

Progress or Parity: Navigating the Choices of Economic Policy

Economic growth and income equality are two fundamental objectives that every economy wants to achieve. Yet, these two objectives often appear in tension with one another. Simon Kuznets, an award-winning economist, described economic growth as a long-term increase in a country's capacity to supply increasingly diverse economic goods to its population.¹

On the other hand, income equality can be described as a situation where income is distributed evenly or fairly among individuals or households within an economy, with little gap between high- and low-income earners. In Pakistan, periods of economic growth, such as the “Decade of Development” in the 1960s, helped industrial expansion and increased employment.² Yet, these periods have often remained fruitful only for the rich, with the standard of living of those on the lower side of the income ladder remaining the same. This dilemma has become a topic of debate among many policymakers around the world, particularly regarding whether economic growth should be prioritized or whether greater focus should be shifted towards reducing the income disparity within an economy.

While growth expands the economic pie, its distribution depends on government policies and institutional design. The experience of many countries such as Pakistan or India shows that growth led strategies pursued in isolation further widen the income gap rather than reducing it. This essay therefore argues that sustainable development requires not faster growth alone, but growth aligned with redistributive mechanisms.

From a policy perspective, economic growth is often regarded as the foundation upon which other social and economic goals are built. Without sustained growth in the

¹ Simon Kuznets, *Modern Economic Growth: Findings and Reflections*, Prize Lecture, Nobel Prize Presentation (Stockholm, December 11, 1971), published on NobelPrize.org, accessed January 1, 2026, <https://www.nobelprize.org/prizes/economic-sciences/1971/kuznets/lecture/>

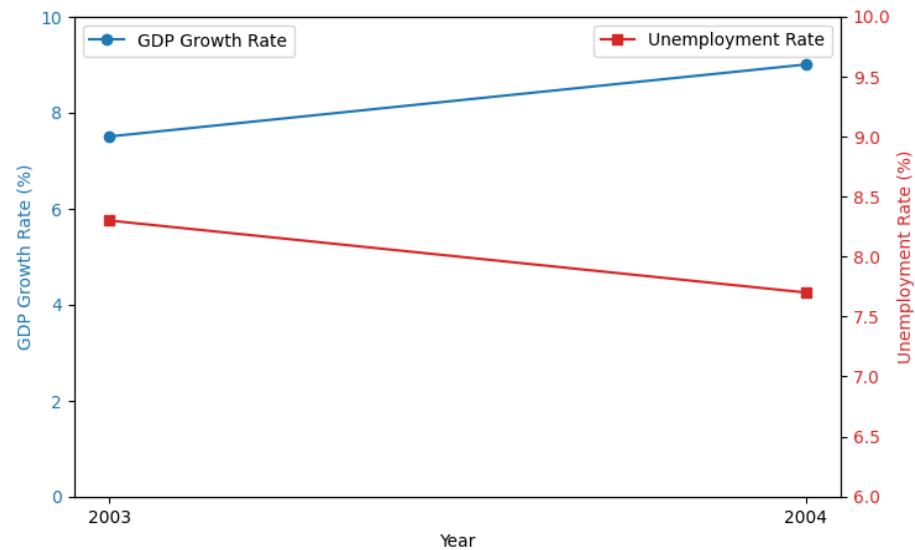
² Akmal Hussain, *Pakistan: Charting a New Course to Development* (Islamabad: Akmal Hussain Network, 2025), 3–7, accessed January 1, 2026, <https://www.akmalhussain.net/Publish%20Work/data/Pakistan.pdf>

output of an economy governments are often left facing severe constraints while addressing poverty, unemployment and inequality.

Economic growth over a sustained period of time means that a country's real GDP is rising. This leads to an increase in aggregate demand as consumers disposable incomes rise and they tend to spend more. Consequently, firms increase investment in order to meet the increase in demand and earn greater profits. To do so, firms often need to hire more labor, which leads to an increase in employment. In the early 2000s, during Pervez Musharraf's presidency, Pakistan experienced high economic growth. In 2003–04, the growth rate was around 7.5%, while unemployment stood at approximately 8.3%.

When the growth rate increased to about 9%, the unemployment rate fell to around 7.7%.³ Highlighting how economic growth and unemployment are inversely related.

Figure 1 GDP Growth vs Unemployment Rate (2003-2004)



Source *Pakistan's Economy Under Musharraf*, Profit by Pakistan Today, March 19, 2023.

Secondly, as a country's economy starts to grow, the total production of goods and services increases. Businesses expand and demand more labor, providing more people with employment opportunities and improving living standards, this helps lift people out of poverty. Additionally, economic growth also helps raise government revenue without the need to increase tax rates. As businesses expand and incomes rise, the tax base naturally grows, enabling the government to generate higher tax revenues

³ *Pakistan's Economy Under Musharraf*, Profit by Pakistan Today, March 19, 2023, <https://profit.pakistantoday.com.pk/2023/03/19/pakistans-economy-under-musharraf/>

without raising tax rates. Consequently, this allows the government to invest more in welfare programmes such as the Ehsaas Programme which supports over 7 million households and the Benazir Income Support Programme.⁴

Long term growth focused economic policies also lead to investors becoming more optimistic of a country's future. Clear, consistent policies reduce the risk of sudden reversals and encourages investors to commit more capital for longer periods of time. Greater amounts of investment will lead to a rightwards shift in the aggregate demand, and can lead to an increase in real GDP with limited inflationary pressure, particularly in low-income countries such as Pakistan where spare capacity exists.

However, prioritizing growth without addressing income inequality can lead to some segments of society capturing a disproportionately large share of new economic growths causing social unrest and reducing the overall effectiveness of growth. In Pakistan, for example, rapid GDP growth periods have often only benefited the rich and powerful with rural populations and small-scale workers seeing little improvement in their standard of living. According to Dr Mahbub ul Haq's 1968 analysis 22 families owned 66% of the country's industrial assets at that time highlighting that even when the economy is growing ordinary citizens may not reap its rewards.⁵

Greater income inequality can lead to social unrest and political instability. Large gaps between the rich and the poor can create feelings of injustice, exclusion and frustration within a society. This leads to some members of the community to protest and fight against a system that they think is rigged against them. Joseph Stiglitz, a Nobel Prize winning economist, stated in his book that "When a small fraction of the population controls a disproportionate share of wealth, it stifles opportunities, fuels social unrest, and

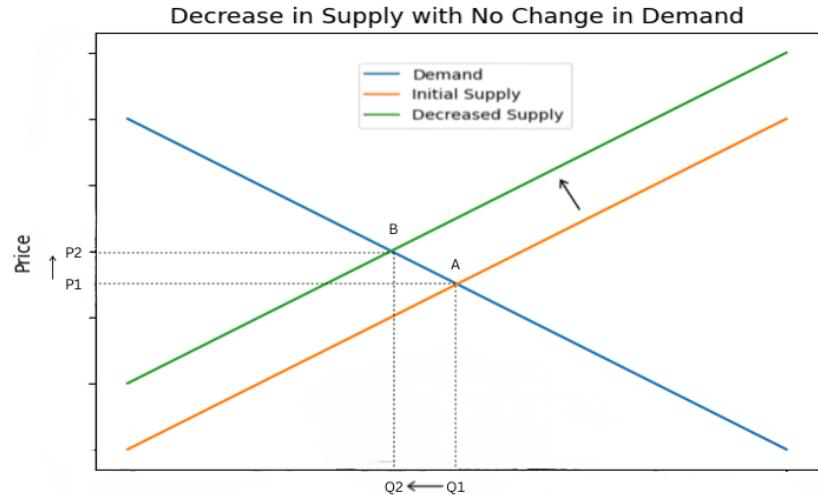
⁴ Pakistan Poverty Alleviation and Social Safety Division, "*Ehsaas Programme Includes Monthly Cash Stipends for 7 Million Poorest Households*," press release, Press Information Department, Government of Pakistan, March 29, 2021, accessed January 1, 2026, quoting that the Ehsaas Kafaalat component covers monthly cash stipends for 7 million households under the program

⁵ Khadija Haq, ed., *Economic Growth with Social Justice: Collected Writings of Mahbub ul Haq* (Oxford: Oxford University Press, 2017), <https://doi.org/10.1093/oso/9780199474684>.

undermines the stability of markets and governments.”⁶ Highlighting how polarization within a society hurts an economy in the long run as sustainable development becomes difficult to achieve.

Reducing economic disparity between the rich and the poor has social benefits while also strengthening long-term economic performance. As the disposable incomes of the middle and lower classes rise, consumer expenditure in the economy increases, boosting the aggregate demand and building a more sustainable economy rather than growth fueled by a small group of elites.

Short term growth such as that in Pakistan during the early 2000s reduced poverty however it failed to sustainably reduce income inequality and did not significantly improve human development indicators, this can undermine long term economic growth. As a large proportion of the population is left without proper education, healthcare or infrastructure. This negatively affects the economy in the long run as there is less social cohesion and workers work with less motivation as even though the economy is growing, they are not benefitting from it. This shifts the supply curve towards the left due to increased costs in factors of production subsequently increasing the price level of goods.



For an economy to flourish growth focused policies need to be implemented while simultaneously addressing income inequality assuring that growth is inclusive for all.

⁶ Joseph E. Stiglitz, *The Price of Inequality: How Today's Divided Society Endangers Our Future* (New York: W.W. Norton & Company, 2012).

Economic growth can be achieved through export led industrial growth as well as energy sector reforms which will lead to a reduction in production costs and an increase in the aggregate supply. In addition to these policies in order to show that the growth is beneficial for all welfare programmes need to be expanded and progressive taxation needs to be implemented. Ensuring that an economy is sustainable and socially balanced.

AI Usage Declaration:

Ai was used in structuring this essay, correcting punctuation and grammar. It was also used for ideation.