Summary of remarks delivered by Dr. Ishrat Husain as an invited discussant – at the Conference on Analytical Country Studies on Growth held on April 20-21, 2001 at the Center for International Development, Harvard University, Cambridge, Massachusetts.

Case Study on Pakistan by Bill Easterly

At a general level I broadly agree with Bill Easterly that Pakistan's performance in social development has lagged behind other countries at the same level of per capita income. His regressions demonstrate this quite unambiguously.

I am also grateful that he has used my elitist growth model as applied to Pakistan for explaining the reasons as to why the benefits of rapid economic growth in Pakistan over a period of forty years have not been widely distributed and were concentrated in a small class of the elite at the top. However, I have also several points of disagreement with some of his observations.

I do not agree that Pakistan is stuck at the early stage of development where land is abundant relative to physical capital and ownership of the land is highly concentrated. The share of agriculture in GDP has declined from 50 per cent to 22 per cent while the urban population of about 40 per cent owns about 80 per cent of national income. The law of inheritance has led to sub-division of land holdings and the concentration of land ownership is now limited to very few areas in the country. Agriculture productivity and capital investment in

tubewells and irrigation system not land extension have been responsible for this country of 135 million people achieving self-sufficiency in food and generating exportable surplus.

I also do not think he is right when he says that the total net primary enrolment rate has fallen to 40 per cent in 1998-99 from 46 per cent in 1990-91. The 1998 census results which are not reflected in the data he has used in the paper show that the enrolment rates have in fact increased. It is quite possible that the numbers he has used in the paper may be limited to public sector schools ignoring the private sector schooling which has expanded its share significantly.

I have serious problem with the monitoring indicators of Social Action Program (SAP) which were obsessively focused on inputs – such as buildings, teacher recruitment and procurement of goods and services. There was too much time and energy spent on disbursement of funds and despite a maze of complex procedures in place and a multi-million dollar donor monitoring unit the leakages and waste of funds from the Social Action Program have been as bad as in other public sector projects. I am not convinced that government spending on education and health are the right targets on which we should focus or bemoan about. It is the cost effectiveness, the outreach, access and the quality with which we should be concerned.

I would now like to pose another paradox for the learned author. There has been a turnaround in the social indicators in the 1990s but

growth rates have declined. For example, literacy rate is now 45 per cent compared to 26 per cent at the beginning of the 1980s. Female literacy has doubled from 16 per cent to 32 per cent during this period. The progress has been more remarkable in rural Balochistan and rural NWFP – the most backward and conservative areas of the country ridden with strong tribal and religious traditions. These areas are ethnically, linguistically and geographically close to Afghanistan. But look at the progress they have made in last two decades – female literacy in rural NWFP has jumped from 3.8 to 16.7 per cent – very low by any standard but still highly impressive in terms of change. In rural Balochistan, the rate of female literacy has expanded five times – from 1.7 per cent in 1981 to 8.8 per cent in 1998. Thus the question that I wish to raise for growth researchers particularly those preoccupied with the relationship between economic growth, poverty alleviation and social development is as follows:

Until the late 1980s Pakistan had achieved one of the spectacular records of economic growth rates – almost 6 per cent per annum over a fairly long period of 40 years and reduced incidence of poverty from 33 per cent to 18 per cent, but the country had horrible social indicators. Bill Easterly's paper documents this very ably and pervasively. But when social indicators begin to improve in the 1990s for a variety of reasons – both internal and externally driven – the average rate of economic growth has declined by about 2 to 3 percentage points. How do we explain this paradoxical finding? Declining population growth rates and lower fertility

rates have actually come to our rescue but if they had persisted at the pre-1990 level the per capita incomes growth would have remained stagnant. Is it that these improved social indicators would affect economic growth in a benign, favorable manner after some time lag? If we accept this hypothesis for a moment this still does not explain the long-term trends exhibited by Pakistan between 1960-90 – high growth rates, reduced poverty incidence and poor social indicators. Mind that, there was a very large structural shift in the economy in the 1970s when, the Eastern Wing was separated, private industry and financial sector were nationalized and the role of public sector was extended and enlarged. Despite these internal shocks and the oil price shock of the 1970s the economy proved fairly resilient and was able to revert to its mean growth path after a relatively short hiatus.

My own reading of the history of Pakistan's development is that the underlying explanatory variable is the governance factor including the quality of institutions which helps throw some light in resolving this paradox. Between 1960 and 1990 Pakistan had built up strong institutions – judiciary, civil service, water and power development agency, universities, and scientific research institutions. Governance standards, although not perfect, were, by and large high, relative to other developing countries. Corruption was not that rampant or widespread at higher levels although it was quite common at the lower level. The democratic period of Zulfiqar Ali Bhutto was also not characterized by

any major financial scandals. Thus the efficiency of investment in Pakistan was above the average of developing countries and with modest investment rates boosted by external aid and workers' remittances the country was able to perform quite well. Those who believe that high economic growth is associated with reduction in poverty and vice-versa will find themselves vindicated by the example of Pakistan. There is a symmetrical movement on both upside as well as downside. When the country had recorded growth rates of 6 per cent and more there was a dramatic decline in poverty incidence – almost one half of the poor had moved out of poverty. In the 1990s when the growth rates slowed down poverty once again resurfaced and the incidence almost doubled in a decade. The distinguishing feature of the decades of the 1990s was a worsening of governance standards. In 1996 Pakistan was ranked the second most corrupt country by Transparency International. Governance indicators for 1997-98 in Kaufman et al study amply substantiate the poor governance record of Pakistan for this period. Unfortunately, the Social Action Program supported by multilateral and bilateral donors which was supposed to improve health, education, family planning, water supply and sanitation has also met the same fate. Civil service was politicized, all appointments and promotions were based on the criterion of party and personal loyalty rather than merit. All the key institutions became dysfunctional saddled with excess manpower and low quality leadership with no sense of direction indulging in personal gains for themselves and

their political masters. Inflated contracts, low priority capital intensive projects, misuse and misappropriation of public resources, widespread evasion of taxes, theft of electricity and irrigation water, politically directed bank loans which were never repaid became the norms by which the country was governed. Agreements were signed by successive governments with IMF and the World Bank but were breached and violated more often than complied with. Tough decisions to end subsidies, to remove price distortions, mobilize domestic resources, widen the tax base, eliminate discretionary controls were avoided with the result that the cumulative impact of these postponed decisions eroded the productive base of the economy and created a large credibility gap vis-à-vis the international financial institutions. By 1999, the external debt of Pakistan had doubled from $ 18 billion to $ 36 billion in one decade and public debt had equaled GDP. External Debt Servicing before rescheduling had escalated to almost 80 per cent of export revenues and Public Debt Servicing pre-empts 85 per cent of tax revenues. Seven Public Corporations claim 1.6 per cent of GDP as annual losses adding to the quasi-fiscal deficit and government borrowing.

The recent efforts by the Military Government to bring about fundamental structural reforms in all sectors of the economy, to revamp the key institutions of the country, to achieve macroeconomic stability while at the same time reduce rent-seeking activities of the business class are steps in the right direction but will take some time to bear fruits. But it

is my conviction that these efforts, though painful in the short run, will lay the foundation for good governance and stable institutions which, in turn, will revive economic growth, alleviate poverty and improve social indicators.