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Does Socio-Economic variability matters in Poverty Alleviation ?

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Abstract

Poverty is one of the persistence social issues in Pakistan. This wickedness moves down numerous other social issues in a general public. Efforts on different levels have been started time to time. Among those, education can be the most instrumental as it is diminish destitution as well as guarantees economical development and arrangement of human capital. As education increases, there are more opportunities to land commendable position. In addition, an individual having advanced education can without much of a stretch help his family to enhance living standard as a procuring part of the general public. In this way, the core objective of the study is to analyze socio-economic variability and its impact on poverty. For dissecting this, information has been taken from Pakistan social living measurement survey (PSLM) 2010-11. For inferential tests, The Probit model is used. The findings of the study are that there is increment in education lessens poverty, as long as the status of the person increases, there is greater chances of reducing poverty. In the light of above findings, it is proposed that responsible authorities ought to make noteworthy moves to rich socio-economic conditions that will eventually prompt hampering poverty.

Keywords: Education, Poverty, Growth; poverty alleviation, SES,

Introduction

Poverty is multidimensional social problem causing many other problems. Coping it, education seems most proactive instrument. However, The idea that education and human capital are backbone of economic growth which ultimately reduces poverty emerged largely in post-1980 era, because East Asian countries' economic progress, in 1970s and 1980s, was the result of their investment in education and generation of human capital (World Bank, 1993).

The whole world has significantly divided in two fractions; one that lives below poverty line and second that is enjoying its prosperous life. Being prosperous, developed countries are still facing poverty as major social problem because it may become the root cause of

many other social evils. Poverty hampers a country to get desirable economic growth, prosperity, higher productivity and equal income level etc. Along with, poverty severely decreases productivity which may cause of high rate of imports, shrinking foreign reserves, and, most importantly, budget deficit. All above damages result in multiplying foreign loans of a country and it remains dependent. Also, at individual level, million people have been living below poverty line since long; increasing provision of education may be the strongest factor to hamper poverty because education makes people able to get income by serving in a worthwhile profession. It is worth-noticing that people, those are living below poverty line, have no means to get rid of it because they have low education as it reveals that education, in the labour market, has no value and among all only 36% matriculates find job and shockingly only 19 % go for higher education and in global scenario 30 % of unemployed are in age of 15-24 years even though these people are key players of boosting economy which results in diminishing poverty ultimately (McCord & Bhorat 2003; Kraak, 2003).

"Education and training form perhaps the most important precondition for development. When a large part of the population is illiterate, this hinders economic and social development. Education is thus a key priority" (UNESCO, 2007).

Education and poverty are interlinked in many ways. The universal factor increasing pay with increase of experience works for both educated and uneducated employees but comparatively pay of educated employees increase more readily. More specifically in developing countries, education makes people skilled and become source of increase income level which ultimately hampers poverty. Also, these developed countries should introduce new educational curriculum as per global demand of skilled human resource so that these people who are burdening on country's economy may have means to participate in country's development and also become source of raising their living standard. By increasing educational budget, a country can improve the economic growth and cope inequality (Barro 1991, Tanzi & Chu 1998).

Among developing countries, As far as Pakistan is concerned, it has been facing economic problems since its inception for many reason; most commonly having low infrastructure and utilized resources. The

basic reason of low productivity is massive unskilled labour force and primitive technology such as old ways of production. However, labour force may divide in two fractions; one that gets higher wages because of having higher education and other gets low wages because of less education. This inequality results in poverty. "The lack of improvement in education outcomes is particularly significant for poverty as the evidence suggests education does impact earnings in Pakistan, particularly in the urban economy, though it appears to yield less appreciable earnings benefits in rural areas (World Bank, 1993).

As the current situation of the Pakistan, Pakistan has to face the high poverty and low human capital. Human capital in Pakistan is 131 out of 182 countries. For human capital in Pakistan very low educational level, according to government of Pakistan 57% literacy rate in Pakistan but UNICF report in 2013 show that 74% peoples in Pakistan are illiterate and also this report show that 3 children out of 10 leave the school at the primary level.

Objectives of the study

- To explore the influence of year of schooling on poverty reduction.
- To examine influence of income on poverty alleviation.
- To analyze the linkage between job status and poverty alleviation.
- To suggest suitable options for hampering poverty

Organization of the study

The study is further balanced by presenting literature review in part 3. Then, techniques and data analysis is explained in part 4. At the end, findings are described. On the basis of these findings, suggestions are given.

Literature Review

There is a paradigm shift in economic growth analysis as half century ago economist considered GDP increase is an economic growth but now it is believed that economic growth depends on human capital. This human capital can get only via education.

Mostly, countries are in quest of getting high enrolment of the children in schools but this is not enough for poverty reduction they must take into consideration the quality of education. Because poor quality of education does not give empirical benefit to the economy. If both primary and secondary educational systems are updated,

these educational systems can pay their due role in countering poverty. Now, less population has been highly qualified then competition in market is very limited and wages are high. These high wages may increase products price, consequently purchasing capacity of poor decreases and their savings come to zero. So education is key factor in poverty reduction in all ways (Brooks; 2003; Gunn & Duncan, 1997).

Individual's working capacity, improvement and earning mainly depends on his skills, employment, education, health, occupation and mobility. Also, individual's rational investment decision is being affected significantly by the earning capacity of the labour and all those decisions have been taken by the individual to enhance his living standard and cause to decrease in the poverty of the society. The formulation of the human capital model is based on theory of Friedman and Kuznets (1945) and further extended by the Becker (1962, 1964) and Mincer (1958, 1962). Moreover, human capital investment and life cycle earning are closed (Ben-Porath, 2008).

Socio-economic progress can be improved through the increasing individual's qualification and equipping him with professional skills that causes to increase the productivity of the goods, income and ultimately will enhance the market efficiency. More specifically, Vocational education and training (VET), professional skills, may pivotal to increase income level of the individualism well as VET can be a suitable policy for reduction poverty. From 1992 to 1997, the civil war had affected the whole African region and then VET was a key player to move on growing path. Moreover, the findings of the Ministry of education show that VET schools has been playing important role in decreasing poverty rather than other systematic poverty projects. In result, we can say that active support of skilled people in economy can diminish poverty. But it only works in midterm development of rural sector because market of these areas is mostly in state of fluctuation because of imbalance of investment in various sectors of these markets (McGrath & Akoojee, 2009).

However, Developing economies are in need of skilled workers for boosting up economy. Demand of skilled workers can be fulfilled by increasing enrolment in schools. This phenomenon is also acceptable in developed countries as United Kingdom has been giving education endowment fund for

Pakistan. Education is the most important factor that distinguishes the poor from the non-poor; the proportion of well-educated household heads is 27 in poor households while for non-poor households it is 52 (Pakistan's Interim Poverty Reduction Strategy Paper November of 2001)

Keeping in mind, education cannot hamper poverty alone. Furthermore, schooling is important for poverty reduction. Only, getting education is not enough but an individual must be equipped with skills to fit in professional life. If individual becomes fit in profession, it will improve his family income, in result this family can bear the expenses of their children by sending them in school but if this family has no means to meet basic needs they cannot send their children to school. These children have no skill to contribute in economy and consequently poverty prevails (Aref, 2011).

Moreover, there is a false perception that higher education has not so much role in reducing poverty. Therefore, numbers of developed countries do not give desirable important to higher education. But it is acceptable fact that education of all level has equally important for development and diminishing poverty whether it is matter of generating human resource or improving living standards. No doubt, major importance is always given to primary education but it does not mean that higher education has no role in country (Tilak, 2007).

Pakistan, as matter of consideration, is facing worse economic conditions specifically education deprivation and poverty in Punjab, the largest province by population. There, government fails to improve literacy and also living standard of people. As empirical data shows that poverty is higher in rural Punjab then in Urban Punjab. For improving standard of education, Punjab government needs to make its step of free education more effective. Along with, Punjab government must focus on technical education and make technical education accessible for poor people. These people can get education and become skilful to counter poverty. In addition, this step will make Pakistan a country with more human capital (Niazi & Khan, 2009).

On the other hand, Pakistan's economy largely depends on agriculture as it is an agriculture country. Keeping in view agricultural developments, it is a dire need to educate people with technical skills so that they can contribute in advancing the

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rural non-farming sector in Pakistan. In Pakistan, income growth show a partial positive role in reducing poverty but education is a key factor in poverty alleviation because it enhances people's earning capability. Even though, education can work for reducing poverty in case of low per capita income as Pakistan is a glare example of this phenomena (Khalid & Javed, 2012).

Poverty is a main obstruction for developing countries of the world in achieving monetary development goals. So it is important to identify the effects of different level of education on poverty reduction in Pakistan. For this reason, we divide individual into different groups based on their education starting from matric up to professional degrees. Education and poverty are negatively related because higher the education, lesser will be the poor in the country (Janjua & Kamal, 2011). Because education results in improvement knowledge and skills, which results in higher wages for educated worker. Education may have two effects on poverty namely direct and indirect effects; direct effect may occur in increase of wages as result of higher education while indirect effect is that through education income of person is improved which leads to improving standard of living of a person which results in reduction of human poverty. Education attainment of a household is crucial in determining poverty in country like Pakistan; it is not only less the chances of family remain poor but also results in increasing productivity of other households as head of household will encourage his family members to get educated (Awan et al., 2011).

More specifically, Rural areas of Pakistan are mainly facing poverty and most of people are living below poverty line there. Improving quality of education and encouraging students to attend school will help reducing poverty in rural areas, this may include certain incentives like free primary education free books etc. Along with accessibility of education, it is crucial to improve the quality of education. Because most people are educated but not skilled, consequently people cannot fit in professional life and ultimately poverty prevails. So quality education must be ensured in both urban and rural areas of Pakistan.

However, another problem with educated people of rural areas is that they hesitate to migrate from their areas even though attractive wages are being offered. It

can say that even with higher rural education and improved quality there is a possibility of brain drain. Education may have indirect effects on poverty by encouraging people to migrate from urban to rural areas. Such jobs should be introduced by Pakistan government in economy which results in higher wage for highly skilled and educated workers, whether belongs to rural or urban areas; it will be an incentive for people of higher education which will contribute in reducing poverty (Mahmood, 2001).

Data and Methodology

The data has been taken from the Pakistan Social Living Measurement (PSLM 2010-11) survey which includes the different households that belong to all the provinces of the Pakistan and also belong to the different economic background. For analyzing data, researcher used STATA v.16. World Bank set a standard for differentiating poor from non-poor; it proposed a standard that a person having less than 1.5 dollars a day considered as poor. If person is living below poverty line then the dummy variable response is 1. Results showed that Total income, years of schooling and job status all contributes in reducing poverty. This means that poverty is negatively related with these 3 variables. So poverty, a dummy variable, becomes a dependent variable. Now on dependant side variable is poverty which is a dummy variable a person is poor when it earns less then1.5 dollars a day. Researchers applied Probit Model for estimation because sample size is large greater than 100 values, in this way, Probit model is preferred over Logit model. If person is living below poverty line then dummy variable response is 1, otherwise it would be 0. For checking multi colinearity, Researchers use conditional index, extracted mean VIF is 1.19 and all Eigen values are less than 10 that means multi co linearity exists in data but it is not affecting estimation results. For reconfirming results, researcher applied correlation test, correlation values TI with YS that is 0.42 and with JS in 0.06 which is less than 0.5. So problem of multi co linearity does not exist in this data. Next, Applying link test that estimated value of poverty (Poverty HAT) that is 0.98 around 1 which confirms model is correctly specified. Study used cross-sectional data. In cross-sectional data it is known that hetrosecadcity exists by default. To overcome problem of hetroscedcity, researcher applied robust regression. Results of simple Probit Regression and robust Probit regression have significant different in t-stats and probability value which confirm researcher's argument that hetroscedcity exists in the data.

Results and Discussions

First, considering total income of person, if total income of an individual increases by one unit, it would mean that there are 0.00245% probability that person will come up from poverty, this variable is significant having p value 0. Secondly, keeping in view the increase of year in schooling, if year of schooling increases by one grade, it means that there are 0.4% probability that person will be no longer poor having significant effect on poverty with probability value 0. Thirdly, looking into job status, if a person gets employed, it would mean that there is 1.02% probability that person will get rid of poverty, However coefficient of this variable is insignificant having p value of 0.260. Then value of checks Count R2 McFadden's R2, McFadden's Adj R2, Maximum Likelihood R2, Cragg and Uhler's R2, AIC and BIC is used to check performance of model. R2 McFadden's R2, McFadden's Adj R2 showed a low value of 0.2 which told that only 20% variation is explained by model while all other characteristics of performance of model showed a very strong value more than 0.8 which revealed that variables explained models perfectly.

$$Povert = \beta_0 + \beta_1 YS + \beta_2 TI + \beta_3 Js + \varepsilon$$

Where as

YS= year of schooling

TI= total income of the household

JS= Job Status of the individual.

Table No. 1

Poverty	*dy/dx (Marginal effects)*	*Standard error*	*Probility value*
TI	-.0000245	.00000	0.000
YS	-.0041813	.00124	0.001
JS	-.0102826	.00925	0.266
Testing the model			
Measures of fit for probit of poverty	*Values*	*Measures of fit for probit of poverty*	*Values*
Log-Lik Intercept Only	-6624.334	Prob> LR	0.000

McFadden's R2	0.260	McFadden's Adj R2	0.259
Maximum Likelihood R2	1.00	Cragg&Uhler's R2	1.000
McKelvey and Zavoina's R2	0.591	Efron's R2	0.299
Variance of y*	2.447	Variance of error	1.000
Count R2	0.809	Adj Count R2	0.299
AIC	0.868	AIC*n	9817.964
BIC	-95672.606	BIC	-3410.706
Log-Lik Full Model	-4904.982		

$$Poverty = \beta_0 + \beta_1 Matric + \beta_2 F.A + \beta_3 M.A + \beta_4 Professional + \epsilon$$

While checking the effects of higher education on poverty, we see if a person's education is metric then there is 61% probability that he will not be below poverty line. If education of person improves to intermediate, there is 1.2% probability that person will be above poverty line. If person holds master degree then there is 13% probability that person will not remain poor. If a person holds professional degree then there is 44% probability that a person will no longer below poverty line. Then value of checks Count R2 McFadden's R2, McFadden's Adj R2, Maximum Likelihood R2, Cragg and Uhler's R2, AIC and BIC is used to check performance of model. Count R2 0.7 showed a relatively good performance of model while all other variables show a low values indicating weakness of model in terms of performance.

Table No. 2

Poverty	*dy/dx (Marginal effects)*	*Standard error*	*Probility value*

matric*	.195541	.02912	0.000
F_A*	-.0128737	.02925	0.660
Master*	-.1399877	.03393	0.000
profes~l*	-.447631	.04255	0.000
Testing the model			
Measures of fit for probit of poverty	*Values*	*Measures of fit for probit of poverty*	*Values*
Log-Lik Intercept Only	-4510.510	Prob> LR	0.000
McFadden's R2	0.119	McFadden's Adj R2	0.118
Maximum Likelihood R2	0.126	Cragg&Uhler's R2	0.126
McKelvey and Zavoina's R2	0.199	Efron's R2	0.143
Variance of y*	1.248	Variance of error	1.000
Count R2	0.767	Adj Count R2	0.081
AIC	0.999	AIC*n	7957.569
BIC	-95672.606	BIC	-1037.520
Log-Lik Full Model	-63525.670		

Results seems realistic and according to economic literature. Foremost findings is that as total income of person increases, poverty of individual decreases and there are more chances of person of improving his standard of living and it is more likely that person will stop living below poverty line. Secondly, higher years of schooling increase the chances that person poverty will decrease (MC Grath, 2007, Niazi and khan, 2008). In this way, it is hypothesized that higher the education of person higher he earns and more likely that person will be no longer poor. So individual's income is

negatively related with poverty. Next research study evaluated job status of person and its impact on poverty there can be 4 possibilities which researchers considered in this paper; first is that person is doing free house hold work, second is person is an temporary employer, third is that person is self employed, and finally person is an permanent employer. A person who is an employer faces least poverty then self employed person. Self employed person faces less poverty then employer and employer faces less poverty then person doing free house hold work. So if a person's job status changes from being employer to being self employed then poverty of individual decrease so poverty is related with job status.

While checking effects of higher education on poverty if a person is metric his income will be more than an illiterate person and similarly a person with intermediate, graduation, Masters and professional degrees will earn more than person with less years of schooling. An individual with professional degree will be the highest income earner among all above categories. (Awan et al, 2011), it is concluded that there is higher the education of person, greater will be the future benefits for person in form of higher income.

Conclusion

This study analyzed the role of education in hampering poverty and effects of education on individual's income level. In the past, GDP was the determinant of economic growth but now human capital has become the determinant of economic growth. Human capital can be improved only by education because it improves the living standard and income level. The study findings show that there is a negative relationship between poverty and higher year of schooling of the individual, and then there is a negative relationship between poverty and higher job status of a person. On the basis of these findings, we can say that higher education increases the income level of a person which raises his living standard that ultimately hampers poverty.

Suggestions

1. Government should expand its free education policy to tertiary education and introduce more scholarships than before for making education easily accessible.

2. Government should adopt the policy of giving education to children along with paying them for their survival. Because majority of children have to do child labour because their families want them to help them in meeting basic needs.
3. Encourage the recruitment of male/ female teachers at all levels of education.
4. Network of technical educational institutions should be expanded and also equip with modern training tolls.
5. Awareness campaign should be started to highlight the importance of education.
6. Government should update the curriculum of education as per recent economic needs.

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