0

Source: Calculated from PIHS 1998-99

Table 10 shows the sectoral distribution of the poor, the non-poor and the employed workforce taken as a whole.<sup>12</sup> Agriculture is the largest sector in the PIHS as it was in the LFS, accounting for around 43 per cent of the employed workforce. It is also a sector with a slightly disproportionate presence of the poor. The other two sectors where the poor have a disproportionate representation are construction, and “personal and household services”.

Table 10: Sector/industry and poverty (per cent of employed)

	Poor	Non-poor	Employed workforce
Agriculture	46.5	41.1	42.7
Manufacturing and mining	12.8	12.6	12.7
Construction	10.4	6.3	7.6

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A parallel study to this one on social protection provides a more detailed treatment of the issue: Asad Sayeed (2003) for ILO Pakistan.

<sup>11</sup> The official poverty line yields a headcount ratio of just over 30 per cent for the 1998-99 PIHS. The demarcation of “relative poverty” proposed here, therefore, is broadly consistent with the official poverty line.

<sup>12</sup> Tables 10 and 11 adopt the same definition of poverty as Table 9 – namely the lowest three deciles of the population ranked in by per capita household expenditure.

Trade etc	10.2	13.5	12.5
Transport	5.2	6.4	6.0
Community and social services	5.7	12.6	10.5
Personal, household services	8.6	7.2	7.6
Other	0.6	0.2	0.3
	100.0	100.0	100.0

Source: Calculated from PIHS 1998-99

Besides sectors, the PIHS also allows the analysis of the workforce by occupation (Table 11). Agricultural workers are further sub-divided into “skilled agriculture”, “subsistence agriculture”, and “manual – agriculture”. The “occupation” classification of the PIHS enables the identification of manual workers in various sectors such as services, agriculture, and construction and manufacturing. As expected, white collar workers are likely not to be poor. It is interesting to note, moreover, that traditional blue collar workers such as machine operators – or workers who tend to be employed in the formal manufacturing sector – are also relatively unlikely to be poor.

The occupational categories with a relatively high representation among the poor are “skilled agriculture”, and manual work in services, agriculture, construction and manufacturing. These latter workers are classified formally as “elementary” workers, signaling the fact that they are involved in uncomplicated and unskilled manual work. Given the fact much of the workforce is in “informal” sectors in any case, the skill level of a worker is likely to be a function not just of her prior educational or technical knowledge, but of her involvement in work which require the acquisition of skills on the job. In other words, the level of skill is likely to be endogenous to the type of work that a person gets an opportunity to do. The “first-order” interpretation of Table 11 is not that greater skills lead to lower poverty, needs to be supplemented with the possibility that there might be structural divisions in the labour market that allow some workers but not others to earn a premium on skills acquisition. This proposition is partly supported by the finding that workers in “skilled agriculture” tend to be over-represented among the poor. Institutional underpinnings of labour market segmentation are taken up below in Chapter 2.

Table 11: Occupation and poverty (per cent of employed)

	Poor	Non-poor	Employed workforce
White collar (office related etc)	4.1	13.6	10.7
Service workers	12.5	15.1	14.3
Crafts	11.7	10.9	11.1
Blue collar (machine operators etc)	4.6	6.1	5.7
Skilled agriculture	27.3	23.8	24.9
Subsistence agriculture	10.3	10.8	10.6
Manual - services	5.5	4.8	5.0
Manual - agriculture	7.9	5.3	6.1
Manual – construction, manufacturing, etc	16.2	9.5	11.5
	100	100	100

Source: Calculated from PIHS 1998-99

### **1.3 Recent and Emerging Trends**

Pakistan rate of economic growth in the 1990s barely kept ahead of the rate of population growth, at an annual average of 4.6 per cent. This was in contrast to the preceding decade when growth averaged at 6.5 per cent. Growth in the 1990s was also highly volatile with growth rates ranging from 7.7 per cent (1991-92) to 1.7 per cent (1996-97). Low growth continued in the current decade with the economy registering an expansion of 2.2 per cent and 3.4 per cent respectively, in 2000-2001 and 2001-2002. There is some evidence of recovery in the most recent year, with a provisional estimate of 5.4 per cent growth for 2002-2003. This subsection present labour statistics for the period from 1990 onwards. Given this macroeconomic context, it is important to ask what the trends were in terms of labour and poverty statistics.<sup>13</sup>

It has been noted above, that the Population Census is useful for demographic and sampling purposes but does not necessarily provide reliable information on detailed questions concerning labour force participation and employment. The census, in any case, is not conducted frequently enough to be useful as a source of information on recent and emerging trends. The primary value of the PIHS, on the other hand, lies in the possibility of understanding the linkage between poverty and different types of employment opportunities. Although the HIES/PIHS has been conducted on a regular basis since the early 1990s, its main focus has remained household income, expenditure and social characteristics.

The LFS, therefore, is the main source of consistent time-series labour data, and it is primarily this data source that will be used here to comment on recent and emerging trends. Indeed, the LFS is the main source of data on these trends reported in official documents such as the Economic Survey. The Economic Survey takes the LFS figures on statistics such as the labour force participation rate, unemployment and the sectoral distribution of the workforce, and interpolates for the years when the LFS was not conducted. Given that the last LFS for which data are available was conducted in 1999-2000, the time series also effectively ends in that year.

Two issues are immediately conspicuous in the labour force statistics since 1990 (Table 12). First, the labour force participation rate does not show any particular trend in this period. The labour force participation rate declined somewhat in the early part of the 1990s, increased a little towards the middle of the decade and decline again a little in the beginning of the next decade.

Second, the rate of unemployment also fluctuated but was on a rising trend through the decade with sharp increases in 1991, 1997 and 2000. In fact, the unemployment rate in 2000 was 2.5 times as high as the rate in 1990, and the number of unemployed workers had increased over three-fold. Some of the periods of rising unemployment also coincided with years when the overall labour force participation rate had declined – e.g. in 1991 and in 2000. It is likely, therefore, that the factors that led to increases in unemployment (or fall in the demand for labour) had also led to the exit of workers from the workforce. By the beginning of the current decade, therefore, unemployment appears to have emerged as a major economic problem in Pakistan.

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<sup>13</sup> The data are based on Economic Survey 2002-2003.

Table 12: Trends in Population, Labour Force and Unemployment

Mid Year (End June)	Population (millions)	Labour Force (millions)	Unemployment (millions)	Labour Force	
				Participation Rates (%)	Unemployed Rate (%)
1990	108.04	31.15	0.97	28.83	3.13
1991	110.79	30.99	1.95	27.97	6.28
1992	113.61	31.94	1.87	28.11	5.85
1993	116.47	32.45	1.53	27.86	4.73
1994	119.39	33.29	1.61	27.88	4.84
1995	122.36	33.6	1.81	27.46	5.37
1996	125.38	34.43	1.85	27.46	5.37
1997	128.42	38.84	2.25	28.69	6.12
1998	131.51	38.64	2.28	29.38	5.89
1999	134.51	39.52	2.33	29.38	5.89
2000	137.51	39.84	3.12	28.97	7.82
2001	140.47	40.69	3.19	28.97	7.82
2002	143.38	41.54	3.25	28.97	7.82
2003	146.27	42.38	3.32	28.97	7.82

Source: Economic Survey 2002-2003

There were four conspicuous features in the sectoral distribution of employment since 1990 (Table 13):

First, there was no secular trend with respect to the share of agriculture in employment. Agriculture accounted for 51 per cent of the workforce in 1990 and the ratio had declined to 44 per cent in 1996, only to rise to 48 per cent in 1999-2000. This observation is important because it indicates that structural change from agriculture to non-agricultural activities, which has been a conspicuous feature of economic development, was absent in the most period in Pakistan.

Second, and relatedly, the proportion of manufacturing saw a near steady decline from 12.8 per cent in 1990 to 10.6 per cent in 2000. Manufacturing, clearly, was not the sector that led employment generation.

Third, the construction sector that is often associated with first round employment effects of public and private investment showed an increase in the mid-1990s only to decline below its 1990 share in 2000.

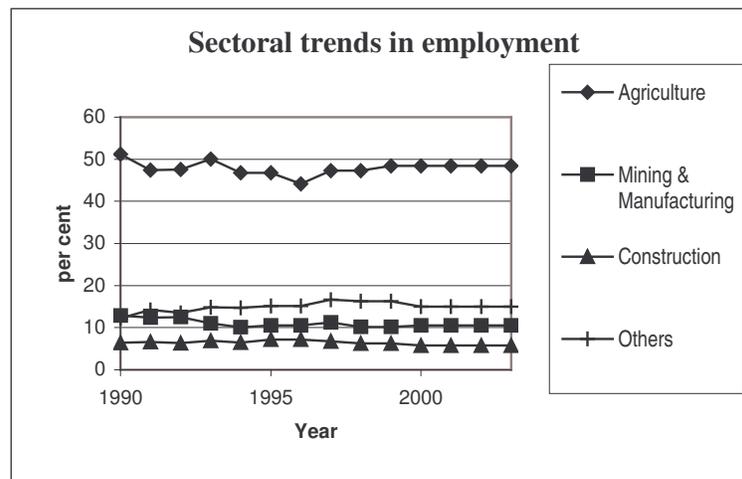
Fourth besides agriculture, the miscellaneous category “others” which is dominated by a range of low remuneration service sector activities balanced much of the decline in the main economic sectors.

Table 13: Sectoral distribution of employment – trends since 1990  
(per cent of employed workforce)

Years	Agriculture	Mining & Manufacturing	Construction	Electricity & Gas		Transport	Trade	Others
				Distribution				
1990	51.15	12.84	6.38	0.59	4.89	11.93	12.22	

1991	47.45	12.38	6.62	0.83	5.24	13.24	14.22
1992	47.55	12.53	6.33	0.79	5.51	13.10	13.48
1993	50.04	11.00	6.93	0.84	5.52	13.32	14.84
1994	46.79	10.12	6.50	0.87	4.95	12.78	14.75
1995	46.79	10.50	7.21	0.82	5.07	14.50	15.12
1996	44.15	10.50	7.21	0.82	5.07	14.62	15.12
1997	47.25	11.20	6.75	0.98	5.71	13.87	16.60
1998	47.25	10.15	6.26	0.70	5.48	13.50	16.28
1999	48.42	10.15	6.26	0.70	5.48	13.50	16.28
2000	48.42	10.55	5.78	0.70	5.03	13.50	15.02

Source: Economic Survey 2002-2003



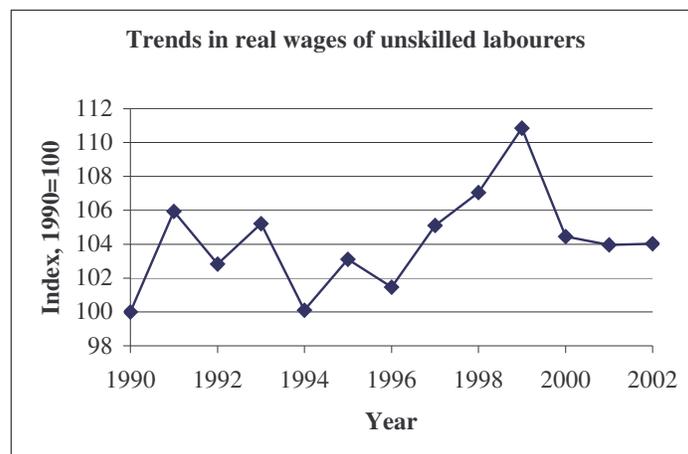
Source: Labour Force Survey (various) from Economic Survey (2002-2003)

Taken together, the trends in the rates of labour force participation and unemployment, and those in the sectoral distribution of the workforce, suggest a broader hypothesis about labour market conditions in the last decade. The rise in the share of the agricultural sector was thought to be, at least partially, due to the absence of positive economic opportunities. The agricultural sector acts as a “sponge” that soaks up excess labour in the rest of economy.

The stagnation and decline in the share of manufacturing employment and the sharp fall in employment in the construction sector particularly since the mid-1990s is consistent with the decline in investment rates in the economy. Investment fell from 19 per cent of the GDP in 1990-91 to around 15 per cent in 2002-2003, with the sharpest fall being registered in the period in the last 5 years. Within overall investment, the ratio of public investment to GDP fell very dramatically between 1995-96 and 2002-2003 – from 8.2 per cent to 4.8 per cent, or a fall of over 40 per cent.

The Economic Survey publishes a time-series on the daily wage rates of construction workers in some of the main cities. The construction sector is widely seen as a useful index of overall employment opportunities for the poor, and the daily wage rate is thought to be determined in relatively frictionless competitive conditions. Wages in other sectors of the economy often closely shadow trends in the casual daily wages of

construction workers. The daily wage rate of unskilled workers, therefore, might be used as an index of the remunerative opportunities of the poorest segment of the workforce. The diagram below presents trends in the real wages of unskilled labourers. Nominal wages were deflated using the consumer price index for low-income families, also available in the Economic Survey.



Source: Author's calculations based on Economic Survey 2002-2003

Real wages showed great volatility and grew slowly in the period under review. The real wage rate in 2002 was only 4 per cent higher than it was in 1990, with the most recent period witnessing a sharp decline.

The interpretation of employment trends given above is also in line with trends in the income poverty indicators such as the head-count ratio. The table below (Table 14) reports three recent time series. The official Government of Pakistan (GOP) series shows that poverty was on the rise throughout the 1990s.<sup>14</sup> Other poverty estimates give a different picture. Work done at the World Bank using a time-consistent estimation method shows that poverty trends fluctuated but continued to decline in the early 1990s, and that 1996-97 was the main turning point after which poverty ratios increased at a rapid rate.<sup>15</sup> This view is supported by a different but also time-consistent methodology used in a technical paper of the Federal Bureau of Statistics.<sup>16</sup>

Table 14: Alternative Series on the Poverty Head-Count Ratio (per cent)

Year of survey	GOP series	WB series	FBS technical paper
1987-88	29.2	37.4	--
1990-91	26.1	34.0	--
1992-93	26.8	25.7	26.6
1993-94	28.7	28.6	29.3
1996-97	29.8	24.0	26.3

<sup>14</sup> Economic Survey 2002-03 (Finance Division 2003).

<sup>15</sup> World Bank (2002).

<sup>16</sup> Federal Bureau of Statistics (2001).

1998-99	30.6	32.6	32.2
2000-01 <sup>17</sup>	32.1		

Source: Finance Division (2003), World Bank (2002), and Federal Bureau of Statistics (2001), based on HIES and PIHS data.

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<sup>17</sup> Poverty estimates for 2000-01 have been subject to controversy in Pakistan. It has been suspected that the official data were 'revised' using a re-survey after it was discovered that poverty indicators had worsened. The GOP figure might be based on the 'revised' data. The non-GOP figure is based on the analysis of 'pre-revision' data (personal communication) by two independent analysts using methodologies identical to those used in the WB Series and the FBS Technical paper series respectively.

## **Chapter 2: Labour Markets and Other Institutions**

The discussion thus far has treated labour and employment in relatively uncomplicated terms. The existence of a smoothly functioning labour market has been taken for granted, even though there have been some preliminary suggestions about possible complexities in a person's entry into the workforce, questions regarding women's mobility, social norms, and the significance of the household as a labour unit with reference to unpaid family help. This chapter aims to provide a more detailed treatment of the complexities in labour markets and other institutions, and the bearing of these complexities on poverty analysis and policy.

### **2.1 Going beyond the simple labour market perspective**

The labour market perspective offers a relatively simple way of addressing issues of labour and poverty. This perspective, which is premised on the existence of market relations between buyers and sellers of labour power, finds easy correspondence with aggregate statistics such as labour force participation and unemployment. In the simplest version of the labour market framework labour is demanded by firms and supplied by individuals. The equilibrium is characterized by price (wage) and quantity (labour force participation).

Elaborations of the simple template – with reference to issues such as intra-household allocations of labour and leisure time, human capital, efficiency wage theories, uncertainty and risk, and information costs -- then lead to more complex equilibrium conditions including the possibility of unemployment. Poverty, then, is correlated with low wages and unemployment, which in turn are the characteristics of a particular labour market equilibrium.

Although the labour market perspective remains a useful framework for analysing the linkage between growth, employment and poverty, there are important aspects of labour and poverty in Pakistan that are at great variance from the more simple versions of this perspective. The diversity of contractual forms, the prevalence of extremely low female labour force participation, the existence of non-market labour arrangements (e.g. within families as well as practices such as bonded labour), and the importance of personalized transactions and social hierarchy, all point to the need for a more nuanced analysis not only of labour markets, but of wider institutional arrangements in general.

Dropping the presumption of a smoothly functioning labour market in favour of a more institutional approach to labour arrangements has several implications for the analysis of poverty. Instead of focusing only on economy-wide aggregates such as rates of labour force participation, unemployment, underemployment, and wage, there is need to look at structural factors which mediate poor people's access to markets. Anti-poverty policy, therefore, ought to pay greater attention to structural changes which may lead to improved market conditions for the poor. In other words, a poverty reduction policy might be concerned not only with overall growth and employment generation, but also with institutional change.

Moreover, the prevalent idea that the main source of labour market friction lies with public sector over-employment, rigid labour regulation, or restrictive practices on the

part of unions, needs to be revised and qualified. A more careful institutional analysis of labour is likely to show that there are “socially-driven” labour market frictions, which are as pernicious of not more than any rigidities imposed by government regulation or union activity. In other words, even in the absence of public regulation and union activity, the labour market is likely to be uncompetitive, “unfree”, and unequal.

The remainder of this chapter attempts to construct an institutional approach to labour and poverty in Pakistan with the help of existing material. Research interest in labour institutions has been sporadic and limited to particular sectors and problems. Agrarian relations, for example, were an important area of empirical study from the 1960s till the 1980s. Labour arrangements in non-agricultural sectors have received attention in a number of individual studies. Issues such as bonded labour have attracted particular attention, and have yielded important insights into wider issues concerning labour arrangements. Finally, recently, a number of qualitative empirical studies on poverty have begun to generate interesting data on the nature of labour and other institutions and their implications for poverty.

This chapter will make use of all of these sources of information in order to suggest an alternative -- to the simple labour market perspective -- framework for the analysis of labour and poverty in Pakistan. The ideas in this chapter are based on a careful reading of the existing qualitative and quantitative data, and it is hoped that this will move forward the understanding of labour and poverty. At the same time, however, a number of proposals presented here ought to be treated as posing questions that require further conceptual and empirical work.

The institutional analysis of labour presented here is selective in its coverage of sectors and issues. The aim here is to highlight the importance of institutional analysis and the implications of such analysis for policy. A fuller institutional picture of labour and poverty is likely to emerge over time with more focused qualitative and quantitative empirical work. The chapter pays special attention to two sectors – agriculture (section 2.2) and construction (section 2.3). The former is the largest source of employment and provides a useful vantage point into labour relations in general. The latter is widely considered a sector with relatively easy access to the poorest segments of labour. Besides these two sectors, the chapter examines three sets of institutional arrangements: the contractor system (section 2.4), bonded labour (section 2.5), and patriarchy (section 2.6). Finally, it is proposed (section 2.7) that a segmented markets framework is likely to be a useful one for an understanding of labour and poverty issues, and some key features of segmented labour markets in Pakistan are outlined.

## **2.2 Agriculture and agrarian relations**<sup>18</sup>

The ownership of land is highly unequal in Pakistan. Less than half of all rural households own any agricultural land, while the top 2.5 per cent of the households account for over 40 per cent of all land owned. The ownership distribution of land clearly influences the nature of economic opportunities in agriculture. The

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<sup>18</sup> This section draws upon earlier research carried out by the author and reported in Gazdar, Khan, and Khan (2002). It also makes use of the findings of the ILO-commissioned studies on bonded labour in agriculture in Pakistan as part of the work of the Bonded Labour Research Forum (2003).

distribution of operational holdings is less unequal than land ownership due to the possibility of land leasing. The leasing of land, particularly in the form of share-tenancy, has historically provided the landless poor with access to land.

Agriculture is one sector of the economy where there has been extensive interest in class relations: between landowners of different sizes of holdings, tenant farmers, and labourers. Local variations in institutional arrangements can be quite crucial in gaining a proper understanding of agrarian relations and will be addressed further below. It is useful, however, to begin with a broader typology of agrarian workers such as the one available in the Agricultural Census.

The Agricultural Census takes a farm or an operational holding as its basic unit of observation. Farms are classified according to their sizes and forms of tenure. There are two main categories of tenure, owner-cultivators and tenant cultivators, with an intermediate category of owner-cum-tenant farms. Tenant cultivated area is further classified according to the form of tenure, and two types of tenancy are admitted: fixed lease rental and share tenancy. Conventional models of the agrarian economy are premised on an economic hierarchy of tenure types with owner-cultivators at the top and share-tenants at the bottom. The owner-cultivator category is, obviously, very wide and includes a range of landowners from large landlords down to marginal subsistence farmers. Fixed lease rental holdings are generally thought to be managed by relatively better off farmers with good endowments of capital.

#### Tenurial pattern of agriculture in Pakistan

	NWFP	Punjab	Sindh	All Three
	Per cent of farms			
Owner-operated	83	79	66	77
Owner-cum-tenant operated	6	11	4	9
Tenant operated	11	10	30	14
	Per cent of area			
Owner operated	83	77	79	79
Tenant operated	17	23	21	21
Share-cropped	13	15	17	15
Leased	4	8	3	6

Source: Agricultural Census 2000

In terms of employment status, then, the agricultural workforce falls under two broad categories: self-employed cultivators and hired labourers.<sup>19</sup> Owner-cultivators and tenant cultivators are both self-employed. Both types of households might also hire out labour to other farming households. The compounding of owners and tenants into one encompassing category – and conversely, the analytical distinction between landless share tenants and landless labourers -- requires explanation. Much of the early literature on land tenure in Pakistan has been concerned with the problem of “tenant eviction” and “tenancy security”. This indeed, has been the thrust of much debate and legislation concerning land reform.

Three broad economic distinctions between self-employment and hired labour are worth noting:

<sup>19</sup> Non-cultivating owners such as owners who have rented out all of their land holdings are, obviously, not considered part of the agricultural workforce.

First, self-employment either as owner-cultivators or as tenant cultivators is thought to offer economic security of different types. A self-employed farm household, even that of a landless tenant might be better able to meet their food consumption needs in times of adverse shock. Those with direct access to land are likely to have more diversified economic options such as livestock rearing, and use of fuel.

Second, given the highly patriarchal access to the labour market (discussed in greater detail in section 2.6 below) a household with direct access to land is likely to be able to better realize the labour potential of its female members.

Third, workers and households that have access to land either as owner-cultivators and tenant farmers are likely to be direct beneficiaries of long-term growth in agricultural output and productivity, while for casual labourers any such gains are likely to be mediated through the labour market (wages, employment) and commodity markets (prices).

There has been a tendency at least since the 1960s towards owner self-cultivation and away from tenant farming. There has been a secular decline in the proportion of tenant farms as well as in the area under tenancy. This trend has been interpreted by some as evidence of eviction or the alienation of the landless poor from self-employment in agriculture. Landowners, according to this view, have resumed possession of their holdings, and converted their erstwhile tenants into mere labourers. If this is the case, the linkage between agricultural growth and the incomes of the landless poor is likely to have become weaker, and is likely to become even more tenuous in the future. The protection of tenant occupancy has, indeed, been viewed as an important pro-poor intervention.

There are several non-exclusive explanations for the secular decline in tenancy and the resumption of land for owner-cultivation. First, the demographic factor, or the increase in the per-acre availability of own-family labour power is thought to be a key factor. Second, technological changes particularly the introduction of mechanized draught power have reduced the demand for animal draught power and hence for self-employed tenants. Landowners can easily manage large farms with the help of tractors. Third, fear of losing land title to tenants as a result of land reform legislation creates an extra incentive for landowners to evict their tenants even if the immediate economic rationale favours tenant farming.

There are, however, other views on the matter that have the opposite implications. Some observers have placed tenant farming, particularly share-cropping, in the category of forced or bonded labour. Landless tenants are thought to be in coercive debt-linked contracts with their landlords, and are then subject to extreme exploitation. The bonded labour perspective, therefore, ought to be favour the decline in tenancy and the increasing casualization of agricultural labour. According to this view, the security offered by self-employment as a tenant is conditional on bondage and exploitation.

Qualitative research on agrarian labour has offered valuable insights into some of these questions. Three sets of issues are worth highlighting for the purposes of the present study.

First, there is a diversity of contractual arrangements in agriculture ranging from casual labour to long-term employment. While some of these arrangements resemble daily cash-based wage labour negotiated on a day-to-day basis, others are contracts that appear very similar to share-tenancy contracts, while yet others appear to be long-term bonded labour arrangements. Most of the casual labour, moreover, is remunerated by piece rate. The category of agricultural labourers, therefore, includes a range of arrangements with much blurring of boundaries between self-employment on the one hand and wage employment on the other.

Second, some of the most labour intensive agricultural activities relate, respectively, to the management of surface irrigation, and harvesting. Pakistani agriculture relies overwhelmingly on canal and tubewell irrigation – and predominantly the former. The corresponding farm technology places a large premium on effective on-farm water management and this requires the regular and careful application of manual work. The second important source of labour demand is harvesting which continues to be done manually over most of the country. While the nature of farm technology (water management issues) creates the demand for reliable and motivated workers throughout the crop cycles, harvesting generates peak demand for labour during two or three busy periods. The former is almost exclusively a demand for male workers, while the latter generates demand across gender and age. Looking ahead, both types of labour have relatively expensive technological replacements.

Third, labour transactions in agriculture are rarely, if ever, conducted between anonymous individuals. Caste, kinship group, and family play an important role in determining the economic options of individuals. Certain types of contractual arrangements are open only to some people and not others. Individuals within similar contractual arrangements, moreover, experience different effective conditions of contract depending on their social backgrounds. The *kammi* landless castes of Punjab, for example, are rarely if ever offered tenancy contracts, though they might be employed as regular farm servants or casual harvest labourers.

Conversely the *hari* system of sharecropping in Sindh offers formally identical but effectively different contracts to tenants depending on their social proximity to the landlord. A *hari* might be a close relative of the landlord, might belong to the same wide kinship group, or to a politically allied but weaker grouping, or he might be from entirely distinctive social, ethnic and religious community. While a non-Muslim Bheel tenant of a landlord might face conditions of forced labour under a sharecropping contract, a close relative would enjoy conditions of near-parity with his landlord.

Summing up, labour arrangements in agriculture, which is the largest sector in terms of employment, are characterised not by casual competitive labour markets, but by a range of non-market institutions and social norms. Some of the non-market frictions, such as the existence of sharecropping contracts, provide a level of protection to the poorest. Other norms such as the operation of a caste hierarchy in Punjab are regressive as they exclude the poorest from potential labour market opportunities. The tendency towards owner self-cultivation (and tenant eviction), while reducing the scope for some non-market institutions (such as sharecropping) does not necessarily

lead to the creation of equal market relations in the place of social hierarchy. For that more pro-active policy responses might be needed.

### **2.3 Casual labour in construction**<sup>20</sup>

Casual wage labour in the construction sector is thought to be synonymous with a free labour market with open access to all who are able-bodied and willing to work. The casual daily wage rate (*dehari*) is often taken as an index of the reservation wage of the poor. Official data sources also report the daily wage rate of construction workers as a benchmark. In some parts of the country the common term for daily wage labour is *teghari* or the word for a wide metallic basin used by construction workers to mix and carry mud, cement or mortar.

One of the unique features of unskilled construction labour which makes it a useful benchmark for wages is that remuneration is referenced to a unit of time (hours or a working day) and not a piece rate. The fact that unskilled construction work is often denominated in terms of time rather than in terms of the completion of a particular job, makes it an easy reference point. Such labour is also known as *tareekh* or day-labour in some areas. Another notable feature is that since similar work is carried out across different locations, differences in *dehari* rates across locations provide some indication of relative labour market conditions. Most cities and towns have well-established public places where casual daily-wage workers gather in the morning looking for employment. There is, therefore, a “labour market” in a very literal sense.

A closer institutional examination of the construction sector, however, reveals a number of interesting features.

First, contractors or *thekedars* are the key players in the sector, and the *thekedars* usually work in a vertical chain of sub-contracting with smaller *thekedars*, team-leaders and workers. Most of the workers in the sector are, therefore, those who are in regular contact with particular *thekedars*. In both rural and urban areas workers are organized along caste and kinship lines, and specific groups are known to specialize in different types of work. In many rural areas construction labour, including skilled and semi-skilled work can be of an obligatory nature: workers are obliged to provide occasional labour services to locally powerful families in lieu of patronage, protection, subsidized fodder, or rent-free accommodation. In urban areas, on the other hand, labour arrangements are relatively open, and workers are able to transact freely with employers and *thekedars*. Even in urban areas, however, group-based identity, and prior connections are crucial in securing work.

Second, the casual daily wage labour market acts as a residual or marginal segment of the labour market in urban areas. Contractors only hire workers from the casual labour market as a matter of last resort, and the workers offering their services on this market are usually new entrants or those who for some other reason are not able to secure regular work from established contractors.

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<sup>20</sup> This section draws upon earlier qualitative research commissioned by the ILO, carried by the author as part of a team working on bonded labour and other institutional issues in the construction sector. See Collective Team (2003), “A Rapid Assessment of Bonded Labour in Diverse Sectors”, mimeo, Collective for Social Science Research, Karachi, and Bonded Labour Research Forum, Islamabad.

Third, while the labour market is a relatively open one in this sector, it is also unstable, in the sense that workers perceive a high risk of default on the part of employer/contractors. There are frequent cases of contractors absconding without clearing the workers' dues. One way in which workers try to insure themselves against the risk of contractor default is by demanding at least part of their pay in advance.

These observations from qualitative data indicate, therefore, that even in a relatively open sector characterized by openness and mobility, the "free" and anonymous labour market represents a residual or marginal segment of the workforce. Uncertain contract enforcement remains a source of risk particularly for workers. These "structural" features of the construction sector are likely to remain unchanged as a result of marginal improvements in infrastructure investment, economic activity, and labour demand.

#### **2.4 Contractor system**<sup>21</sup>

It was noted above that the manufacturing sector's share in employment has declined in the recent years. The organization of work in this sector, moreover, is thought to have undergone important changes. Factory-based long-term employees are no longer the norm in some industries. Contract-work both within and outside the factory premises has become increasingly important.<sup>22</sup> The existing literature on institutional arrangements within the manufacturing sector is somewhat limited, and there is much scope for more detailed qualitative and quantitative research in this area. This is all the more important given the expectation that future employment growth will have to rely on the expansion of manufacturing. In the meanwhile this section attempts to outline the main institutional characteristics of contract-based work in manufacturing and related sectors on the basis of insights from a few selected industries.

The term "contract-based" work is used to differentiate a less formal labour arrangement from the conventional, legal and formal system of regular employment. The informal labour arrangement is "contract-based" in the sense that the worker is not treated as a regular long-term employee, and her or his tenure is limited to discrete and easily terminated contractual periods. The term is somewhat misleading because it suggests the existence of a contract, whereas, it really refers to a system with extremely casual work arrangements. A more appropriate term for the informal system, as shown below, is the "contractor system".<sup>23</sup>

Typically, the organization of the manufacturing process is broken up into discrete sub-processes, which can then be assigned to workers on some type of a piece-rate basis. Besides a small managerial and technical core, the majority of the workers in a factory might not be employees of the enterprise, but rather, short-term piece-rate

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<sup>21</sup> This section draws upon earlier qualitative research commissioned by the ILO, carried by the author as part of a team working on bonded labour and other institutional issues in the selected SME sector. See Collective Team (2003), "A Rapid Assessment of Bonded Labour in Diverse Sectors", mimeo, Collective for Social Science Research, Karachi, and Bonded Labour Research Forum, Islamabad.

<sup>22</sup> See, for example, Asad Sayeed and Karamat Ali (2000), "Labour Market Policies and Institutions: A Framework for Social Dialogue", Pakistan Institute of Labour Education and Research, Karachi.

<sup>23</sup> The author is indebted to Asad Sayeed for this observation.

workers on casual contracts. The workers do not enjoy any of the rights and privileges of regular employees, their employment is highly contingent on the availability of work in the factory, and no formal arrangements for social security are observed. Since the work is typically remunerated on a piece-rate basis, there is also little possibility for reference to any wage standards either.

The arms length relationship between management and workers, however, is mediated through the institution of contractors or *thekedars*. The *thekedars* are middlemen who act, alternatively, as recruiters, foremen, and workers' representatives. In cases – as in many of the manufacturing processes – where work must be conducted by teams and individual piece-rates are impossible to calculate, the *thekedars* also act as team-leaders or coordinators. The contractor or *thekedar* system has been observed to operated as a principle form of work organization both within factory premises as well as in relation to processes that might be farmed outside to home-based or other smaller units. There is no direct contact between worker and the management of the enterprise, and all transactions including those relating to work, pay or other conditions are mediated through the *thekedar*.

Several reasons are cited for the (growing) prevalence of the *thekedar* system in Pakistan. This system clearly reduces costs for enterprises by circumventing labour regulations, social security obligations, wage policy, and the possibility of collective bargaining on the part of workers. It also allows the enterprise to pass on any risk related to fluctuations in economic activity to the worker. It can be argued that if the *thekedar* system allows the circumventing of onerous regulation it provides a truer reflection of labour market conditions, and reduces labour market rigidities.

The advantages to the enterprise, however, are not unqualified. In order to understand the qualifications, it needs to be recalled why the “factory system” might have been economically viable in the first instance. Regular long-term factory employees ensure a reliable supply of trained workers, about whose characteristics the enterprise is well-informed. Presumably, workers who have gained experience in the enterprise – or even in the industry – are those who have been found to be well suited to the job. The enterprise is also able to internalise any efficiency-wage type of advantages.

Seen in this context, the *thekedar* system in Pakistan appears not as a neutral market alternative to an over-regulated factory system. The system offers many of the advantage of the “factory system” to enterprises, while insulating them from the possible costs. Workers, on the other hand, face conditions akin to the casual labour market, while providing greater skills, commitment and reliability than truly casual labour. The *thekedar* system allows relatively easy entry to workers, while at the same time making it costly for workers to dissent or to exit the sector. A worker who is known to have shown dissent, or to have exited a casual contract at a time inconvenient to the enterprise faces collective sanction on the part of enterprises and *thekedars* alike. There is relatively close coordination between *thekedars* and enterprises across the sector. The paradox of easy entry and costly exit implies that enterprises and *thekedars* always have a ready pool of tested and reliable workers.

Rather than resembling competitive market conditions, the *thekedar* system is premised on monopsonistic market conditions for employers whereas workers are unable to realize the premium on their skills, knowledge of the sector, and reputation.

While these observations are prefaced by the need for more thorough investigation of institutional arrangements, it is safe to suggest that present institutional conditions are likely to restrict rather than promote the wider distribution of gains of future growth in manufacturing. Moreover, the institutionalisation of the *thekedar* system leads to a particular form of work organization that may not be conducive to firm expansion and technological innovation.

## **2.5 Bonded labour**<sup>24</sup>

The existence of bonded labour is the very anti-thesis of the simple labour market perspective. While debate and research continue about the precise definition of “bonded” labour, on its overall and sectoral magnitude, and on the appropriate policy response, it is possible to summarize some key conceptual and empirical issues.

The “classical” account of bonded labour which has also informed legislation and much of the policy discussion, views bonded labour as a condition of unfree labour extracted from persons who are held in debt bondage against unreasonable and exploitative loans. The employer who is also a creditor advances a loan to his employee on the understanding that the employee’s own and/or his family’s future labour will be used to repay the loan, interest, and other related charges. Employers use the advance to “bond” labourers into highly exploitative contracts, and then impose coercive physical restrictions to ensure that workers comply with these one-sided contracts. Workers remain in perpetual debt to their employers, with low probabilities of loan repayment. Bonded labour is often seen to resemble a form of slavery, as workers and their families might be transferred by their original employer-creditor to a new employer-creditor upon the redemption, by a prospective employer, of the outstanding debt. The debt too then gets transferred from the original to the new employer-creditor.

It is clear enough that this institutional arrangement bears no resemblance to a competitive labour market. A bonded labourer cannot be regarded as conducting voluntary labour transactions in the normal sense of the term. He or she faces extremely onerous conditions, and is subject to both physical control, as well as the employer’s virtually unanimous interpretation of contractual conditions.

While there is a strong tradition of political and legal activism on bonded labour, careful conceptual and empirical research of relatively recent pedigree. Existing research indicates that bonded labour is likely to be a significant feature of labour contracts in some regions and sectors – such as brick-kilns in Punjab and agricultural share-tenancy in Sindh. Other sectors where bonded labour and other forms of coercive arrangements have been found include carpet-weaving, mining, construction, farm labour (in Punjab) and domestic service in rural areas.

Findings from the emerging empirical literature confirm some received ideas, qualify others, and lead to further questions on yet other issues concerning bonded labour.

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<sup>24</sup> This sector draws upon Gazdar, Khan, and Khan (2002), The Collective Team (2003), and other studies carried out for the Bonded Labour Research Forum in 2002-2003.

First, it is clear that bonded labour and other associated institutional arrangements need to be taken seriously in any discussion of labour and poverty. At the very least, it can be safely stated that the simple labour markets perspective requires serious revision. Research on bonded labour has quite authoritatively pointed out that in many regions and sectors the competitive labour market is an exception rather than norm, and therefore, any linkage between growth and poverty reduction will be mediated through relatively closed and lop-sided labour arrangements.

Second, the emerging literature shows that there is a great range and diversity in effective labour arrangements across the economy, and for different types individuals. As mentioned above with reference to agrarian relations, apparently identical contractual arrangements might correspond with very different effective conditions, depending on the social proximity between employer and employee. The question of bonded labour – or more precisely, that of “unfree” labour – cannot be treated in binary terms, but rather in terms of gradations of “freedom” and “bondedness”. This observation immediately complicates the task of quantitative measurement, since the proper gradation of coerciveness requires extremely detailed sociological data.

Third, there is no exact correspondence between debt or *peshgi* and bondage. While some *peshgi* contracts are associated with bondedness, coercion, and extreme exploitation, in other instances the *peshgi* acts as a simple advance payment with reasonable terms of repayment. Conversely there are many instances of coercion and extreme exploitation that are premised not on *peshgi* but on other forms of leverage such as the employee’s dependence on the employer for accommodation or traditional caste-based village obligations.

The main feature that determines the level of contractual disparity (between employee and employer), the employer’s monopolistic power, and the employee’s vulnerability to coercion and exploitation, is the social distance between the two parties. Caste and kinship-group hierarchies play an important role in this equation. The Muslim Shaikhs and marginalized Christians rural Punjab, and non-Muslim scheduled caste groups such as Bheels, Kohlis and Odhs in Sindh, are subject to extremely exploitative conditions quite regardless of the sector in which they might be employed and the apparent terms of their contract. The prevalence of “unfree” forms of labour, therefore, is only partly correlated with debt bondage, but very closely correlated with social hierarchy.

Finally, a key feature of the *peshgi* system appears to be the asymmetry between contracting parties in the enforcement of contract. Much of the informal sector – and indeed large parts of the formal sector in Pakistan – is characterized by an uncertain contractual environment. The most important pre-requisite of a smoothly functioning market – viz. effective third party contract enforcement – does not exist to any satisfactory degree. The weakness of the state’s role in contract enforcement (and in guaranteeing property rights) affects the functioning not only of the labour market but of all markets including markets for commodities, land and credit. An alternative interpretation of *peshgi* is that workers at the bottom of the social hierarchy, who are the least able to enforce contracts, need to secure advance payments for their services because of the fear of employer default. Once the advance is taken, however, the employer bears the risk of employee default – a prepaid employee renegeing on the contract – and hence places physical restrictions on employee mobility.

This alternative interpretation implies that existing policy responses to debt bondage, such as legal protection to workers, and interventions in the credit market, might be supplemented with other types of social policies such as those for challenging social hierarchy (e.g. positive discrimination) and those for improving the contractual environment (e.g. improving the state's capacity to enforce property rights).

## **2.6 Patriarchy and the labour market**<sup>25</sup>

Perhaps the most significant departure from the simple labour market perspective in Pakistan is institutionalised patriarchy in all spheres of public interaction. The labour market, like most other domains of public interaction, is highly segregated along gender lines. This is obvious enough from summary statistics such as the gender-wise labour force participation rates, with extremely low female participation rates. This is also apparent from the gender-wise distribution of the workforce into types of employment, with “unpaid family help” being the dominant category for women workers. The gender-wise differential in labour statistics is, in fact, mirrored by gender differences in virtually all other indicators which involve some level of public interaction – be it schooling, access to health facilities, or political participation. The labour market in Pakistan, therefore, is highly determined by prior social norms governing the gender-wise division of economic and social space.

Most aspects of women's work are carried out within the context of the household or the family. In Pakistan, therefore, women's work is regulated by patriarchy in the literal familial meaning of the term. Women whose economic status is reported as being that of “unpaid family helper” in data sources such as the LFS are quite clearly economically subservient to the wider family unit. Those few women who actually do “go out” to work, do so in an overall environment in which their autonomy is high restricted by male family members, co-workers and employers.

Home-based work provides one possible channel for women's employment within the family. Home-based work is usually organized on a piece-rate basis, with extremely low implied rates of remuneration for the workers. It is assumed that women as well as children will work long hours in relatively poor working conditions. Many of the jobs carried out by home-based workers are those that require a degree of skill and experience. The fact that the workers have virtually no outside options for remunerative work, means that their implied time wages remain well below the basic wage rate for unskilled male workers in the casual labour market.

There are small but growing numbers of women who do work outside the family context in factories and other workplaces. Surveys of women workers reveal that many of them regard outside employment not as a positive opportunity but as a necessary burden. There is some evidence of changing attitudes, however, as a

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<sup>25</sup> There is relatively little empirical work on gender and labour markets in Pakistan. One extremely useful study is Asad Sayeed and Saba Gul Khattak (2001), “Women's Work and Empowerment Issues in an Era of Economic Liberalization: A Case Study of Pakistan's Urban Manufacturing Sector”, Pakistan Institute of Labour Education and Research. On the issue of female mobility and autonomy see Zeba Sattar and Shanaz Kazi (1997), “Autonomy, Livelihood, and Fertility: A Study of Rural Punjab”, PIDE Islamabad, and Haris Gazdar (2002), “The Politics of Gender: Borders and Boundaries”, NGORC Journal 3(3).

majority of these workers relate their decision to go out to work not to some specific adverse shock, but to the need to improve or maintain their families' standard of living. This indicates some level of social acceptance of outside work among.

It is possible to think of the gender segregation of the labour market (and other spaces) as an instance of a self-enforcing social norm. Women are reluctant to seek outside employment because there are so few women already in the non-family workforce. Any individual woman who defects from the existing social norm (by seeking outside employment) is likely face some level of family and social sanction – hence the view that outside work is a necessary burden rather than an economic opportunity. With more women in the workforce, however, the social sanction is likely to become less severe, as the norm shifts towards greater non-family employment. If this characterisation of the gender segregation does have some validity, it raises interesting questions for employment policy. If greater female employment – and more equal employment opportunities for women – were relevant goals of anti-poverty policy, there would an argument for public intervention in this regard. Once the social norm had shifted, the need for public intervention would subside and the labour market would sustain greater female non-family employment.<sup>26</sup>

## **2.7 Segmented labour markets**

While many of the observations of sections 2.2-2.6 require further detailed substantiation, even a preliminary institutional approach to labour arrangements provides important insights into the nature of labour transactions. In particular, this approach enriches a simple labour market perspective by highlighting the range of circumstances in which competitive conditions of demand and supply fail to hold in Pakistan. Labour transactions are not anonymous and are highly contingent on the individual and group characteristics of the buyers and sellers. The idea of an integrated labour market, therefore, is more a caricature than a representation of empirical data. People are systematically included or excluded, and privileged or disadvantaged, in particular types of labour transactions as a result of their gender, caste, place of residence, ethnicity and kinship.

### **Screening and social collateral**

It is possible to interpret social grouping-based labour market distortions in a number of ways. It can be argued that discrimination is based on outright prejudice on the part of employers. In this case the policy options can include some combination of legal reform, cultural change, and positive discrimination in public sector employment.

The economics of discrimination might be understood with reference to two types of propositions. Firstly, if it is costly to obtain information about the characteristics of an individual worker, more easily observable group characteristics (or prejudices) might be used by employers to rank and screen employees. There might be any

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<sup>26</sup> There are two conspicuous cases of public social sector employment of women leading to changed perceptions and possibilities for female employment. There is now wide social acceptance of women's employment as schoolteachers. More recently, the employment of Lady Health Visitors in rural areas has generated a similar impetus for cultural and social change.

number of feedback mechanisms that actually encourage individuals belonging to a particular group to conform to their perceived group characteristics (or prejudices about these group characteristics).

Secondly, employers might prefer to hire workers with some level of social collateral – i.e. those on whom they might have some potential leverage through common social networks. The idea of social collateral which is more commonly used with reference to credit markets is applicable also to labour markets if employers face high monitoring costs. Both these propositions (social grouping as screening signal, and social grouping as source of social collateral) relate to situations where employers value information on potential employees - i.e. where skill, effort, and trustworthiness are important.

Case studies of workers and communities confirm that employment opportunities appeared to be closely correlated with caste, kinship or prior social grouping.<sup>27</sup> The segmentation works along the lines of group-based discrimination, but also due to the importance of *sifarish* or personal recommendations and guarantees. Social collateral is important from the employers' point of view even in relatively low skill casual jobs. The importance of social collateral reveals the weakness of the overall institutional environment. The fact that *sifarish* appears to work very largely through close caste and kinship networks also confirms the prior strength and robustness of these social groupings.

### **Social norms and discrimination**

While group-based segmentation might be explained with reference to “screening”, “social collateral” or a combination of the two, the gender-wise segmentation of the labour market requires reference to social norms. As discussed in section 2.6 above, social norms regarding women’s access to public spaces can be strong and self-enforcing. This is because the costs of individual defection are high, even if global defection might make everyone better off. The idea of self-enforcing social norms, however, suggests that there is a possibility of change, if there is large-scale defection from the existing norm. In some ways, this has already happened with respect to girls’ schooling in urban and much of rural Pakistan. Apparently immutable social norms concerning female mobility have been breached in favour of increasing school participation of girls.

The exclusion of some of the poorest groups from agricultural self-employment (through tenancy) in parts of rural Punjab also appears to be explained with reference to discriminatory social norms. Historically, the division of labour (and land) in divided traditional village society into cultivators and non-cultivators. Agricultural self-employment through owner-cultivation or tenant-farming was the exclusive domain of the so-called cultivator castes. The non-cultivators could be employed as farm servants, but not allowed to operate farms themselves. These traditional norms were given legal sanction under the British. Although there is no longer any legal basis for this discrimination, primary research indicates the continued prevalence of this division of village society and labour markets. The persistence of this division of

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<sup>27</sup> These observations draw upon prior field-based research on poverty and institutions reported in Gazdar (2002), and in World Bank (2002), Pakistan Poverty Assessment 2001.

the labour force between “cultivators” and “non-cultivators” can be seen as being driven by social norms.

### **Employer monopsony**

Finally, employers might enjoy monopsonistic power even in apparently open markets if they enjoy some collective action advantage over employees. In the most extreme cases this can take the form of bonded labour. In these cases the labour market is perfectly segmented. Even in less severe conditions, however, employer advantage in collective action – as in the case of contractor systems – creates segmented market conditions. There are relatively few segments of the labour market – such as casual labour in construction – that correspond with free labour. In these market segments it is the workers who face the risk of employer default.

### **Poverty traps**

The segmented markets story – whether the segmentation is due to “screening”, “social collateral”, “social norms” or “monopsonistic employers” – suggests that there might be various types of poverty traps. Individuals and groups who operate at the disadvantaged segments of labour markets, those who are systematically excluded from labour markets, or face high costs of entry, can remain in trapped poverty even if overall labour market conditions are not adverse. Poverty traps can also act as retardants on economic and social mobility of workers at times of economic growth. The possibility of poverty traps, obviously, calls for policy responses. These responses, moreover, will need to take into account the precise institutional features of the labour market that are associated with any particular poverty trap.

If, for example, there were poverty traps associated with the “screening”-based discrimination labour markets, there might be scope for positive discrimination in employment practices. Similarly, if social norms are the key constraint, positive discrimination in the favour of disadvantaged groups might be a legitimate policy response. If market segmentation is due to the need for “social collateral”, however, the appropriate policy response will be an effort to improve the overall contractual environment. Finally, if the source of market segmentation is employer monopsony, there might be merit in both regulation as well as counter-veiling collective action on the part of workers.

The review of labour markets and non-market labour institutions in this chapter has attempted to pull together a range of labour issues related to poverty. It has provided some insights into the way in which social exclusion and poverty traps might be linked to the functioning of labour markets in Pakistan. Although the review was based quite largely on qualitative insights, it is clear that the conditions described and analysed here actually reflect the labour opportunities of a majority of the population in virtually all of the key sectors. This report returns to the policy implications of the findings reported here in Chapter 4 below. The following chapter, in the meanwhile, provides a review of existing anti-poverty policy.

### **Chapter 3: Review of Policy**

The Poverty Reduction Strategy Paper (PRSP) is the centre-piece of anti-poverty policy in Pakistan. The PRSP process – or the process of arriving at and refining an agreed policy document – was initiated almost four years ago, and the government published an Interim-PRSP in November 2001. Since then, the process has continued, and the PRSP Secretariat has been working on draft versions of the “full” PRSP document. A draft version that was published by the government for discussion in May 2003 is taken as the point of departure for the purpose of the present study.

The PRSP process, moreover, coincided with the formulation of a new labour policy announced by the government in 2002. The labour policy was supposed to consolidate labour related legislation – which was scattered in numerous Acts and Ordinances – into a smaller number of streamlined pieces of law. Arguably the two most conspicuous elements of the labour policy were the amendments in August 2001 to the Minimum Wage Ordinance, and the Industrial Relations Ordinance 2002 (IRO 2000). A labour policy is, arguably, an integral part of the wider poverty reduction policy framework. In Pakistan, however, though the two policy processes have coincided, there appears to have been little formal or explicit correspondence between them. The PRSP documents, for example, do not make any reference to the new labour policy.

This chapter presents a commentary on the PRSP and components of the labour policy from the vantage point of the preceding two chapters that provided, respectively, statistical and institutional reviews of labour market and poverty issues. Section 3.1 focuses on the PRSP while components of new labour policy are examined in 3.2. The review of existing policies is then followed by recommendations on policy as well as further research in Chapter 4 below.

#### **3.1 Poverty Reduction Strategy Paper**

The PRSP has a multi-dimensional view of poverty, and as such, the document includes within it several strands of anti-poverty policy ranging from macroeconomic issues, sectoral emphasis, programmatic interventions, and institutional reform. PRSP targets are, correspondingly, diverse and include economic and social objectives and indicators. The present review of the PRSP is not concerned with wider problems of poverty reduction, but on the interface between poverty and labour market issues.<sup>28</sup>

Pakistan’s anti-poverty strategy -- as framed in the PRSP -- can be seen as consisting of four distinct strands. These are: (i) macroeconomic management, (ii) sectoral emphasis, (iii) programmatic interventions, and (iv) institutional reform.

#### **Macroeconomic management**

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<sup>28</sup> The PRSP has generated a lively debate on labour and poverty issues. For comments on the PRSP by trade unions and employers, respectively, see ICFTU Pakistan Council (2003), “Poverty Reduction Programmes and Labour and Employment”, and Employers’ Federation of Pakistan (2003), “Connecting to Growth: Pakistan’s Poverty Reduction Strategy”.

Macroeconomic management is a critical feature of the PRSP as it circumscribes the overall fiscal and institutional context within which other policies and programmes might operate. The PRSP subscribes to the view that macroeconomic stabilization – marked in this case by a relatively conservative fiscal posture – is the foundation for sustainable economic growth, and that economic growth is the basis for sustainable poverty reduction. There can be little debate on the importance of the general linkage between sound macroeconomic management and growth, and the one between growth and poverty reduction. The specific nature of the two sets of linkages, however, can and do offer a range of policy choices for a poverty-reduction strategy. It has been argued, for instance, that there might alternative routes to stabilization that might have different implications for employment and poverty reduction. In particular, it is possible to envisage a higher level of public investment than has been the case in the recent few years. This case has been argued competently elsewhere, and will not be revisited in this paper.<sup>29</sup>

The second crucial linkage – that is, the one between growth and poverty reduction – does merit comment. While economic growth and employment generation are necessary conditions for poverty reduction, the precise implications for poverty reduction will depend on a range of other factors. Our statistical review in Chapter 2, for example, has indicates that although the poorest happen to be disproportionately vulnerable to unemployment, the unemployed account for only around 6 per cent of the poor in the workforce. The current PRSP does, indeed, initiate a discussion of broader problems of poverty reduction including sectoral emphasis, programmatic interventions, and institutional reform.

### **Sectoral emphasis**

The PRSP identifies agriculture, construction, small and medium enterprises (SME), and information technology (IT) as being the key sectors with a strong poverty linkage. The statistical review of labour and poverty data in Chapter 2 indicates that agriculture and construction – particularly the latter – are important economic activities of the poor. While there is some evidence of a linkage with the SME sector – through “elementary” workers – it is not clear whether the IT sector does have a strong poverty linkage in the short to medium term.

The construction sector appears to absorb low skill unemployed and under-employed workers from other sectors. The existence of casual wage labour markets in construction makes this sector particularly open to the poorest segments of the population. This sector is also a natural candidate for public sector investment in infrastructure projects. From the point of view of poverty reduction, investment in a large number of small projects, particularly in regions where extreme poverty is high.

The PRSP pays special attention to rural development and agricultural growth as routes to poverty reduction. There several types of measures suggested in this regard including infrastructure development (farm to market roads), irrigation development, price deregulation, corporate farming, and the distribution of state-owned land to the landless. Apart from the last policy – that of distributing land to the landless – the

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<sup>29</sup> See Tariq A. Haq (2003).

other proposals in the PRSP are all aimed, primarily, at reducing poverty through increasing the incomes of farmers.

The unequal structure of land ownership and the prevalent labour arrangements in different parts of rural Pakistan, have diverse implications for anti-poverty policy. The poor participate in agricultural self-employment in places of equal land ownership as well as those regions where land ownership is extremely unequal. In the former, their participation takes the form of self-cultivation, while in the latter it is in the shape of tenancy. Regions where land ownership is moderately unequal, however, are those where the landless poor are engaged in agriculture mostly as casual labourers or farm servants. These distinctions are important because they tell us where and which conditions farmer-centric policies will directly benefit the poor.

There are also differences across Pakistan in the poverty-sensitivity of irrigation development. Irrigation development will, in general, increase productivity and reduce poverty. In some regions it will lead to greater effective farm areas for the poor, while in others the effect will be more indirect through greater demand for agricultural labour on the part of landowning farmers. Irrigation development can also have the additional beneficial effect of increasing demand for construction labour.

Besides construction and agriculture, the PRSP also identifies small and medium enterprises as comprising a “labour intensive” sector. It is true that SME – mostly in the informal sector – use relatively labour-intensive technologies. Increased demand for labour in this sector is likely to be met, disproportionately, by poor and mostly unskilled or semi-skilled workers. The poverty linkage in this sector, however, is mostly mediated through the “contractor system” in the labour market. These institutional arrangements, as argued in Chapter 2 above, give disproportionate bargaining power to employers. While SME growth is likely to stimulate demand for labour – and therefore increase in employment – other institutional changes will be necessary before this demand for labour is translated into higher wages and better working conditions. The contractor system, which has become well-entrenched not only in SME but also in larger enterprises, is premised on creating monopsonistic conditions in favour of employers.

### **Programmatic interventions**

The PRSP contains a number of programmatic interventions for poverty reduction. The two main interventions in this regard are in microfinance and public works. The poverty-reduction potential of both types of interventions might be enhanced if they are placed within the context of a pro-poor employment strategy. The sectoral allocation for microfinance, for example, can be based on a prior understanding of those sectors where the poor are likely to be located. Microfinance might be extended to include the financing of agriculture in areas where the poor are engaged in farming. The choice of public works can be partly determined by the employment impact in the construction sector. It is also possible to link the public works policy with the wage policy.

Besides refinements to these programmatic interventions, the review of labour markets in this paper indicates that it might be desirable to have broader pro-poor

employment strategy that might operate independently of other programmes. There may be scope, for example, for positive discrimination in the favour of certain groups such as women, and historically marginalized groups in public sector employment.

### **Institutional reform**

Although the PRSP does pay attention to institutional reform, its focus is primarily on the reform of governance institutions. In particular, local government reforms are seen here as the centre-piece of anti-poverty institutional reform. The PRSP can broaden its concern for institutional issues to set an agenda for wider institutional changes – both in formal and informal institutions – concerning labour, land and credit markets. Institutional reform in these areas turns out to be an important but as yet neglected aspect of an anti-poverty strategy.

### **3.2 Labour Policy**

The PRSP processes coincided with the process of the formulation of a new labour policy over the last two years. Two specific elements of the labour policy which that have taken legislative form – the IRO 2002, and the minimum wage law – are discussed here in the light of the review of labour markets in the preceding two chapters.

#### **Industrial Relations Ordinance<sup>30</sup>**

The Industrial Relations Ordinance 2002 replaces the original labour law passed in 1969. The present law, like its predecessor, lays down the basis for tripartite labour relations between employers, employees and government. The law defines various legal entities, including “industry”, “establishment”, “collective bargaining agent” and others. It is, therefore, the very foundation of the collective relationship between employers and employees. The range of sectors and activities that come within the purview of the law, however, is relatively limited. The law does not recognize “agriculture” as an industry, and is applicable, in any case, to formal establishments. As shown in Chapter 1 above, formal employment accounts for only around 18 per cent of total employment in Pakistan.

Even among this minority, it is estimated that only around sixth of the workers are organized into unions, and therefore, potential subjects of IRO 2002. Some of the provisions of the IRO 2002 have been criticized for reducing the scope for worker protection that had been present in previous laws. There have been attempts to disallow trade union activity in a number of large-scale organizations in the formal sector – e.g. banks, PIA and WAPDA. The IRO 2002 does little to institutionalise the right to organize in these and other entities. There are also specific provisions in the IRO 2002 – such as the limiting of the powers of the National Industrial Relations Commission – that go against the spirit of worker protection and pro-poor policy.<sup>31</sup>

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<sup>30</sup> <http://www.smyaqoob.com/iro-2002.htm>

<sup>31</sup> Some measures in the IRO 2002 are thought, in fact, to be contrary to agreed ILO conventions. See, for example, Shafqat Munir, “Clamping Labour Rights”, Political Economy, The News on Sunday, 6 July 2003.

The workers who are covered by the IRO, moreover, are not part of the poorest sections of the workforce. Formal sector workers tend to be skilled and educated, and these, as shown in Chapter 1, tend not to be among the poor. Labour market segmentation between the formal and informal sectors, and even within the formal sector further implies that those workers who find themselves in the formal (and legally protected) sector, are able to command a premium over other workers. Access to formal sector jobs is often premised (as argued in Chapter 2) on prior social connections and networks, and the poorest tend to be excluded from these networks in the first instance.

The labour market segmentation thesis of Chapter 2 also suggests that market linkages between formal and informal sector workers are likely to be weak. Improvements in the conditions of formal sector workers (through IRO 2002 or other measures) might not translate into corresponding improvements for other informal workers. While IRO 2002 recognizes “contractor” workers also as being within its purview, it limits recognition only to those contractors who act as recruitment agents. Contractors who might supply services of labour – and not labour itself – are excluded from the law’s remit. The IRO 2002, therefore, is of relatively little consequence to the poorest sections of the workforce, and it does little to integrate different segments of the labour market.

### **Minimum Wage**

The minimum wage law of 2001 replaces an earlier law dating back to 1969, and it represents a radical departure from the previous revision that took place in 1993. The West Pakistan Minimum Wage Ordinance 1969, as the original legislation was called, fixed a legal minimum wage for unskilled workers in the former province of West Pakistan. This law, however, was restricted to those establishments that employed at least fifty workers. The 1993 revision retained these institutional features of the law, but updated the minimum wage. The 2001 revision has not only revised the minimum wage, but has also extended its application to employees of all industrial and commercial establishments regardless of the size of the workforce. The current law, therefore, moves closer to the notion of a national minimum wage. The application of the law is, nevertheless, restricted to industrial and commercial establishments, and the legal definitions of these terms do not include much of the agrarian economy or sectors such as domestic service.

The minimum wage was set at 2,500 rupees per month for a month of 26 working days with 48 weekly working hours. The law stipulates that daily-wage workers and piece-rate workers must be paid according to rates that will take their average monthly earnings to the level of the minimum wage. For a daily-wage worker, therefore, the minimum wage translates to around 96 rupees. Piece-rates, accordingly, need to be set in such a way that an eight-hour working day should result in a payment of around 96 rupees. According to the LFS, over half of the employees have salaries below the current minimum wage.

There are number of arguments for and against a minimum wage law as an effective policy for poverty reduction. One argument against minimum wages is that they create distortions in the labour market, and might drive up wages, but drive down employment. The net effect on poverty might be negative because some of the poor

workers will lose their livelihoods, and also because the overall competitiveness of the economy will decline. Arguments for minimum wages point to the possibility that labour markets – specially those where the poor are to be found – are already distorted, and a minimum wage might serve to correct the existing distortion. If, for example, the labour market equilibrium is characterized by efficiency wages, minimum wages might actually lead to increases in labour productivity. Other arguments stress the existence of rents in employment relations, and therefore, the possibility that minimum wages might simply redistribute some rents to the workers.<sup>32</sup>

The review of labour markets in the present study – particularly in Chapter 2 – provides greater structure to the argument for minimum wages in the Pakistan context. The notion of segmented labour markets – along lines of gender, social grouping, or social capital – suggests that labour markets are not competitive in the first instance. Some sections of the population face particularly disadvantage access to labour as well as other markets, and this is then reflected in the wages achieved by these groups and individuals. A national minimum wage policy, alongwith with some level of collective action, can help to equalize the bargaining power of workers vis-à-vis employers, and also the relative bargaining power of different segments of the workforce. In fact, a national minimum wage policy can act as a catalyst for collective bargaining on the part of workers who might otherwise not coalesce into group-based action. Minimum wage legislation, therefore, can be an important component of a poverty-reduction policy framework in Pakistan.

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<sup>32</sup> See Asad Sayeed (2000), “The Need for a Minimum Wage in Pakistan” [to cite full referece] for a comprehensive review of these arguments with respect to Pakistan. See also ILO (1999), “Minimum wage fixing: a summary of selected issues”, Labour Law and Labour Relations Branch, Briefing Note 14, for an international review.

## **Chapter 4: Recommendations**

This paper has focused on the interface between labour markets and poverty in Pakistan with reference to existing quantitative and qualitative data. Chapter 1 provided a statistical review of labour market issues based on secondary data sources such as the Population Census, the Agricultural Census, the Labour Force Survey, and the Pakistan Integrated Household Survey. A profile of labour was constructed in that chapter and this was supplemented with a review of trends in employment and labour.

Chapter 2 then went on to examine the diverse formal and informal institutions that underpin labour arrangements in Pakistan, with a particular focus on the participation of the poor in labour arrangements. The main conclusion of the institutional review was that labour arrangements tend to be highly segmented, and the extent and terms of an individual's access to labour markets depends on a number of social characteristics such as her gender, social grouping, and endowments of social capital. The labour market is also segmented by sector with the existence of monopsonistic employers in a number of sectors that employ poor workers.

The policy review in Chapter 3 applied the understanding of the preceding chapters to the current policy on poverty and labour issues. The policy review in Chapter 3 was aimed at identifying possibilities as well as gaps in the existing policy framework. The underlying assumptions of the main poverty-reduction policy – the PRSP – were discussed. It was found that the PRSP provided a useful framework for the incorporation of insights from the review of labour markets. There was nevertheless scope for much refinement in macroeconomic management, sectoral emphasis, programmatic interventions, as well as the institutional reforms envisaged by the PRSP. Of the new labour policy, the IRO 2002 was found not to adequately address the agenda of poverty reduction. The Minimum Wage legislation, however, provided very significant opportunities for poverty reduction.

This chapter concludes the review of labour market and poverty issues and policies with two sets of forward-looking recommendations. First, section 4.1 offers suggestions for changes in policy in the light of the findings of this paper. Second, section 4.2 identifies a number of issues and problems that have a direct bearing upon effective policy on poverty and labour, but where there is need for more data and analysis.

### **4.1 Policy recommendations**

The policy recommendations offered here are based on the view that the PRSP is the proper framework for anti-poverty policy-making in Pakistan, and that the current PRSP document provides many positive opportunities for refinement and improvement. The discussion of Chapter 3 is taken forward here with respect to anti-poverty policy in general, the PRSP, and the minimum wage policy. The policy recommendations offered here come under four broad categories: (a) closer integration between different policies, particularly between the PRSP and minimum wage legislation, (b) greater attention to institutional issues in PRSP, (c) an employment policy as part of the PRSP, and (d) proposals for strengthening the minimum wage policy.

## **Closer integration of poverty-reduction and labour policies**

There is need for closer integration between the PRSP and the labour policy. This should be done mostly through the incorporation of elements of a pro-poor labour policy into the PRSP framework. Currently, the PRSP implicitly addresses issues of employment partly through its sectoral emphasis and partly through programmatic interventions. There is also a separate section in the PRSP that deals with selected labour issues such as child labour. Pro-poor aspects of labour policy such as the minimum wage policy do not make an appearance in the current PRSP.

There is scope for further refining the PRSP by explicitly specifying how the various aspects of the poverty-reduction strategy will work themselves out through the labour markets. The refinement and elaboration of sectoral policies – such as those relating to agriculture, construction, and SMEs – will require clearer statements about how, precisely, these policies will reduce poverty through employment generation. Such a description will need to take into account the conditions of the labour markets in these sectors. Similarly, programmatic interventions such as microfinance and public works schemes need to specify their anticipated impact on wages and employment conditions of the poor.

PRSP objectives, interim targets and other monitoring indicators do not currently include any aspects of labour, employment, the size of the working poor, and wage trends. The current PRSP, correspondingly, does not generate any demand for data on these questions. There is scope for the incorporation of labour-related objectives – including issues such as the incidence of child labourers, bonded labour, female employment, and the creation of positive employment opportunities – as PRSP goals. It is possible, also, to specify interim targets associated with these and other labour-related poverty-reduction goals.

One conspicuous gap in the integration of poverty and labour policies is the absence, currently, of any formal correspondence between the PRSP and the minimum wage policy. The minimum wage policy can incorporate the framework of the PRSP by making explicit some linkage between the minimum wage and the official poverty line.<sup>33</sup> The official poverty line stood at 748 rupees per capita per month in 2000-2001. This translates into an average household monthly income of 2,188 rupees in 2000-2001.<sup>34</sup> This amount is very close, in real terms, to the Rs. 2,500 minimum wage stipulated for 2001. The fact that the poverty line and the minimum wage are actually very close, however, is more due to chance than design. The two were derived autonomously – the minimum wage as a result of tripartite negotiations and the poverty line through technical consultations.<sup>35</sup>

Another way of for bringing about a closer integration of the PRSP and the minimum wage policy would be to explicitly include the minimum wage in the design of

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<sup>33</sup> See Sayeed.

<sup>34</sup> This calculation assumes a household size of 6.8 persons, and a labour participation rate of 43 per cent – both being national averages from the Population Census and the LFS respectively.

<sup>35</sup> The two processes are complementary – the setting of minimum benchmarks for wages or incomes is partly a technical exercise, and partly one based on negotiation. The fact that the results of the processes have yielded similar results is propitious. Explicit linkage between the two processes can help to increase stakeholder ownership of both benchmarks.

poverty alleviation programmes envisaged in the PRSP. This might include setting standards for wage payments to labourers in public works programmes and other public sector interventions. Other jobs created as part of the PRSP process might also explicitly pay attention to the minimum wage policy. The PRSP targets might include tracking the number and proportion of workers who receive more than the minimum wage.

### **PRSP: attention to institutional issues**

Institutional reforms occupy a prominent place in the PRSP. The current PRSP's attention on institutional reforms is focused on the local governance and access to justice issues. This provides a useful framework for expanding the scope of pro-poor institutional reforms in a number of specific areas. The analysis of poverty and labour arrangements in Pakistan indicates that there are many formal and informal institutions that mediate poor people's access to labour markets and other economic opportunities. The segmentation of labour markets ought to be a particular concern, and the institutional factors identified in this paper as sources of labour market segmentation need to be addressed within the PRSP framework.

First, the basic context within which labour markets function is that of legal entitlements and the rule of law. Some of the most extreme cases of market segmentation and labour exploitation (such as bonded labour) occur due to the ineffectiveness of contract enforcement and the uneven rule of law. The economics of the *peshgi* system – which is often used as the contractual pretext for bonded labour – lies in the inability of the poor to enforce their contractual rights. Advance payments are a mechanism for the poor to secure remuneration prior to the provision of labour services. In the process, however, the poor workers can make themselves hostages to unscrupulous employers. Even in other less extreme situations “social collateral” is a significant factor in the segmentation of labour markets due to the high costs of contract enforcement. Improving the institutional environment for contract enforcement, therefore, ought to be seen as part of a poverty-reduction strategy. Although these institutional improvements will not have readily available performance targets, it will be possible to specify “process” targets.

Second, market segmentation is a function of pre-existing social inequalities and hierarchies based on caste, kinship and other forms of group identity. To the extent that these social inequalities (sometimes also understood as “cultural inequalities”) lead to inequalities in access to markets and public services (including contract enforcement) they can lead to oppressive poverty traps. A poverty-reduction strategy, therefore, must at the very least acknowledge the problem of social inequality. In this case too, while there will not be a readily available performance target, the PRSP might set itself the task of initiating data collection and analysis of the issue of social inequality.

Third, where labour market segmentation results from social norms and discrimination against groups such as “low castes” and women, there is scope for institutional reforms that will allow positive discrimination in favour of these marginalized groups. Positive discrimination is already an established feature of institutional design in Pakistan – e.g. in political representation, and job quotas etc – and there is scope for taking further institutional measures that will reduce the effects

of historical disadvantage. In the agrarian economy, for example, it will be helpful if the legal distinction between “cultivators” and “non-cultivators” was abolished.<sup>36</sup> The PRPS targets in this case will include the identification of areas of norm-driven discrimination and the analysis of the feasibility of positive discrimination.

Fourth, there are some labour market segments that are characterised by monopsonistic power on the part of employers. These are precisely the sectors – encompassing SMEs – that are expected to provide new jobs to the poor. The existence of employer monopsony due to superior collective action tends to reduce even skilled, experienced, and tested workers in these sectors to conditions of unskilled casual labour. This institutional setting not only corrodes the bargaining power of labour, but also discourages technological improvements on the part of employers. The latter problem can become acute under conditions of growth. In labour market segments that are prone to employer monopsonistic power, therefore, counter-veiling collective bargaining on the part of workers can be part of a poverty-reduction strategy. The PRSP might consider institutional (and legal) changes – such as the right to sector-wide collective bargaining, implementation of minimum wages etc. -- that might create a more level playing field between labour and capital in these sectors. PRSP goals in this area will range from the interim – i.e. data and analysis of contractual arrangements in informal sectors – to goals such as the number of poor workers brought under collective bargaining.

The issues discussed here – improved contractual environment, attention to social inequality, positive discrimination, and enabling collective bargaining -- are suggestive of broad areas of institutional reform that ought to be components of a poverty-reduction strategy. Once the importance of these areas of reform is acknowledged discussion can begin on specific policy measures.

### **PRSP: Active Labour Market Policies (ALMP)**

Although the PRSP makes reference to the generation of poverty-reducing employment in general terms, there is scope for a more cogent and overarching strategy on employment. The current understanding of “employment strategy” in the document can be expanded to provide a broader framework within which a pro-poor employment posture can be maintained.

It is possible to think of four types of Active Labour Market Policies (ALMP): (a) those that contribute directly to matching demand and supply of labour (such as employment services, employment exchanges); (b) those that affect the supply of labour (training, supporting education, early retirement); (c) those that create demand for labour (public works); (d) those that change the structure of demand (employment subsidies, positive discrimination).

Some features of all these four types of ALMPs have been present in Pakistan. The government has, in the past, attempted to facilitate labour market matching through the operation of employment agencies and exchanges. In addition to facilitating labour matching within Pakistan, government agencies have attempted to support the

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<sup>36</sup> The continuation of this distinction in the land revenue system in Punjab remains the source of social discrimination and market segmentation in the rural areas of the province (see Chapter 2).

export of Pakistani labour abroad. Domestic employment services, however, are mostly geared to the formal sector, and even for this sector, the operation of employment exchanges has deteriorated considerably.<sup>37</sup> Private sector agencies, as well as informal channels of information appear to be the predominant mechanism through which labour matching takes place. Even with regard to foreign employment, the role of official agencies has found to be marginal to the activities of informal private channels of intermediation.<sup>38</sup>

The second type of ALMP – i.e. supply side policies – has also received some attention in Pakistan. Supply side policies, however, operate within an overall context in which the quality and relevance of public education systems has been in decline.

There are several possible components of demand side ALMP within the PRSP framework

First, as argued above, the PRSP already has a number of programmatic interventions that have implications for employment. Public works programmes such as the Khushal Pakistan/Tameer-e-Watan schemes, for example, are premised on the creation of jobs in the construction sector. Other proposals in the PRSP such as the development of irrigation infrastructure, and the expansion of social services delivery, also involve the creation of short as well as long-term employment. Other interventions are likely to have second-round employment effects. It is possible to link the employment creation potential of the PRSP more closely with a pro-poor labour policy. Such integration might include the incorporation of the minimum wage policy, and also possibly, positive discrimination for certain groups of workers on the grounds of gender and social background. PRSP targets will include data on the progressive implementation of various aspects of a pro-poor labour policy.

Second, the PRSP can state a broader employment strategy for the country and for the public sector that incorporates a poverty-reduction agenda. One area of particular importance is the employment of women workers in remunerative jobs. As shown in Chapter 1, large portions of the workforce are virtually excluded from formal sector employment, and remain in activities that are marked by high rates of underemployment. To the extent that the extremely low female labour force participation is an outcome of social norms, there is a role for public policy in effecting a change. Public sector employment has been a historically significant instrument for changing social perceptions concerning female employment.<sup>39</sup> Positive discrimination in favour of women (and other marginalized groups) in their access to public sector employment can be part of a poverty-reduction strategy, even if the jobs are not targeted to the poorest sections of the population. PRSP targets might include the tracking of the number of employees from disadvantaged groups (women and other marginalized groups) in the public and private sectors.

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<sup>37</sup> See, for example, Afshan Subohi, “Unemployment: Does Anyone Care?”, Special Report, Dawn, 25 January 2004.

<sup>38</sup> See, for example, Jonathan Addleton (1992), Undermining the Centre: The Gulf Migration and Pakistan (Karachi: Oxford University Press), for an authoritative study of Gulf migration from Pakistan. For a more recent review, see Haris Gazdar (2003), “Migration and Poverty in Pakistan: A Review”, for Department for International Development, UK.  
[http://www.livelihoods.org/hot\\_topics/docs/Dhaka\\_CP\\_4.pdf](http://www.livelihoods.org/hot_topics/docs/Dhaka_CP_4.pdf)

<sup>39</sup> In Pakistan, the role of women school teachers, and more recently, of Lady Health Workers, in changing perceptions has been notable.

## **Strengthening the minimum wage policy**

It has already been noted above that there needs to be closer integration between the PRSP and the minimum wage policy. There is also scope, moreover, for the strengthening of the minimum wage policy. Presently, the minimum wage law prescribes a national minimum wage for the entire country – or for workers employed in all commercial and industrial establishments in Pakistan. There are two ways in which the minimum wage policy might be fine-tuned in the light of the analysis of labour markets and institutions in this paper. The first recommendation implies a broadening of the scope of the policy, while the second argues for greater variation within the policy.

First, in line with the spirit of the 2001 law, the remit of the national minimum wage policy might be expanded further to include all workers regardless of sector, industry or type of establishment, and not only workers of commercial and industrial establishments. There is merit, in other words, in moving towards a situation where the minimum wage might be regarded as a basic entitlement by all workers. Considering the fact that the daily wage of construction workers is widely regarded as a benchmark for the casual wage rate for unskilled work, the construction sector can be critical driver of minimum wages.

Second, for a minimum wage to be a realistic proposition, it is important to pay attention to variations in labour market conditions across locations. Official sources already do report wages of construction workers in different urban centres. Preliminary analysis of the construction sector indicates that wages for casual unskilled workers tend to be relatively sticky (in nominal terms), are well known by workers and employers, and vary across locations. These features of the casual wage labour market can be utilized to refine the implementation of a national minimum wage policy. While a national minimum wage policy can be a powerful instrument for poverty reduction, such a policy should allow for variation in the minimum wage by location. In fact, it might be desirable to set minimum wages that correspond somewhat with existing market conditions in each district or tehsil headquarter. It will then be possible to monitor the progress of actual wages by tracking the casual daily wage rates of unskilled construction workers in these “wage centres”.

## **4.2 Future research and data**

The above policy recommendations represent a medley of proposals – while some suggestions lead to specific policy measures within a relatively short period of time, others are simply indicative of directions in which future policy-making ought to move. These policy recommendations have implications for future research and data on labour and poverty issues, some of which are summarized here.

### **A research agenda**

There is the need to improve our understanding of the formal and informal institutions that mediate labour relations in general and those affecting the poor in particular. This study has suggested that a framework of “segmented labour markets” can be a useful one for understanding labour issues in Pakistan. More focused sector-wise

research on labour arrangements is needed to test the propositions concerning labour market segmentation, and for a clearer view of the sources of market segmentation. Initially, this research might take the form of rapid assessments of institutional issues in some of the key sectors and segments including:

- Agriculture
- Construction
- Contractor system in the informal and formal sectors

The initial research on these sectors needs to pay particular attention to issues concerning:

- Social inequality and hierarchy
- Gender division of labour
- Significance of social collateral
- Monopsonistic employers

Initial findings of mostly qualitative rapid assessments can be followed up with larger quantitative surveys and econometric analysis of labour market segmentation and poverty.

### **Policy-oriented data and analysis**

The policy recommendations outlined above, particularly those relating to the PRSP, have specific research and data requirements.

- Anticipated impact on wages and employment conditions of the poor of programmatic interventions such as microfinance and public works schemes
- Correspondence between the Poverty Line and the specification of a National Minimum Wage policy
- Tracking the distribution of workers around the minimum wage
- Data collection and analysis of social inequality
- Identification of areas of norm-driven discrimination and the analysis of the feasibility of positive discrimination
- Tracking number of poor workers brought under collective bargaining arrangements
- Data on the progressive implementation of various aspects of a pro-poor labour policy
- Tracking of the number of employees from disadvantaged groups (women and other marginalized groups) in the public and private sectors
- Analysis of the casual wage labour markets and tracking data on wages rates in different locations