



PAKISTAN

OPPORTUNITY TO EXCEL: NOW AND THE FUTURE

Nadeem Ul Haque
Durr-e-Nayab

PIDE
Monograph

PAKISTAN INSTITUTE OF DEVELOPMENT ECONOMICS

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Pakistan Institute of Development Economics
Quaid-i-Azam University Campus
P. O. Box 1091, Islamabad 44000, Pakistan

E-mail: publications@pide.org.pk
Website: <http://www.pide.org.pk>
Fax: +92-51-9248065

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Pakistan
Opportunity to Excel:
Now and the Future

Nadeem Ul Haque
Durr-e-Nayab

PAKISTAN INSTITUTE OF DEVELOPMENT ECONOMICS
ISLAMABAD

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OPPORTUNITY TO EXCEL: NOW AND THE FUTURE

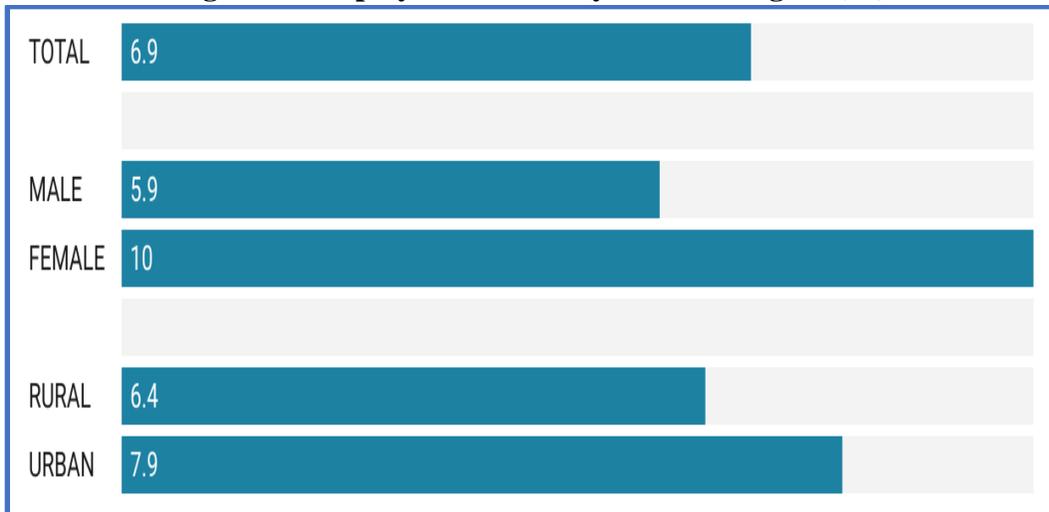
Availability of opportunities implies that people have a range of life options, specifically economic, to pick from, and have a realistic chance to adopt what they want to do and succeed in it. For Pakistan, where nearly sixty percent of the population is aged under 30 years, opportunities become even more significant. The fact that we live in a world where technology is changing the way things are done at an unprecedented pace makes it very easy for those not keeping up to be left far behind, without opportunities.

Is Pakistan offering such opportunities to its people to take up and excel? Is the country doing what needs to be done for its population to excel in future?

I. OPPORTUNITY NOW

Let us take the employment trends as an indicator of available opportunities in the country. The **reported unemployment rate** of 6.9 percent is considered to be comfortable and frequently makes headlines (Figure 1). Far more females and those living in urban areas are unemployed than their male and rural counterparts.

Fig. 1. Unemployment Rates by Sex and Region (%)



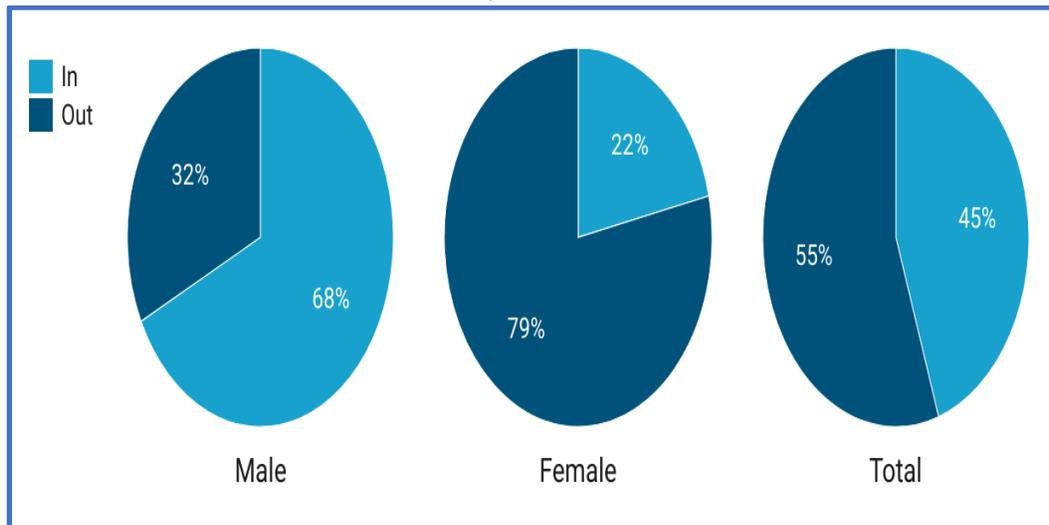
Source: Authors' estimation using the Labour Force Survey 2018-19.

Authors' Note: This monograph is based on the lecture given by the two authors at the inaugural of the 35th AGM and Conference of the PSDE.

Looking under the hood, the Labour Force Survey (LFS) tells us a story of a labour market that is less than sanguine.

A surprisingly **large part of the working-age group is not even part of the labour force** (Figure 2). These people are either discouraged workers or have other means of income to support them that they do not need a wage. The former is more likely, especially for males. Despite pronouncements and policy initiatives, the female labour force participation rate (LFPR) remains shockingly low. The socio-cultural reasons seemingly continue to deter females to be a part of the labour force. Low female LFPR (Figure 2) coupled with a high female unemployment rate (Figure 1) shows the lack of opportunities for half the population in the country.

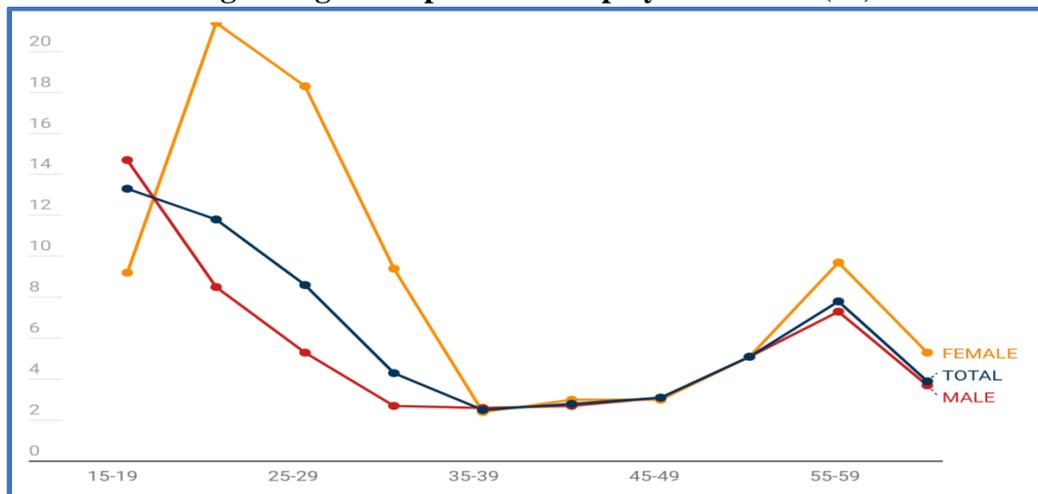
Fig. 2. Proportion of Working-age Population in the Labour Force by Sex (%)



Source: Authors' estimation using the Labour Force Survey 2018-19.

Despite all the talk about the youth bulge and reaping the demographic dividend (Nayab 2011), the unemployment rate is the highest for the young new-entrants in the labour force (Figure 3). **It takes about a decade or more for youth to be employed.** All cohorts reach the national average at about the age of 30. Both males and females at younger ages have a higher probability of unemployment till 30. Between ages 20-29, female unemployment is on average between 20 percent-14 percent (Figure 3).

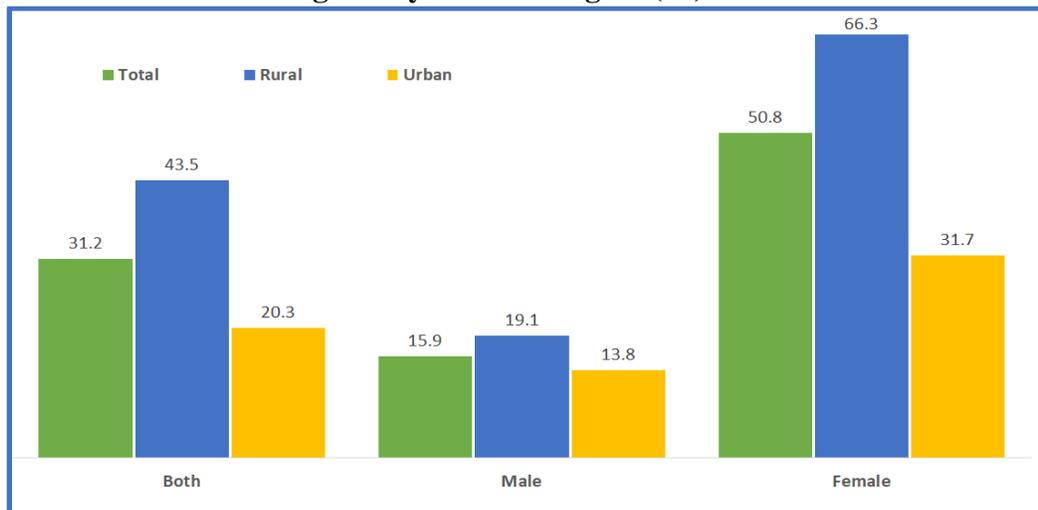
Fig. 3. Age-sex Specific Unemployment Rates (%)



Source: Authors' estimation using the Labour Force Survey 2018-19.

Education is considered a panacea and the key to all opportunities. The reality however shows us otherwise. Going by the LFS, **graduate unemployment is very high** (Figure 4). Over 31 percent of the youth with degrees, including professional ones, are unemployed with females at 51 percent and males at 16 percent. Rural graduate unemployment is much higher than urban, begging the question of mobility (Figure 4).

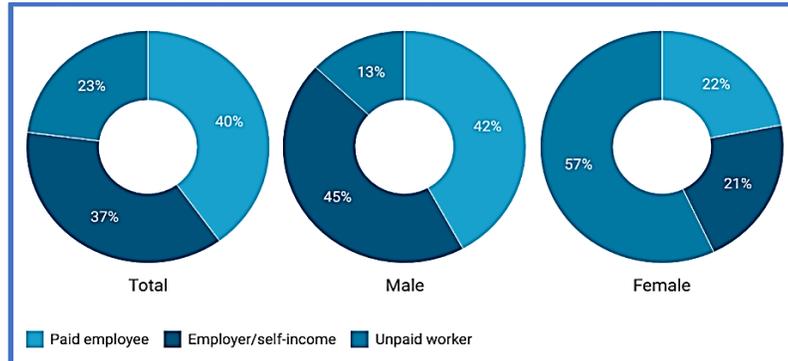
Fig. 4. Unemployment Rates among Youth, Aged 15-29 Years, with Degrees by Sex and Region (%)



Source: Authors' estimation using the Labour Force Survey 2018-19.

The **sub-optimal nature of employment** for those employed can be gauged from Figure 5. **Some 23 percent of the labour force is involved in unpaid labour: 13 percent of males and a huge 57 percent of the employed females** (Figure 5). This is not gainful employment revealing the lack of opportunity in the employment market.

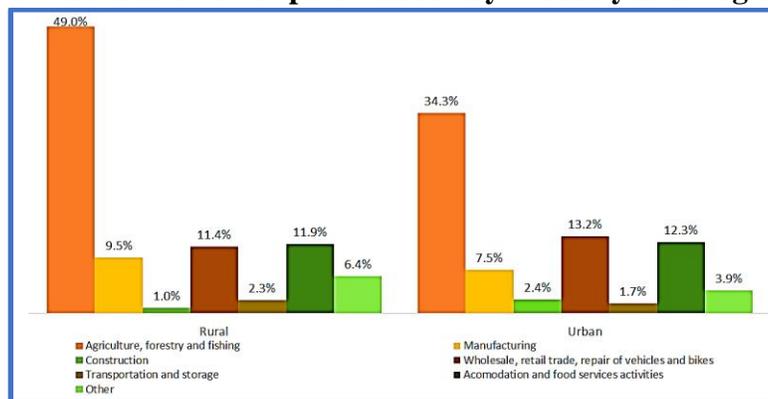
Fig. 5. Employment Status by Sex: Paid or Unpaid (%)



Source: Authors' estimation using the Labour Force Survey 2018-19.

One may tend to believe that unpaid labour is confined to agriculture and in rural areas only. Data tell otherwise. Although more prevalent in agriculture, unpaid labour can be found in all industries, including manufacturing, construction, transportation and retail (Figure 6). Likewise, the phenomenon is present in urban areas as well. **Unpaid labour is, thus, prevalent across all industries in both rural and urban areas. Another indication of lack of opportunities for quality jobs.**

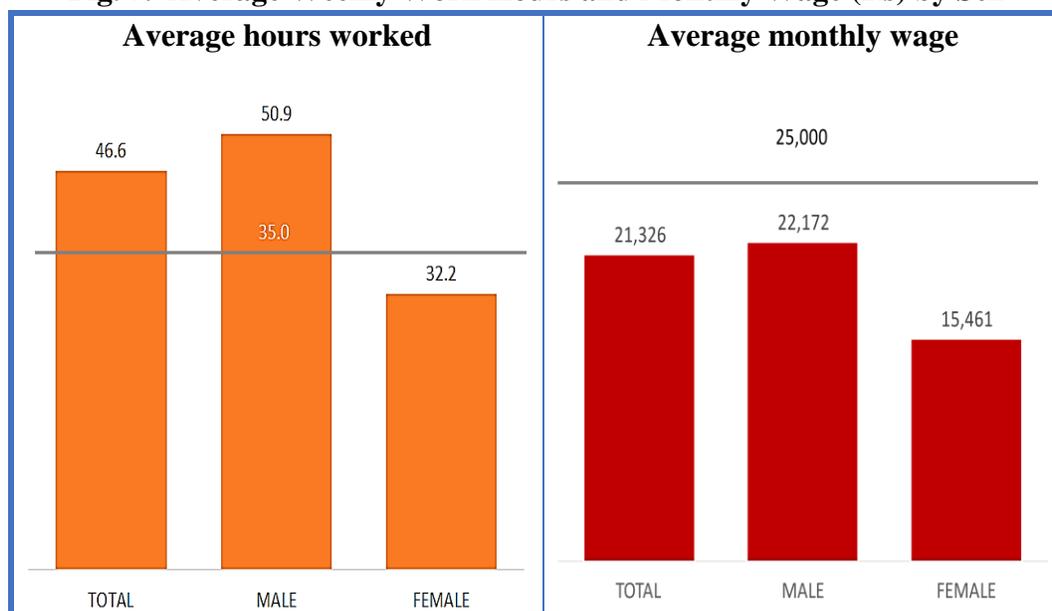
Fig. 6. Distribution of Unpaid Labour by Industry and Region (%)



Source: Authors' estimation using the Labour Force Survey 2018-19.

Of the paid labour, the quality of jobs for both males and females need consideration. The average monthly wage is below the minimum wage despite the males working longer than the average duration for a full-time worker (Figure 7). The females work slightly less than the average full-time work week but get paid much lower than the minimum pay. We could say **most people are sub-optimally employed.**

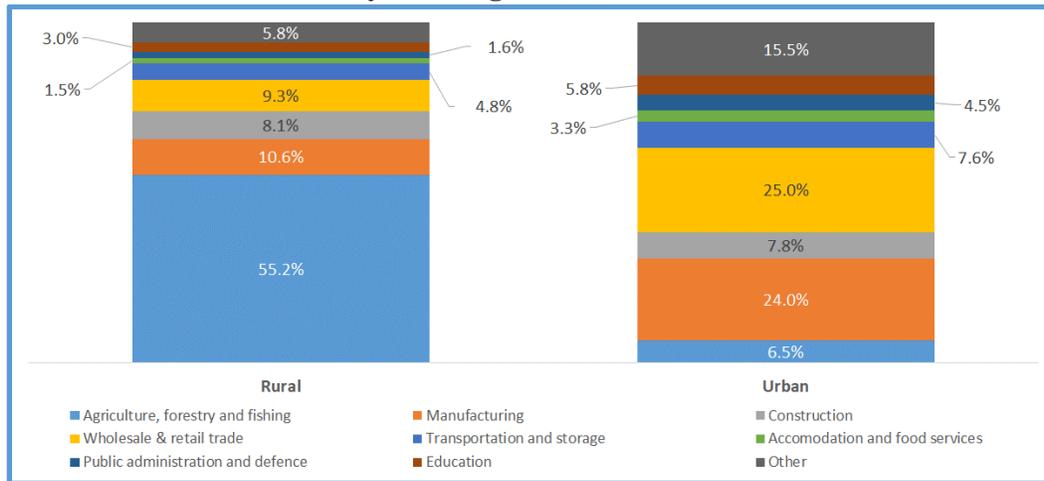
Fig. 7. Average Weekly Work Hours and Monthly Wage (Rs) by Sex



Source: Authors' estimation using the Labour Force Survey 2018-19.

Services remain the largest employer with retail and wholesale trade the largest segment in the urban areas, while agriculture (including both cultivation and livestock) continues to employ the majority in rural Pakistan (Figure 8). **Surprisingly construction employs about 8 percent of the labour force in both urban and rural areas perhaps reflecting the harsh regulatory and zoning laws in urban areas that PIDE research has been highlighting** (Haque and Nayab 2006, Haque and Nayab 2007; Haque 2015; PIDE 2020a, 2020b; Ali 2020). Despite the government's pronouncements on construction, urban areas show no signs of being deregulated reflecting in the low proportion of the employed labour force in the industry. The construction industry, therefore, fails to provide the opportunities that it could have in the presence of reform.

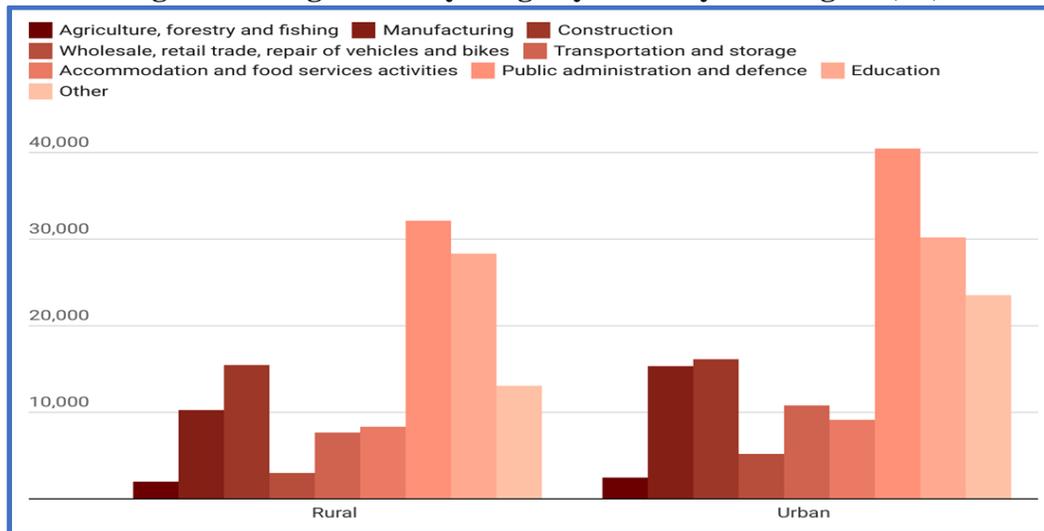
Fig. 8. Distribution of the Employed Labour Force by Industry and Region (%)



Source: Authors' estimation using the Labour Force Survey 2018-19.

Public employment, including both civil and military, provides opportunities for better-paid jobs in Pakistan. **The well-known preference for government jobs, therefore, appears justified as the monthly wage in government shows up to be significantly higher than private-sector jobs** (Figure 9). Add to it job security and lack of performance standards, and the preference is clearly understandable (Haque, et al. 2021).

Fig. 9. Average Monthly Wage by Industry and Region (Rs)

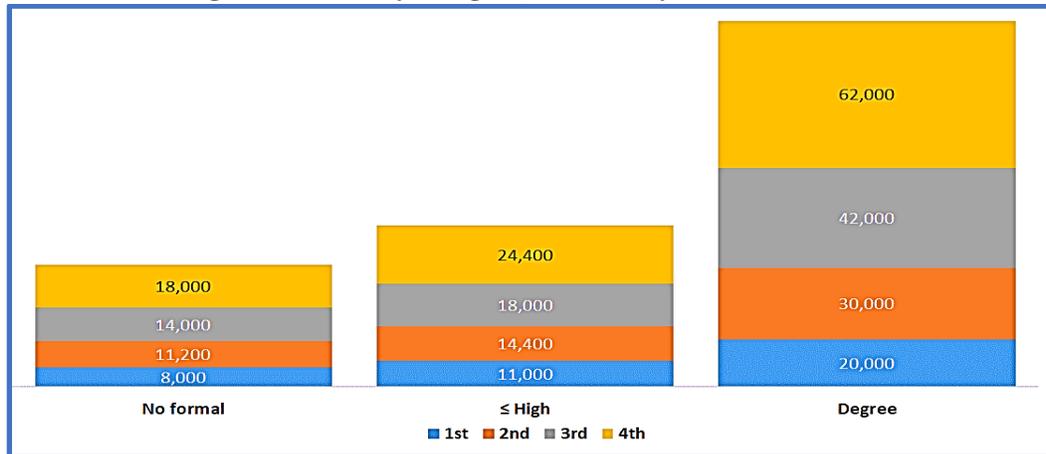


Source: Authors' estimation using the Labour Force Survey 2018-19.

The labour market in Pakistan also sheds light on the gains to education and the opportunities it might be providing. **Schooling up to high school seems to confer no serious gain in monthly earnings** (Figure 10). All four quartiles in the lower two categories report similar earnings, probably confirming anecdotal reports that educated youth are applying for menial jobs.

Graduate earnings are somewhat higher but only in the 4th quartile. In other quartiles, even graduation offers no significant advantage.

Fig. 10. Monthly Wage Quartiles by Education (Rs)



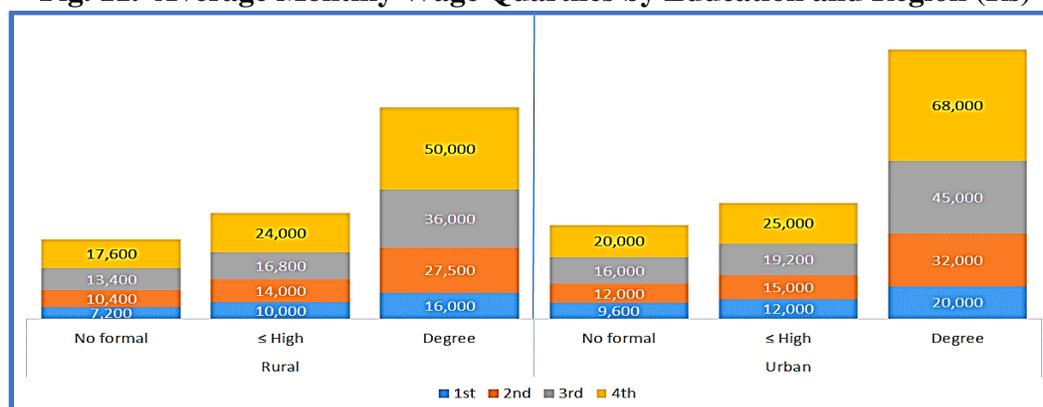
Source: Authors' estimation using the Labour Force Survey 2018-19.

Do urban areas provide more lucrative jobs, especially to those educated? The trends clearly show signs of a highly regulated market or a mismeasure of urban and rural areas given that no significant wage difference shows up in the average wages across the two regions, specifically for those with no or little education (Figure 11). The urban premium that has been reported the world over (Yankow 2006; Gould 2007; Matano and Naticchioni 2016; Shutter, et al, 2021) appears to be missing.

In PIDE we have pointed out that (Arif 2003; Haque and Nayab 2007; Haque 2013, 2016, 2020):

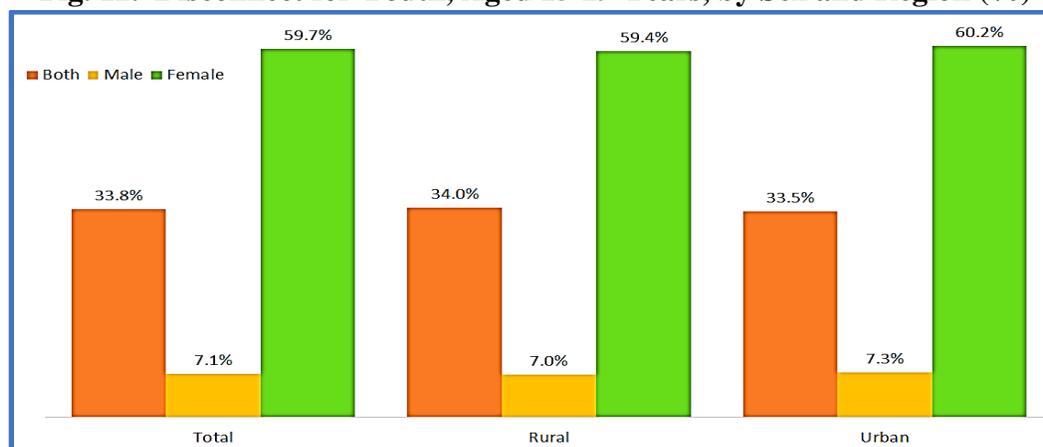
- The urban definition used in the census and government surveys does not adequately capture cities or city populations and their boundaries.
- Cities are heavily regulated to create bureaucratic sludge lowering productivity and wages.

The LFS seems to point to a need to study and understand our labour and product markets more carefully, as PIDE has been pointing out for years. Why is it that the urban areas are not providing the kind of opportunities they should?

Fig. 11. Average Monthly Wage Quartiles by Education and Region (Rs)

Source: Authors' estimation using the Labour Force Survey 2018-19.

Youth engagement is imperative, more so when they comprise the largest chunk of the population. The LFS shows **one-third of the youth, in both rural and urban areas, to be disconnected from the system as they are neither employed nor enrolled** (Figure 12). The disconnect is higher for young females, with 60 percent neither working nor studying. Socio-cultural norms, encouraging early marriage and childbearing, and reluctance to be in the labour market contribute to this trend (Shah 1975; ADB 2016).

Fig. 12. Disconnect for Youth, Aged 15-29 Years, by Sex and Region (%)

Source: Authors' estimation using the Labour Force Survey 2018-19.

The picture that emerges is:

- (i) Recorded unemployment in surveys, including the LFS, relies mainly on the answer to the question, "Was (name) seeking work during the past week?". It is unable to capture various states people find themselves in,

within the family or community. Issues linked to sub-optimal employment are not captured.

- (ii) Gender differentials are stark. Ophelimity for females seems to be scarce.
- (iii) A large number of unpaid workers are reported everywhere for all genders indicating **sub-optimal employment**
- (iv) Low wages despite high/moderately high work hours but few looking for work. Are these **discouraged workers**?
- (v) High youth and graduate unemployment rates are recorded in years, which otherwise should characterise high productivity and learning. This is significant in understanding the state of productivity in Pakistan.
- (vi) There is a clear indication of a public sector wage premium.
- (vii) Returns to education appear to be low as across schooling and college the wage premium appears to be quite low.
- (viii) The urban wage premium is largely missing.
- (ix) A large number of youth is neither employed nor studying. Are the **youth discouraged**, hence disconnected?

II. WHERE ARE WE GOING WRONG?

Policy in Pakistan has paid little attention to opportunity. Instead, it has worked on developing a welfare state based on transfers. When there has been a demand for jobs, political leaders have chosen the path of government and employment in state owned enterprises (SOE), at the cost of efficiency and financial losses.

In our discussions with youth in many universities and over social media, we have found that the youth in Pakistan appear to be focused on seeking government employment for job security, status, and relatively higher wages with lower productivity requirements. Other ambitions are severely curtailed given the lack of opportunity. These interactions suggest a certain amount of despair among youth.

Neither teachers nor youth see the market especially the global market as a huge opportunity. Our failure to compete in all international competitions is seen as an inevitability. If the country is to take advantage of the youth bulge, this must change. For this, policy needs to rethink opportunity and welfare along the following lines:

- (i) The policy must seek to restructure society and city to allow youth to explore their inner talents and be honed and mature for international competitions.
- (ii) Social infrastructure (spaces for performance, sport, intellectual and cultural activities in communities) along with the requisite organisation (leaders and competitive structures for nurturing talent) need to be given priority in the policy.

- (iii) Individuals perform best and are the happiest through achievements and finding their true potential. Self-actualisation is desirable, and policy and governance must give it some priority.
- (iv) Talent is normally distributed in all societies, but it requires social “hard and soft” infrastructure to be realised. Such infrastructure must seek to set up a competitive structure for talent (e.g., competitions like spelling bee, math marathons and the like) in all areas. For too long this has been neglected.
- (v) The focus on mere education without complementary activities restricts opportunities and starves talent. In the past, universities had extracurricular activities which have been starved over time to the detriment of well-rounded ambitious students. The policy must move beyond education to incentivise capabilities of all kinds (See Sen 1997).

The policy is too focused on traditional sectors and has too mercantilist an approach (see Haque 2006). Either it encourages agriculture and industry, and within those exports, or it thinks of entrepreneurship only as quick profits.

III. LOOKING INTO THE FUTURE

Several new technologies are emerging that have serious implications for our labour market and emerging technologies. These are summarised in the box below.

Technological Trends of the Future

1. Artificial Intelligence (AI), Information Management and Data Processing

1. These shall fundamentally change the nature of jobs and the way we do business. The management, development, and transmission of knowledge and data will disrupt many businesses and jobs, from education to knowledge-based professions.
2. Data, as they say, is the new “oil”. It will open many new opportunities. Internet connectivity is going to be vital to learning, knowledge, and even goods and services production. Online data management will certainly create many new threats as the US is now discovering.

2. Automation, 3D Printing, and Robotics

1. Mass production with unskilled labour and simple machines will be further disadvantaged. The value will be created in designs and research. This development will sharply displace unskilled labour.
2. Inequalities will increase sharply creating large policy challenges.

3. Agricultural Technologies and Food Substitutes

1. Urban farming, hydroponics, and farm automation will challenge returns to traditional farming, which sustains a large part of Pakistan’s labour.
2. Laboratory-made food is already in the market to challenge traditional food, weakening the terms of trade for agriculture.
3. These trends will benefit the environment and save our water but present policy challenges for adopting them.

4. Biomedical Science, Human Augmentation and Synthetic Biology

1. While the global COVID-19 pandemic has shown the potential for supply disruptions, it has also shown the power of research and how countries compete at a fast pace to produce needed vaccines on short notice.
2. While we supply doctors to many parts of the world, biomedical research—from medicines to robotics—will create huge value in the future. We will have to pay for these developments. Or we could position ourselves to be part of the value chain that is being created through research.

5. Climate Change and Adaptation Technologies

1. The discourse in Pakistan is mainly on the costs of climate change, but we must prepare for possible adverse changes, including mitigating environmental damage and preparing for the increased probability of climate disasters.
2. There is also an opportunity in climate adaptation technologies that need to be examined. The market for electric cars and solar and wind technologies are obvious examples of these.

Source: PIDE RAPID (2021)

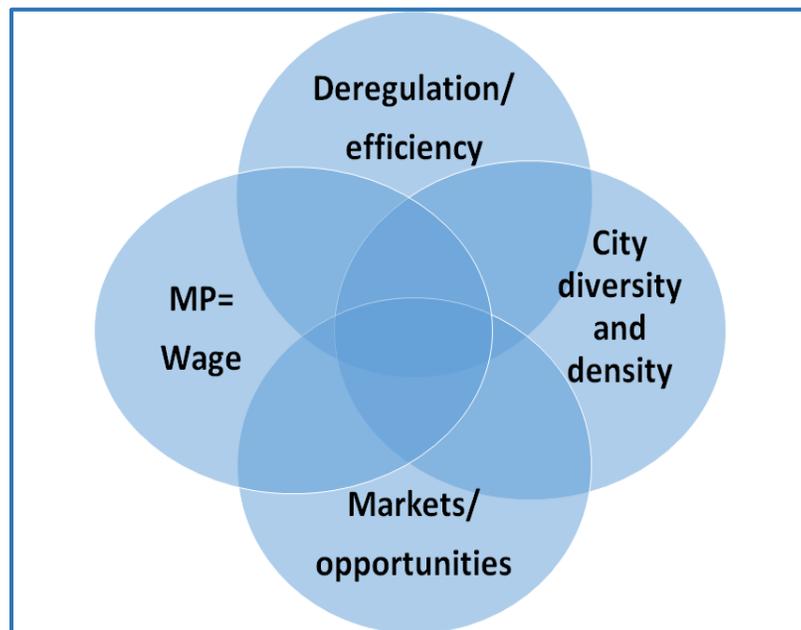
These technological advances would radically change the labour market and society's structure. A lot has been written on this and is being actively discussed.

- (1) Many jobs will be made redundant, with machines replacing low-skilled workers. Raw labour will matter little with skill requirements and an intimate relationship with technology at a premium.
- (2) The nature of education will change from the premium on ready knowledge to flexible critical thinking, design thinking and creativity.
- (3) With the introduction of the gig and the sharing economy, work style and habits will change. Perhaps people will have to consider multiple careers and retraining.

Are we prepared for this new world? Our education system our governance system all need to be realigned if we are to meet this new world. Many new opportunities will open only if the economy and the policy are both seriously re-imagined.

IV. CREATING OPPORTUNITIES

The discussion from the LFS above clearly shows that a large proportion of the labour force is sub-optimally employed. The opportunities for the youth are scarce and things need to change quickly. The box on the right summarises how we think opportunities can be created.



- (1) PIDE has shown that sludge (excessive regulation and documentation) is preventing the growth of firms, investment and entrepreneurship (PIDE 2021). The footprint of the government is large, crowding out investment and economic activity (Haque and Ullah 2020). The government processes are cumbersome, and the regulatory space for investment is also severely lacking. In addition, there seems to be no value of time as a multiplicity of NOCs, documentation, and meetings act as barriers. The sludge needs to go for opportunities to be created.

Government Footprint in the Economy

- The *total footprint of government on the economy* in Pakistan amounts to at least 67 percent of Pakistan's GDP, which is substantially higher than what Pakistan government's general yearly expenditure as a percentage of GDP (22 percent) might suggest. Furthermore, if one was to include the opportunity cost of dead capital that government owns in the analysis, the *total government footprint* then reaches up to approximately 80 percent of the annual GDP.

$$\mathbf{TGF (>67\%)** = MS (43\%) + ERC (24\%) + DC (5-10%)*}$$

TGF = Total Government Footprint

MS = Market Share across Sectors

ERC = Estimated Regulatory Costs

DC = Cost of Dead Capital

**** Total Government Footprint on the Economy in Pakistan is greater than 67 percent and is a sum of the above-mentioned sub-categories.**

Haque and Ullah (2021)

- (2) PIDE RAPID (2021) and the FEG (2011) before it noted the country's lack of market development. As argued above, markets are mere competitive devices (not to be confused with neo-liberal ideology). To allow all forms of competition to happen, the government must foster creative regulatory frameworks.
- (3) Historically, poverty has been reduced through flexible and dynamic opportunity spaces known as cities. Such cities are dense, compact, walkable and with high rise and mixed-use (Haque 2005, 2020). Residential units in such cities are flats, and cars are not subsidised. Opportunities abide from street/sidewalk economy to the corner store, neighbourhood businesses, shopping malls, entertainment, leisure spaces, and many more. This is contrary to our city master planning, where flyovers, roads and excessive zoning and height restrictions encourage a soul- and opportunity-killing sprawl. Countless social problems have been created as a result, not the least is the death of opportunity. The current trend needs to be reversed.

- (4) Cities have also been regulated to not have construction to the point that tower cranes are not visible in Pakistan on cityscapes (Haque and Khurshid 2020; Ali 2020). As noted above, a relatively small proportion of the labour force seems to be employed in construction. Tower cranes abound in most rapidly developing countries, and construction is a large employer. Despite the PM's pronouncements on increasing construction activity, the emphasis seems to be on sprawl and road construction. This means that city space for opportunity remains limited. The whole approach towards construction needs rethinking.
- (5) City density is positively correlated with opportunity, innovation and entrepreneurship (Glaeser, et al. 2009) The current sprawl with the limited public, community, commercial and entertainment space offers no opportunity to youth. Denser, instead of sprawling, should be the idea around which cities are developed.
- (6) Allowing talent to flourish will not just help an individual but increase GDP in many ways:
 - Several new activities will be created to add to employment and other opportunities. Each talent market or talent space that is created will allow creativity to flourish, leading to a culture of innovation and entrepreneurship.
 - There is a global supply chain of talent in every field and the earning there are huge. A sample of these is provided in some areas in the Annex. It is not that Pakistanis will necessarily win in these and other areas. This is merely to show the high stakes game of talent at the global level. The supply chain is deep and has many ancillary benefits such as events, products, endorsements, etc.

The talent-focused opportunity approach advocated here will allow creativity and entrepreneurship to flourish everywhere. Eventually, a network of activities will be developed, and many new and fresh activities will emerge. These will all connect with consumers and related activities. GDP will increase as we connect with more global supply talent and knowledge networks. In one calculation, GDP is merely a sum of all earnings. As new activities are allowed to happen and even fostered, GDP will increase, creating further opportunities.

ANNEX**A-1: Highest paid global athletes**

Rank	Name	Sport	Annual Earnings (million)
1	Conor McGregor	Mixed Martial Arts	\$180
2	Lionel Messi	Soccer	\$130
3	Cristiano Ronaldo	Soccer	\$120
4	Dak Prescott	Football	\$107.5
5	LeBron James	Basketball	\$96.5
6	Neymar	Soccer	\$95
7	Roger Federer	Tennis	\$90
8	Lewis Hamilton	Auto Racing	\$82
9	Tom Brady	Football	\$76
10	Kevin Durant	Basketball	\$75
11-50	Average		\$55

A-2: Highest paid global actors

Rank	Name	Sport	Annual Earnings (million)
1	Conor McGregor	Mixed Martial Arts	\$180
2	Lionel Messi	Soccer	\$130
3	Cristiano Ronaldo	Soccer	\$120
4	Dak Prescott	Football	\$107.5
5	LeBron James	Basketball	\$96.5
6	Neymar	Soccer	\$95
7	Roger Federer	Tennis	\$90
8	Lewis Hamilton	Auto Racing	\$82
9	Tom Brady	Football	\$76
10	Kevin Durant	Basketball	\$75
11-50	Average		\$55

A-3: Highest earning global YouTubers

Rank	Name	Annual Earnings (million)
1	Ryan Kaji	\$29.5
2	Mr. Beast	\$24
3	Dude Perfect	\$23
4	Rhett & Link	\$20
5	Markiplier	\$19.5
6	Preston Arsement	\$19
7	Nastya	\$18.5
8	Blippi	\$17
9	David Dobrik	\$15.5
10	Jeffree Star	\$15

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Pakistan Institute of Development Economics
Quaid-i-Azam University Campus
P.O. Box 1091
Islamabad - 44000
Pakistan
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Fax: + 92-51-9248065
E-mail: publications@pide.org.pk