INSTITUTIONAL IMPERATIVES OF POVERTY REDUCTION

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Ms. Bushra, a poor 30 year old woman, threw herself in front of a moving train in Lahore together with her two children, Saima, age 3 and Zubair, age 5. The mother is reported to have covered the eyes of her children before all three were crushed under the train. She left a suicide note written in the copy book of Zubair in the school satchel found near the site of the tragedy. In the suicide note Ms. Bushra stated poverty as the cause of her decision to commit suicide along with her children. [News Report in the daily Dawn, 13th April 2008].

He who is without empathy for the suffering of others, has no right to be called human. [Jalal-ud-Din Rumi, 1207-73]

INTRODUCTION: POVERTY AND INSTITUTIONAL CHANGE

The high food inflation in the last three years has pushed 11 million people into a state of hunger and poverty. Given the present trend, if no policy action is taken, an additional 22 million people will be impoverished over the next four years. (See Table 7). According to the World Food Programme Survey for the Vulnerability Analysis and Mapping Unit as many as 77 million people upto March 2008 are deemed "food insecure"[1], where the food insecure population is defined as those consuming less than 2350 calories per person per day. The statistical evidence clearly shows Pakistan is in the grip of a poverty crisis. Ms. Bushra's action stands as stark testimony of the human experience of poverty. It also poses a challenge to policy makers as much as to economists to undertake urgent policy action on the basis of a scientific analysis of the problem.

This paper is an attempt to provide such an analysis and the outline of possible public action to address the poverty crisis.

The poor in Pakistan like all human beings have a creative potential. Yet by being denied the minimum of food and basic necessities, such as health, education and employment opportunities, they are rendered incapable of actualizing their human potential.[2]

In understanding this constraint to human development, the poor in Pakistan cannot simply be seen as individuals with certain adverse 'resource endowments', making choices in free markets. Poverty occurs when the individual in a fragmented community is locked into a nexus of power, which deprives the poor of their actual and potential income. The poor face markets, institutions and local power structures, which discriminate against access of the poor over resources, public services and governance decisions which affect their immediate existence. (A. Hussain, 2000)[3].

This paper provides evidence to show that the poor have unequal access over capital, land and labour markets. It is argued therefore that inequality and poverty are built into the structure of the growth process itself. It is now widely recognized that inequality adversely affects both the sustainability of growth as well as its capacity for poverty reduction (WB Report, 2006)[4]. The power structure, and the inequality it engenders, excludes a large proportion of the population (poor, women, the sick and the illiterate). Therefore there is a constriction of the human potential through which entrepreneurship, investment, innovation and productivity growth can occur to sustain GDP growth[5].

Until 2003, most studies on poverty in Pakistan had examined the problem simply in terms of measuring the number of people below certain poverty lines. However if poverty is to be overcome, it is important to understand the processes of poverty creation and to identify points of intervention in the process through which the poor can be enabled to overcome poverty on a sustainable basis. In this context some of the questions that arise are: How do distorted markets for inputs and outputs of goods and services result in the loss of the actual or potential income of the poor? How do local structures of power with respect to landlords, local administrative officials, and institutions for the provision of health, credit and dispute resolution, deprive the poor of their income, assets and the

fruits of their labour? These questions will be examined in section-I of this paper. Equally important for an understanding of the nature of poverty and the growth process is the question of how the institutional structures of governance and the incentive systems embodied in government policy constrain growth and poverty reduction.

The argument in this paper is that poverty is rooted in the institutional structure of society and state in Pakistan. Therefore overcoming poverty will involve inducing changes in both the polity and the economy as part of an integrated process of institutional change (A. Hussain, 2008)[6]. As North has argued, the polity is the fundamental basis of economic performance[7]. This is because it is in the realm of the polity that the "rules of the game" and the associated incentive systems for the economy, are stipulated. In this paper however while acknowledging the primary role of the polity, we will focus on institutional changes in the economy as the basis of sustainable growth with equity. (North, Wallis and Weingast 2006)[8].

It is in moving towards a stable democratic constitutional order that Pakistan can create the institutional conditions for sustained and equitable growth: opportunities in the polity and economy for all citizens, merit based selection, competition, efficiency and innovation. Thus the path to democracy within a stable constitutional order is also the path to sustainable and equitable economic growth.

In sections I and II of this paper we identify the structural factors that constrain growth and induce endemic poverty. These structural factors are located in the institutional framework that conditions both markets and governance. In section-III we briefly indicate some of the policies for institutional change in the medium term that can be undertaken to overcome the structural constraints to equitable growth. In section IV, an analysis of poverty trends during the Musharraf regime (1999-2008), is presented, together with new estimates of the impact of food inflation on poverty during the last three years to suggest that a poverty crisis is at hand. At the end of section-IV, short term policy actions for addressing the poverty crisis are outlined.

I.   **MARKETS, INSTITUTIONS AND POVERTY**

In this section we will examine the four features of the power structure that makes markets asymmetric to function adversely against the poor.

I.1   **Power, Tenancy and Tied Labour**

In landlord dominated areas, where landlords control the local state apparatus as well as the credit market the poor tenants are locked into a nexus of power and debt bondage with the landlord. Consequently the tenants are obliged to work part time on the landlord's farm as labourers either at less than market wage or no wage at all. The NHDR survey data shows that 51 percent of the tenants get locked into debt dependence on the landlord, and out of these, 57 percent are obliged to work as labourers on the landlord's farm without wages, while 14 percent work for a wage below the market rate (Hussain et.al., 2003)[9]. Thus the structure of power and dependence creates distortions in the labour and capital markets, which systematically deprive the poor of their actual and potential income. The consequent inefficiency in the allocation of labour and capital resources constrains agricultural growth, increases inequality and engenders persistent poverty. (See table 1).

TABLE 1

LOAN DEPENDENCE ON THE LANDLORD AND LABOUR EXPLOITATION OF THE POOR PEASANTRY

	Extremely Poor	Poor	Non-Poor	Total
Loan from landlord (%)	50.8	29.4	11.7	34.4
Work for landlord against wages (%)	14.0	24.3	5.1	16.9
Daily wages (Rupees)	28.0	43.6	60.0	40.0
Work for landlord without wages (%)	57.4	38.5	25.4	43.5

SOURCE: NHDR/PIDE Survey 2001.

I.2   **Power and the Double Squeeze on the Peasantry**

In landlord dominated areas the landlord's power impacts the disposal of the produce by poor farm households which have direct consequences for their food consumption. As the following table 2 shows, under asymmetric tennurial arrangements, the extremely poor farmers are obliged to pay a larger proportion of their farm produce to the landlord as rent, compared to other categories of the peasantry. For example, the extremely poor have to pay 28.21% of their production value to the landlord, compared to 13.39% by the poor households and only 8.41% by the non-poor households. Consequently, the extremely poor households are forced to keep only 39.59% of their crop output for household consumption, compared to 48% by poor households and 54% by non-poor households.

TABLE 2

DISPOSAL OF CROP HARVEST BY INCOME CLASS

	Total Production Value	Paid in kind to labour (Value)/Total Production Value* 100	Paid as rent (Value) /Total Production Value* 100	Paid to landlord under share cropping agreement (Value)/ Total Production Value* 100	Given to Relatives (Value)/ Total Production Value* 100	Crop Sold (Value) /Total Production Value* 100	Crop Kept for Own Use/Total Production Value* 100
Extremely Poor	13864	1.45	1.10	28.21	0.09	29.57	39.59
Poor	22538	2.76	1.40	13.39	1.06	33.27	48.12
Non-Poor	37626	4.70	0.83	8.41	1.61	30.02	54.43

SOURCE: NHDR/PIDE Survey 2001.

The evidence suggests that due to the relatively smaller crop share retained by the poor tenant households, they face a food deficit near the end of the year. As they run out of their household stock of food grain, they are obliged to purchase grain in the market at year end when market prices are relatively high. (Hussain, 1988)[10]. Such households are then faced with the necessity of borrowing for food consumption. This is also suggested

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by the NHDR evidence, which shows that the extremely poor households borrow for food consumption (Hussain et.al., 2003)[11].

Poor farm households are thus placed under a double squeeze: First by the power of the landlord, who obliges them to give up a relatively larger proportion of their crop output as a crop share to the landlord. A second squeeze is placed by the seasonal variation in the market price of grain, which obliges the extremely poor households to purchase a relatively larger proportion of their food consumption requirements from the market near the end of the production cycle, when prices are high. (A. Hussain, 2004)[12].

I.3   **Adverse Changes in Tenancy Arrangements and Poverty**

As the evidence suggests, since the majority of the rural poor are tenants, therefore any deterioration in tenancy arrangements would be expected to accentuate poverty. Due to weakening relative power position of poor tenants, tenancy arrangements have changed adversely against them. They now have to bear a higher proportion of input costs compared to the landlord on the tenant operated farms. The evidence shows that the contribution of tenants to input costs (for each of the major crops) such as tractor rental[13], hired labour, seeds and fertilizers have increased during the period 1990-91 to 2000-01.

TABLE 3
CONTRIBUTION OF TENANTS IN INPUTS

	1990-91				2000-2001			
	Tractor	Labour	Seeds	Fertilizer	Tractor	Labour	Seeds	Fertilizer
Extremely Poor	36.3	13.8	24.8	26.0	43.5	28.5	31.0	31.8
Poor	29.5	18.8	22.8	24.5	41.3	30.5	34.5	34.0
Non-poor	39.8	25.8	28.8	27.3	44.5	32.8	38.8	34.5
Total	34.3	22.5	24.8	25.5	42.8	30.3	34.0	33.3

PERCENTAGES

SOURCE: NHDR/PIDE Survey 2001. For Crop wise figures, see: Akmal Hussain et.al., UNDP-Pakistan National Human Development Report 2003, op.cit., page 64, table 16.

The above evidence suggests that the adverse changes in tenancy arrangements with respect to input contributions of the tenant have become a significant structural factor in generating poverty. While the financial burden on the poor tenants has thus increased,

their lack of control over the timing water application, combined with adulterated inputs, keeps the yield per acre of the peasant at a low level, thereby further squeezing net incomes.

I.4   Asymmetric Markets for Inputs and Outputs

In the UNDP, Pakistan National Human Development Report 2003, it has been argued that local elite power structures in rural areas distort markets in favour of the rich and against the poor. The poor peasants face input and output markets where they have to pay a higher price for their inputs and get a lower price for their outputs compared to large farmers. The study showed that the poor peasants are losing as much as one third of their income due to asymmetric markets (Hussain et.al., 2003)[14].

II.   GOVERNANCE, INSTITUTIONS AND GROWTH

In this sub-section we will show how the institutional structure of governance constrains the provision of adequate health, education and security, which are major factors in perpetuating poverty. We will also show how the incentive system implied in rent based governance constrain sustained and equitable growth.

II.1   Poverty and Illness

The NHDR showed that due to inadequate diet and lack of access over safe drinking water and sanitation facilities, 65.1 percent of the extremely poor and 55.6 percent of the poor in the sample survey were suffering from ill health. The data also shows that the poor respondents reporting sickness at the time of the interview had on average suffered from their sickness for 95 days of the year[15]. (See table 4).

The study showed that the prevalence of disease amongst those who are slightly above the poverty line is a major factor in pushing them into poverty. Those who are already poor get pushed into deeper poverty as a result of loss of income due to absence from work, and high medical costs resulting from illness. Thus the unequal access over public health facilities and the relatively high prevalence of disease amongst the poor becomes a structural factor that further accentuates both poverty and inequality.

TABLE 4

PERCENTAGE OF POOR WHO ARE SICK, NUMBER OF DAYS OF SICKNESS, TREATMENT EXPENSES AND DISTANCE TRAVELLED FOR MEDICAL CONSULTATION [HEAD OF HOUSEHOLD ONLY]

Economic Status	Sick at the Time of Survey (percent)	Number of Days in Current Sickness (Mean)	Treatment Expenses (Rs.)	Percent of Patients Travelling over 6 Kms.
Extremely Poor	65.1	94.9	1885	49.4
Poor	55.6	27.4	497	29.5

SOURCE: NHDR/PIDE Survey 2001.

II.2   Education, Poverty and Growth

The relatively low levels of literacy, high school enrolment rates and the poor quality of both school education as well as higher education in Pakistan compared to other South Asian countries indicates the low priority given to education. This is understandable in a country where allocation of public resources and the institutional framework for translating them into outcomes are determined by a ruling elite in which the military, the bureaucracy and the landlords have been dominant factions. Within this power structure there is greater priority for expenditures on the military, bureaucracy, and transfer of public resources as rents to various strata of the elite and its dependents. Building an institutional framework for higher education based on high quality research is also not a high priority. Education requires an environment of freedom to pose and pursue new questions and to engage in critical thinking. This is inimical to a rent based power structure that relies on authoritarian rule whether in a military or civilian form.

Although the literacy rate has increased sharply from 46 percent in 1999 to 54 percent in 2006, the gender gap remains high (23 percentage points) and has not changed significantly over the period[16]. The gross primary school enrolment rate at about 70 percent has remained unchanged over the last two decades inspite of the multi billion dollar Social Action Programme during the 1990s. At the same time almost 25 percent of the total population (over 40 million) consists of adult illiterates. Due to the relatively low school enrolment rates the number of adult illiterates is expected to rise during the

coming decade, thereby increasing poverty even if greater employment opportunities become available. In Pakistan, 91.6 percent (Majid, 1997)[17] of the labour force is unskilled, with low productivity and poor adaptability to technical change. This constitutes a significant structural constraint to both growth and poverty reduction.

The survey evidence in the Pakistan National Human Development Report shows that one of the key factors that can pull a poor household out of poverty is whether or not the family has a second earner. The data indicates that the magnitude of the second earner's income depends on the level of education (Hussain et.al., 2003)[18].

The poor coverage and quality of school education and vocational training in Pakistan thus constitutes a significant structural constraint to growth as well as poverty reduction. The extremely poor quality of higher education in most universities of Pakistan and the control of many of them by obscurantist and coercive religious groups is as much a constraint to equitable growth as it is to building an enlightened, pluralistic and democratic polity.

II.3   **Poverty, Justice and Citizens' Security**

The poor live in localities both rural and urban, which are inadequately policed and in case of theft or violence against their person the cost of seeking redress through the judicial system is in most cases unaffordable and where undertaken, the expenses in terms of time and money, lock the poor into permanent debt. This is another factor that engenders endemic poverty, reinforces inequality and thereby constrains economic growth. [See Table 5].

TABLE 5
FREQUENCY OF DISPUTES, RESOLUTION AND COST OF RESOLUTION BY ECONOMIC STATUS (CASES REPORTING DISPUTES ONLY)

ECONOMIC STATUS	DISTRIBUTION OF REPORTED DISPUTES (%)	AMOUNT SPENT ON MEDIATION (MEAN)	PERCENT OF REPORTED DISPUTES RESOLVED
Extremely Poor	17.1	Rs. 18,333	38.5%
Poor	48.7	Rs. 12,074	59.5%
Non Poor	34.2	Rs. 18,264	80.8%
Total/Average	100	Rs. 15,123	63.2%

Source: NHDR/PIDE Poor Communities Survey 2001.

II.4   Low Domestic Savings Rate, Taxation and Growth

Given the rent based governance model in Pakistan the business elite enjoys various forms of financial support from the government (subsidies, cheap credit, import protection, tax exemptions). Therefore, it is not surprising that entrepreneurs (many of whom are also landlords) following the tradition of the landed elite engage in conspicuous consumption and tend to have a low propensity to save.

The domestic savings rate in Pakistan has historically been below the investment rate, thereby creating a persistent savings gap that has induced a growing national debt particularly during high GDP growth periods. (For example, the average annual domestic savings as a percentage of GDP during the period 2001 to 2007 was 16.5 percent. By contrast the investment rate required to sustain the target growth rate of 7.5% with an ICOR of 4, is 30%)[19]. The consequent debt servicing problem has now become a constraint to growth just as it did in the Ayub period in the 1960s and in the Benazir-Nawaz period in the 1990s. The low savings rate and the consequent dependence on foreign inflows is a major factor in the stop-go pattern of GDP growth in Pakistan's history. (For a detailed discussion of this phenomenon, see, A. Hussain, 2008, chapter 2)[20].

The high debt servicing requirements resulting from a tendency of the rent seeking elite to consume rather than save, and at the same time avoid direct taxes, has obliged successive governments to charge high and increasing rates of indirect taxes. An earlier study on the increase in the incidence of the tax burden, shows that the percentage increase in the tax burden as a percentage of income was highest at 6.8% for the lowest income group (less than Rs.700/- per month) and lowest at -4.3 percent for the highest income group, (over Rs.4500/- per month). The evidence shows that over time the tax burden for the poor increased and for the rich declined[21]. Thus the rent based governance model and its incentive systems have induced a pattern of elite consumption and government tax policy that further reinforces income inequality in the growth process.

II.5   **Institutions, Export Structure and Growth**

Pakistan as it emerged in 1947, not only inherited various institutions of the state with their underlying structures of power, but also rent seeking and risk averse behavioural proclivities of the economic elite. In the post independence period the inherited governance model, the power structures, the associated institutional framework, and the tradition bound nature of the industrial elite, had as great an impact on government economic policy as on the pattern of investment and export growth.

Pakistan's slow export growth and the consequent perennial pressures on the balance of payments constitute a structural constraint to sustaining high GDP growth. Slow export growth is rooted in the rent seeking nature of the industrial elite and its failure to diversify into non-traditional high value added exports. Even after 60 years of industrial growth, the percentage of total investment going into textiles and related goods has not declined. (It was 41 percent in 1964-65 and 44 percent in 1990-91). In terms of output, 80 percent of Pakistan's manufactured exports consist of textiles and clothing compared to 12 percent for the developing countries group and 6.5 percent for the world as a whole[22]. The persistence of Pakistan's textile based export structure is an important factor constraining overall export growth. This is because of a changing composition of demand in the global market where the world trade in textiles is growing at a much slower rate than non-traditional manufactured exports.

Pakistan's textile industry which has remained at the lower end of the value added range emerged in the 1960s as a result of large government subsidies. The institutional structure of policy created disincentives to innovation, productivity increase and export diversification. By the 1990s the structure of state support to industry was substantially dismantled. However even then, as late as 1990-91 as much as 7 percent of GDP was transferred by the government to industrialists in the form of subsidies (Kemal, 1999)[23]. Diversification of industry into higher value added exports was constrained by government patronage on the one hand and on the other, the lack of risk taking dynamism amongst most industrialists.

II.6   **Official Corruption and Poverty**

Poverty and inequality increased rapidly during the 1990s due to the decline in GDP growth, coupled with a decline in employment elasticities, labour productivity, and real wages in both the agriculture and the industrial sectors. (A. Hussain, 2004)[24]. In the subsequent period 1998-99 to 2004-05, while GDP growth accelerated sharply there was no significant poverty reduction. (See Table 7). This proposition is also established in the recent work of Talat Anwar[25] and H. Gazdar, A. Sayeed and A. Hussain[26]. At the same time unemployment as well as inflation rates, particularly food inflation, increased sharply. The economic burden on the poor has intensified further due to inadequacies in two major aspects of governance:

(i)   Inefficient delivery mechanisms for translating development expenditure into improved health, sanitation, education, services and access over justice for the poor. Consequently, the disproportionate shortages of these services for the poor compared to the rich, have deprived them of an important redistributive mechanism in the economy.

(ii)   During the 1990s corruption in government, had a significant adverse impact on economic growth and poverty[27]. During the period of the Musharraf government even though GDP growth accelerated widespread corruption persisted. Corruption levels in this period were even higher than in South Asian countries such as Sri Lanka, India and Nepal. (Talat Anwar, 2006)[28]. According to the Transparency International Report (December 6, 2007), during the last two years corruptions levels increased sharply. For example the percentage of people in the all Pakistan sample, who paid bribes for obtaining services doubled to over 30 percent compared to 15 percent in the year 2006. The report places Pakistan among the top 10 countries which are most affected by bribery.

Widespread corruption in government contributes to constraining growth and increasing poverty in three ways: (a) the rising magnitude of corruption over time and at different levels of decision making in the government is a major factor in the uncertain policy environment and a constraint to estimating accurate project

feasibilities. This would be expected to constrict investment, GDP growth and employment; (b) the transfer of resources from entrepreneurs to politicians and government officials results in a misallocation of national resources and a lower level of productive investment and hence GDP growth, than would be the case in the absence of such corruption. (c) the financial cost of individual projects increases, thereby simultaneously inducing slower GDP growth for given levels of investment and also reducing the employment elasticities with respect to investment. (d) To the extent that the poor are obliged to pay bribes for public services while in many cases the affluent with political influence may not have to pay bribes, means that the distribution of real income between the rich and the poor is worsened by the mode of provisioning of public services.

II.7   Institutional Factors in Slow and Unstable Crop Sector Growth[29]

In agriculture the average annual growth rate of major crops has declined from 3.34% during the eighties to 2.38% in the nineties. At the same time, the frequency of negative growth years in some of the major crops has increased. This has accentuated the process of poverty creation: In a year of negative growth (i.e. bad harvest) the small farmers operating at the margin, have to borrow for consumption requirements and go into debt. In the following season, in the absence of an investible surplus, they are unable to reconstitute the production cycle and hence slip into poverty. Thus the instability of crop sector growth and the increased frequency of negative growth years becomes a structural factor in poverty creation. Underlying this phenomenon are five major institutional constraints:

(a) Reduced water availability at the farm gate due to poor maintenance of the irrigation system and low irrigation efficiencies of about 37 percent. While the availability of irrigation water has been reduced, the requirement of water at the farm level has increased due to increased deposits of salts on the top soil and the consequent need for leaching[30]. The consequent large water deficit means that the farmers even in the irrigated areas are dependent on rain fall.

Given the vicissitudes of weather particularly due to global warming, (which has caused wide variation in the timing, location and quantum of rain fall) rain does not always fall in the right quantity at the right time for the water deficit farmers. Consequently, there is greater instability in crop sector output than before. (Akmal Hussain, 1999)[31].

(b) What makes improved efficiency of irrigation even more important is that the extensive margin of irrigated acreage has been reached, so the future agricultural growth will have to rely on improving the efficiency of water use and other inputs. Thus the rehabilitation of Pakistan's irrigation system for improving irrigation efficiency has become a crucial policy challenge for sustainable agriculture growth.

(c) It is well known that high yielding varieties of seeds gradually lose their potency through re-use, changing micro structure of soils, and changing ecology of micro organisms in the top soil. In wheat for example the average age of seeds in Pakistan is 11 years compared to 7 years for all developing countries (A. Hussain, 1999)[32]. Therefore, breeding of more vigorous seed varieties adapted to local environmental conditions, and their diffusion amongst farmers through an effective research and extension programme is necessary[33].

(d) A new dimension to the imperative of improving research capability in the crop sector is indicated by the possibility of declining yields per acre related with global warming. Given the sensitivity of wheat seed to temperature increase, even a 2-degree centigrade increase in average summer temperatures could mean an absolute yield decline of between 10 to 16 percent during the 21st century. (Qureshi, Ata and Iglesias, 1992)[34]. With a 2.8 percent population growth, even a decline of 5 percent in yield per acre associated with global warming, could mean serious food deficits and high food inflation rates for Pakistan, with relatively greater adverse consequences for the poor. It is, therefore, necessary to develop heat resistant varieties of food grains.

(e) One of the most important constraints to sustainable growth in the crop sector is the degradation of soils, resulting from improper agricultural practices such as: (i) lack of crop rotation and the resultant loss of humus in the top soil; (ii) stripping of top soil and resultant loss of fertility associated with over grazing; (iii) water erosion along hill sides and river banks due to cutting down of trees and depletion of natural vegetation. According to one estimate, over 11 million hectares have been affected by water erosion and 5 million hectares by wind erosion. (Alim Mian and Yasin Mirza, 1993)[35].

II.8 Institutional Constraints to Growth in the Large Scale Manufacturing Sector

The growth rate of the large scale manufacturing sector was 12.43% in the period 1959/60 to 1969/70, and fell to 2.21% in the period 1996/97 to 1999/2000. In the subsequent four years the growth of this sector accelerated sharply, but has begun to decline again in the last two years. The factors underlying the tendency for large scale manufacturing to decline are as follows:

(a) A fundamental structural constraint to industrial growth as indeed the underlying factor in slow export growth is the failure to diversify exports. The large scale manufacturing output, particularly exports are concentrated in the traditional low value added end of textiles.

(b) A changed pattern of global demand for industrial products with a shift towards higher value added and knowledge intensive products. Pakistan's industrial structure was not positioned to respond quickly to these changed market conditions.

(c) An erosion of the domestic framework within which investment and growth is sustained. This includes: (i) a continued threat to the life and property of citizens due to the persistent poor law and order situation; (ii) high electricity tariffs and relatively high interest rates; (iii) lack of trained professionals especially in the high skill sector; (iv) an inadequate technological base through which industry can respond in a flexible way to changing patterns of demand; (v) an adverse policy environment in the past within which tariff and export incentives were

distorted against those entrepreneurs who were seeking to improve quality and productivity for export growth; (vi) dumping of smuggled, poor quality and extremely low priced imported goods which are in many cases counterfeit copies of branded Pakistani manufactured goods.

III. POLICIES FOR ADDRESSING THE STRUCTURAL CONSTRAINTS TO GROWTH AND POVERTY REDUCTION

The preceding section of this paper we have identified some of the structural factors underlying endemic poverty and unstable growth. In this section we will indicate briefly the policies that can be undertaken to overcome the structural constraints to sustained and equitable growth.

III.1 Empowering the Poor for Market Access

The evidence shows that asymmetric markets and local power structures constitute structural factors in persistent poverty. They siphon off as much as one third of the actual incomes of the poor, deprive them of their potential savings and keep their productivity and incomes at a low level. A pro poor policy must address these structural factors if poverty is to be overcome on a sustainable basis. Better access for the poor over the markets for labour, land, agricultural inputs and outputs, means changing the balance of power in favour of the poor at the local level. This requires facilitating the emergence of autonomous organisations of the poor, particularly poor women at the village, Union Council, Tehsil and district levels. It also means enabling the poor to access credit, training, and technical support for increased employment, productivity, and incomes.

III.2 Land for the Landless

One of the most important factors in endemic poverty in the rural areas (where the majority of Pakistan's poor reside), is the fact that millions of households do not have access over land or their ownership of this productive asset is less than the critical level required for subsistence. The data show that the poor peasants where they own land have on average two acres while the bigger farmers are able to rentin additional land the poor ones either rent out their small holdings for a pittance or are obliged to sell their land

altogether: As many as 76.5 percent of the extremely poor farmers and 38.9 percent of the poor farmers sold their land over the last 10 years. (Hussain et.al. 2003)[36]. The evidence shows that the poor had to sell their land for urgent consumption needs related with health expenditures, crop failures and marriages. Thus lack of access over this vital productive asset is an important structural factor in endemic poverty.

In order to alleviate the problem of landlessness it is proposed that the government launch a programme of allotting state owned land to the landless as part of its overall strategy of growth with poverty reduction.

However, it is important to recognize that providing ownership of land to the landless is a necessary but not a sufficient condition for alleviating their poverty. Enabling the landless to make the transferred land cultivable, to actually settle on the new land and to achieve a sustainable increase in their income, productivity and savings are equally important factors in making the scheme successful[37].

III.3 Mainstreaming the Poor through Equity Stakes

An institutional change that could bring the poor into the mainstream of the market economy could be to establish professionally managed public limited companies in which the poor have a substantial equity stake. This concept was first propounded by Professor Rehman Sobhan and successfully tried out in the diversification process of the Grameen Bank in Bangladesh. It was also tried out in India by Dr. Kurien who set up the Amul (originally a cooperative) which is entirely owned by the poor and is now one of the largest manufacturers of milk products in the corporate sector in South Asia.

In the Pakistan case there may be considerable potential for developing livestock and milk production by the rural poor and providing these products to large private sector corporations for the manufacture and export of milk and meat products. These private sector corporations which would be buying their inputs from the poor could also be owned substantially by the poor. The equity stake to the poor could be initially achieved through the provision of loans which could be paid back from the dividends of the corporations. Similar public limited companies owned by the poor and run by high

quality professionals could also be established in key main stream sectors of the economy such as energy, telecommunications and electronics.

III.4 **Health Policy for the Poor**

In the preceding section shows that illness is a major factor that pushes people into poverty therefore improved nutrition and health conditions are important for poverty reduction. Improving the nutrition, preventive hygiene, provision of safe drinking water, improving the service delivery of basic health units, and improved diagnostic and treatment capabilities of Tehsil and District Hospitals are urgent imperatives to deal with the crisis of health and poverty.

III.5 **Education for Development**

As we have argued, education is a major factor that pulls people out of poverty. It is also perhaps the single most important factor that can induce sustained and equitable growth. Education can achieve this objective by providing equality of opportunity for productive employment to all the people not just the elite. The strategic aims of an education policy would be: (a) Improve the coverage and quality of schools, particularly for girls. (b) Skilling the labour force by establishing a network of industry specific vocational training institutes in every province. (c) Capacity building of selected universities to enable them to conduct research and teaching at world class standards.

III.6 **Combating Corruption**

In the preceding section-II we have argued that two of the most important governance factors that prevent sustained high growth and rapid poverty reduction are the persistent high levels of corruption and inefficient delivery mechanisms for the provision of public services. Addressing these issues requires establishing new institutions at different levels of governance.

The institutional structure that makes corruption endemic, also increases transaction costs and thereby constrains specialization, productivity and growth. Therefore, a policy of combating corruption through the establishment of institutions in state and civil society,

would be important drivers of change for development. In this context six new institutions could help control corruption:

➢ An independent judiciary with adequate resources and judicial officers to provide access to justice at every tier of governance and in every region: national, provincial and district levels.

➢ An independent and constitutionally mandated structure of ombudsman's offices at the district, tehsil and union council levels to listen to and rectify public complaints about the equitable provision of public services. At the same time the ombudsman's offices at each tier, would hear and rectify citizens' complaints about corruption and misuse of office by government functionaries.

➢ Citizens' Protection Committees at the mohallah and village levels where complaints about the provision of public services and against corrupt officials can be registered and systematically taken up[38].

➢ An independent media equipped with adequate investigative reporting capabilities to independently report corruption cases and monitor the performance of government departments with respect to the provision of public services[39].

➢ An independent Federal Bureau Statistics (FBS) that directly reports to the Parliament through a Parliamentary Committee on Policy Impact Assessment. The FBS would be tasked to conduct periodic surveys on the incidence of poverty, gender specific employment, inflation, productivity and real wages. The FBS would also be tasked to provide survey based data on the quality and coverage of services such as health, sanitation, hygienic drinking water, education and vocational training[40].

➢ The bilateral as well as multilateral Donors in Pakistan could establish a Multi-donor Transparency Support Unit (MTSU) whose task would be to determine the extent to which donor funds have achieved the purposes for which they had been provided to both government as well as civil society organizations.

III.7   **Institutional Policies for Stabilizing Crop Sector Growth**

➢ *Institutional change for improved irrigation efficiency*. The poor maintenance and operation of the canal irrigation system that is a major constraint to both the rate of crop sector growth, is associated with both a decline in the efficiency of the irrigation department as well as inadequate funding. Given the lack of motivation, management capability and funding, a restructuring of the role, functioning and organization of the irrigation department may be necessary. Therefore the required policy initiative is to develop more cost effective and decentralized institutional structure, involving local communities in the operation and maintenance of canals and water courses. In this context autonomous community organizations of water users along individual distributaries need to be formed and then take responsibility for both revenue collection and maintenance.

➢ *Policies for improved seeds, agriculture research and diffusion*:

▪ *Seeds, Agriculture Research and Diffusion*. The breeding of more vigorous seed varieties adapted to local environmental conditions and their diffusion amongst farmers is required through an effective research and extension program.

The existing institutional framework for agriculture research suffers from a proliferation of research institutes, which are inadequately funded, often lack professional expertise, proper equipment and the research environment necessary to produce significant results. Finally, there is considerable overlapping of research responsibilities across institutes. Consequently, research has by and large failed to produce operationally usable results much less increase input efficiency[41].

III.8 Institutional Change for Sustaining Growth in the Manufacturing Sector

➢ To induce sustained growth in the manufacturing sector the present institutional structure characterized by rent generation would need to give way to an open access economy where all direct and indirect subsidies are removed and the manufacturing sector subjected to a competitive environment in which there can be growth in efficiency, innovation and productivity.

➢ The emergence of a democratic government and the rule of law under which the security of life and property of citizens can be ensured and contracts can be enforced.

➢ Increased capacity for electricity generation and improved quality of distribution to provide a stable electricity supply at a price lower than the present exorbitant one.

➢ Enforcement by the government of international law and WTO regulations to prevent the import into Pakistan from China of counterfeits of branded domestic manufactured goods.

III.9 Institutional Framework for Pro Poor Growth

Pro poor growth can be defined as a process which directs a disproportionate share of the increase in national income in favour of the poor. Going beyond this, we would suggest that restructuring the growth process in favour of the poor involves empowering them to participate in the economic, social and political decisions that affect the material conditions of their life.

Designing a policy for pro poor growth involves addressing the structural features of Pakistan's growth process which constrain its capacity at the macro level for poverty reduction. (See the preceding sections-I and II of this paper). Therefore at the macro level a pro poor growth policy should aim to achieve increased employment elasticities and lower ICORs by increasing the weight in GDP of micro enterprises and small scale enterprises, particularly for milk and livestock production for the rural poor. The pro poor

growth strategy would also feature institutions for taking to scale a localized process of capital accumulation through Participatory Development.

IV.   POVERTY TRENDS DURING THE PERIOD 1999-2008

Poverty trends in this section will be analyzed with respect to two sub periods: First 1998-99 to 2004-05 and second, 2005-06 to 2007-08. Projections made for the next four years will also be indicated.

IV.1   The Question of Poverty Reduction in the Period 1998-99 to 2004-05

An assessment of the Musharraf regime's claim with respect to poverty reduction may be helpful for developing a new policy framework for the future. The Musharraf government had claimed that it reduced the percentage of population below the poverty line from 34 percent in the year 2000-01 to 23 percent in the year 2004-05, i.e. a reduction of 11 percentage points. This means that almost one third of Pakistan's poverty problem had been eliminated within a period of four years. If true this would be one of the most remarkable economic achievements in the history of the developing countries, including the Soviet Union under Stalin and China under Mao. India achieved a 10 percentage point reduction in poverty with an average annual growth rate of 8 percent.

We will examine the Musharraf government's claim of a huge poverty reduction by first analyzing the sources of GDP growth during the period and then putting the government's poverty estimates to scrutiny, on the basis of a recent study done by Haris Gazdar, Asad Sayeed and Akmal Hussain[42].

An analysis of the sources of growth during the period 2000-01 to 2004-05 shows that the composition of growth during the period was pro rich rather than pro poor. It was fueled mainly by the services sector, (particularly banking and communications) which contributed 60 percent of GDP growth during the period and the manufacturing sector primarily manufacture of automobiles, luxury consumer electronics, cement and textiles, which contributed 30.4 percent of GDP growth during this period. (Gazdar, Sayeed and Hussain, 2008). It is clear that GDP growth during the period was overwhelmingly pro rich since none of the sectors which mainly constituted the growth was either producing

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goods for the poor or directly providing employment to them. In fact the labour force survey data of the government shows that unemployment rates rose sharply from 6.1 percent in 1999 to 8.3 percent in 2004. (See Table 6). Therefore the nature and composition of GDP growth during this period could not be expected to have substantially reduced poverty.

TABLE 6

UNEMPLOYMENT TRENDS 1999-2004

Mid Year (End June)	Labour Force Participation Rate (%)	Unemployment Rate (%)
1999	29.4	6.1
2000	29.0	6.0
2001	29.0	6.0
2002	29.6	7.8
2003	29.6	7.8
2004	30.4	8.3

Source: Labour Force Surveys, various

Let us now scrutinize the poverty estimates of the government. With respect to the estimation procedure, it is important to understand that the magnitude of change in the incidence of poverty depends on two factors: (a) The base year used for comparison at two points in time. (b) The inflation rate used as a deflator to estimate changes in the consumption over time at constant prices. Now, regarding the first factor the government's estimate of poverty reduction uses the year 2000-01 as the base year which is a year of bad harvest, and compares it to the year 2004-05 which is a good harvest year. Clearly comparing a drought year with a good harvest year will, ceteris paribus, exaggerate the magnitude of poverty reduction. It is therefore more appropriate to compare the year 1998-99 with the year 2004-05.

With respect to the second factor, the government's poverty estimate uses an inappropriate inflation rate based on the consumer price index, which only covers 16 urban centers. It does not take account of prices in the rural areas where the majority of

the poor reside. Indeed inflation rate data based on both urban and rural areas was available from the Pakistan Living Standard Measurement (PLSM) survey. The PLSM date of course shows a much higher inflation rate. The government instead chose the CPI index for inflation which would yield an artificially low inflation rate and thereby a much higher magnitude of poverty reduction. Mr. Talat Anwar in an earlier study has attempted to correct the biases in the official poverty estimates by using the year 1998-99 as the base year and the inflation rate drawn from the PLSM data. His estimate shows that during the period 1998-99 to 2004-05 poverty declined by only 1.8 percentage points, from 31.1 percent in 1998-99 to 29.3 percent in 2004-05. The estimate of Gazdar et.al., which excludes the Sindh Sub-sample on grounds of serious inconsistencies, yields a poverty reduction estimate of only 0.6 percentage points with poverty declining from 31.3 percent in 1998-99 to 30.7 percent in 2004-05. The World Bank poverty estimates which also use the PLSM data for the inflation rate yield a poverty reduction of 0.8 percentage points over the period 1998-99 and 2004-05. (See Table 7).

One can conclude therefore that, *there has been no significant poverty reduction during the period 1998-99 to 2004-05.* This conclusion is consistent with the sources of growth analysis based on national income data.

IV.2   **The Impact of Food Inflation on Poverty: 2005-06 to 2007-08 and Beyond**

In table 7, estimates of the incidence of poverty are provided for the period 2005-08. Projections are also provided in this table for the period 2008-12 to illustrate the poverty scenario for the future in case no policy action is taken now. These estimates use Sajjad Akhtar and Mansoor Ahmed's figures (1999), for the elasticity of poverty with respect to food inflation and growth in per capita income respectively.

The table shows that in the year 2005-06 poverty continues to decline slightly as high GDP growth is maintained and food inflation kept under control. However after this poverty begins to increase gradually as food inflation increases. The upward trend in poverty accelerates subsequently as GDP growth slows down and food inflation rises sharply. By the year 2007-08 the poverty level reaches 33.8 percent which is about the same level as the high point of 2001-02. The absolute number of poor increased from

40.35 million in 1998-99 to 56.55 million in the year 2007-08. Thus about 16 million people were pushed into poverty during the Musharraf regime.

On the basis of evidence presented in table 7 it can be concluded that the poverty reduction achieved during the period 2001-02 to 2004-05 was neutralized by the high food inflation rate and the slow down of GDP in the later years. *For the Musharraf period as a whole, 1998-99 to 2007-08, the incidence of poverty has increased by 3.8 percentage points from 30 percent in 1998-99 to 33.8 percent in 2007-08, with an additional 16 million people entering the category of poor over the period.*

The evidence presented above clearly indicates that the objective of poverty reduction cannot be achieved by GDP growth alone. The poverty trends during the Musharraf period show that the level of poverty increased inspite of a relatively high GDP growth. This is because the GDP growth was heavily tilted in favour of the rich rather than the poor and at the same time, high food inflation rates reinforced the inequality of the growth process to increase poverty.

The evidence in table 7 highlights the importance of controlling food inflation and at the same time bringing about the institutional changes necessary for pro poor growth. (See Sections I, II and III of this paper). If no policy action is taken now, and the institutional factors in endemic poverty persist while food inflation continues unchecked, then the incidence of poverty can be expected to rise sharply and reach the daunting level of about 43 percent by 2011-12. In such a case the number of people unable to afford adequate food (persons below the poverty line) could reach 79 million over the next four years.

TABLE 7

INCIDENCE OF POVERTY, 1999 TO 2012

Year	Head Count Ratio World Bank Estimates	Impact of Food Inflation On Poverty	
		Head Count Ratio	Number of Poor
	(%)	(%)	**Million**
1998-99	30.00	30.00	40.35
2001-02	34.40	34.40	50.21
2004-05	29.20	29.20	45.48
2005-06		28.68	45.74
2006-07		29.47	48.12
2007-08		33.81	56.55
2008-09		36.11	61.84
2009-10		38.41	67.35
2010-11		40.71	73.10
2011-12		43.01	79.08

Estimates: By Akmal Hussain and Ahsan Shah

Note: The estimation procedure for the levels of poverty in various years assumes no change in the distribution of income in the period 2005 to 2008. To the extent that income distribution in this period has become more unequal, the poverty levels would be higher than those given in the table.

Sources:

(i)   Incidence of poverty figures (Head Count Ratios) for the period 1998-99 to 2004-05 are given in the World Bank Report, Pakistan: Promoting Rural Growth and Poverty Reduction, World Bank, 2007, page 9.

(ii)   Incidence of poverty figures for the years 2005-06 to 2007-08 have been estimated by Akmal Hussain and Ahsan Shah, as are the projections for the years up to 2008-12. The food inflation used for estimating poverty in the future (2008-12) is the average for the years 2004-05 to 2007-08. The food inflation rates for the years 2004-05 to 2006-07 are obtained from the Pakistan Economic Survey 2006-07.

(iii)   Population estimates are made on the basis of the population growth rate given in, World Development Report, Equity and Development, World Bank, 2006, page 293.

The number of poor for the years 1998-99 and 2001-02 are based on the population figures given in the Pakistan Economic Survey 1999-2000 and 2001-2002.

(iv)   The poverty elasticity with respect to food inflation is obtained from Sajjad Akhtar and Mansoor Ahmed, Modeling Poverty Trends in Pakistan: Some Additional Empirical Evidence, Social Policy and Development Centre, 1999.

IV.3   Food Inflation and Unemployment: Targeted Relief for the Poor[43]

The new democratic government in its programme for the first 100 days has shown a laudable intent to provide employment to the poor and housing for the homeless. An equally important task in the economic sphere confronting the democratic government is to provide relief to the poor who are in a state of acute distress. The relief package could consist of targeted relief for the poor from food inflation and a short term programme for employment generation. In this sub-section we will briefly indicate a First Aid Programme for the poor that can be immediately undertaken.

A three pronged First Aid Programme for the poor is proposed: (1) Food security programmes consisting of targeted food subsidy for the poor on the one hand and urban *lunggars* on the other. (2) Food for work. (3) Asset building for the poor. The idea is to combine immediate relief with a subsequent stream of regular income, through employment and asset building. This programme ought to be conducted on the basis of a partnership between the government, members of Parliament working actively for the poor in their constituencies, councilors in local governments, development NGOs, women's NGOs and Chambers of Commerce. Let us briefly articulate each of the three elements of the First Aid for the poor programme and the institutional mechanisms for implementation and monitoring.

IV.3.1 *Food Security for the Poor.* This would consist of a two-year programme of government sponsored targeted food subsidy for the extremely poor and a private sector based network of *lunggars* (free cooked food outlets) in the urban areas. Consider the targeted food subsidy programme. According to earlier estimates, there may be at least 1.4 million households (about 10 million persons) in the category of *extremely* poor, defined as those who borrow for food consumption purposes. Subsidized *atta*, lentils and cooking oil could be provided to a carefully selected set of extremely poor households with the total subsidy for all three items amounting to Rs.1000/- per household per month. (The subsidy could be provided either through food stamps or cash grants depending on which mechanism will have lesser leakages). This means an annual food subsidy expenditure of Rs.16.8 billion by the government for 1.4 million households.

This programme could be financed from a new fund that could be called the National Relief Fund (NRF) for the poor. This fund could be created through an Act of Parliament stipulating that 10 percent of the privatization proceeds be transferred to this fund: In the period 1999 to 2007 privatization proceeds amounted to Rs.363 billion. This means that a relief fund of Rs.36.3 billion could be created immediately. If the privatization proceeds are not immediately available the fund could be financed through multi lateral donor support, contributions from private sector commercial and industrial organizations and individual donations.

Implementing such a programme would require members of Parliament in the National and Provincial Assemblies to work closely with the Bait-ul-Mal to quickly prepare a provisional list of extremely poor households in every constituency in the country. The Prime Minister's Office supported by development NGOs such as the PPAF, Kashaf, Baanh Beli and specialized women's NGOs such as Shirkat Gah and Aurat Foundation could then finalize the list of extremely poor households that would be eligible for subsidized food items. To ensure gender equality, the distribution mechanism should include representatives from women's organizations, women members of Parliament and women councilors at the local government level. Moreover, wherever possible the food stamps or cash grants should be handed over to women members of recipient households.

The purpose of private sector *lunggars* is to strengthen food relief in the urban areas by providing *Dal* and *Roti* in the evening to the extremely poor in the locality. In pursuit of this objective, city based Chambers of Commerce and various associations of traders could be encouraged to establish *lunggars* in each locality, and also at the sites of sufi saints. A network of *lunggars* named after national martyrs of democracy such as Mr. Zulfiqar Ali Bhutto and Mohtrama Benazir Bhutto could also be established through foundations named after them. *Lunggar* networks could also be established in the name of national heroes. These *lunggars* could be financed through donations from members of the Chambers of Commerce, traders' associations, philanthropic organizations and individual citizens. They could be administered by city based coalitions of Chambers of Commerce, NGOs, councilors of local government and philanthropic organizations such as the Edhi Foundation.

To enable a scientific specification of poor households and systematic impact assessment of the food subsidy programme and the *lunggar* networks, a time series database on the nutrition status of the extremely poor households, needs to be established. These regular surveys could be conducted for the same set of households on a six monthly basis by a reconstituted Federal Bureau of Statistics (FBS) whose independence is ensured by an Act of Parliament. An independent validation of the FBS data on a sample basis could be undertaken by a committee of independent experts.

IV.3.2 *Food for Work: Wage Employment through Improved Irrigation.* Pakistan's farmers are facing an acute shortage of irrigation water. This is due to the failure to build adequate storage capacity on the one hand and deteriorating irrigation efficiencies on the other. The reduced water availability is occurring at a time when deterioration of the top soil has increased the requirement of water per acre. To overcome this water deficit it is proposed that a national campaign be launched for building dams, desilting and lining of canals wherever possible and building *pucca khalas*. (This proposal in outline has already been announced by the Prime Minister in his speech before the National Assembly on 29th March 2008). This construction activity would not only bring more water to the farm gate but would also be a major mechanism for generating employment and sustainable incomes for the poorest sections of rural society.

IV.3.3 *Asset Building and Income Streams for the Poor.* To enable the rural poor to quickly build an asset base and generate increased incomes for themselves a national credit programme for the rural poor is proposed whereby poor tenant farmers and agricultural worker households could be provided with loans for one additional milch animal per household. This programme of asset building for the rural poor would combine loans with establishing a marketing infrastructure for milk collection and cash payment at the door step. This would give an almost immediate asset and associated steady income stream to the poor peasants.

Those who get employment in the irrigation infrastructure programme or successfully use their loans for milch animals would become eligible for an additional loan equal to their annual income from employment or milk sales. This additional loan would range from

Rs.40,000 to Rs.70,000 per household. The loan recipient would be provided with training and support for identifying micro enterprise projects which she/he could undertake at the household level to enhance and diversify their income base. The training and support for micro enterprise development could be provided by development NGOs such as the Pakistan Poverty Alleviation Fund (PPAF).

The programme for First Aid to the poor proposed in this sub-section is designed to provide immediate economic relief to the poorest while at the same time enabling them to start building their assets, increasing incomes and thereby laying the foundations of economic democracy.

CONCLUSION

In this paper we have analyzed the institutional structure that constrains both GDP growth and poverty reduction in Pakistan. In this context we have shown in section-I how local structures of power mediate markets to make them function adversely against the poor. We have provided evidence to show how such asymmetric markets for inputs, outputs, tenancy contracts and labour, systematically deprive the poor of a substantial part of their income.

At the level of governance, we have shown in section-II, how the institutional structures discriminate against access of the poor over public services such as health, education, justice and security. We have also indicated the institutional factors that have induced a high degree of instability in crop sector growth which has become a new factor in pushing small farmers into poverty due to the increased frequency of bad harvests. At the macro-level we have shown how the rent based form of governance creates adverse incentives for entrepreneurs which prevent export diversification and keep the aggregate savings rate low, thereby constraining sustained GDP growth.

In section-III, we have indicated briefly some of the policies for institutional change that can be initiated to address the structural constraints to equitable growth identified in the preceding sections-I and II.

In section-IV, an analysis of poverty trends during the Musharraf period (1999-2008) is presented. Estimates have been made for the first time on the incidence of poverty in the period 2005-06 to 2007-08 and projections for the next four years in the future. On the basis of the evidence presented in this section it can be concluded that the slight gains made in the poverty reduction from 2000-01 to 2004-05 were neutralized in the subsequent three years due to high food inflation and a slow down in GDP growth. For the Musharraf period as a whole, the incidence of poverty has increased by 3.8 percentage points, from 30 percent in 1998-99 to 33.8 percent in 2007-08. An additional 16 million people were pushed into poverty during this period.

The central lesson from the economic performance of the Musharraf regime is that inspite of high GDP growth rates over the period poverty, inflation and unemployment increased. This was primarily because of the structure of the growth process which was oriented towards the rich rather than the poor, and the failure to control high food inflation rates.

This paper has focused on analyzing the institutional basis of endemic poverty and unstable growth at the level of the economy. However it is important to understand as North et.al have emphasized, that the polity is the fundamental determinant of economic performance[44]. It is in the realm of the polity that the rules are articulated and the associated incentive systems specified that condition economic behaviour and determine the transition to development. Pakistan's path to democracy within a stable constitutional order is also the path to sustainable and equitable growth (A. Hussain, 2008)[45]. This is because it is precisely a stable democratic constitutional order in Pakistan that can create the institutional conditions for sustained and equitable growth: Opportunities in the polity and economy for all citizens, merit based selection, competition, efficiency and innovation.

Notes

1   Augustine Anthony, Nearly Half of Pakistanis "food insecure", WFP, Reuters, 4 April 2008.

2   Aristotle proposed that it is *human functioning* that is the real object of value. The implication of this formulation for public action to-day in the context of poverty, is: Maximizing value in society would require enabling the maximum number of people to actualize their human potential. See: Nicomachean Ethics, Book 1, Section 5, D. Roos (ed.), Oxford University Press, 1980.

3   Akmal Hussain, "Poverty, Growth and Governance", Chapter in: V.A. Pai Panandiker (ed): Problems of Governance in South Asia, Center for Policy Research, New Delhi, 2000.

4   World Development Report 2006 on Equity and Development, World Bank and OUP, New York, 2005, and Nanak Kakwani, Pro-Poor Growth: Concepts and Measurement, paper presented at the PIDE/PSDE 19th Annual General Meeting and Conference (13-15, January 2004).

5   It can be argued that both the failure to achieve sustained high growth in the past as well as inequality, is located in the governance model itself. In Pakistan's governance model (originating in the Raj), power has been historically constituted by accessing state resources for arbitrary transfer as patronage to selected individuals. During the pre independence period resource gratification within this governance model was conducted to win loyalty for the Raj. After independence state resources were granted within a structure of patronage to build individual domains of political power. Within this model an individual could become rich simply by entering into a patron-client relationship with the government for rent seeking. Therefore there was little incentive for enterprise, innovation, or savings, which drive growth in a modern economy. At the same time within this governance model since patronage could only be acquired by the few, the majority were deprived of access to resources. Thus endemic poverty and the inability to sustain economic growth became the hallmarks of Pakistan's economy. For a more detailed discussion of this issue, see: Akmal Hussain, Power Dynamics, Institutional Instability and Economic Growth: The Case of Pakistan, April 2008, op.cit.

6   In a recent study Akmal Hussain has contributed to the design of such a policy framework for a transition process that integrates changes in the spheres of polity and economy for development. See, Akmal Hussain, Power Dynamics, Institutional Instability and Economic Growth: The Case of Pakistan, Drivers of Change Study 2007-08, The Asia Foundation, Islamabad (Mimeo), 14th March 2008.

7   Douglass C. North, Understanding the Process of Economic Change, Princeton University Press, Princeton, N.J, 2005, page 57.

8   North, Wallis and Weingast have posited the concept of a social order which is composed of the economic and the political systems. They classify countries into two broad categories: the under-developed countries are placed in the category of the "limited access social order" while the developed countries belong to the "open access social order". Limited access social orders are characterized by rent creation, privileged access over economic and political power for the elite and exclusion of a large proportion of citizens from equal access over markets, resources and political decision making. Consequently, North, et.al argue that limited access social orders "preclude thriving markets and long term economic development". By contrast open access social orders provide equality of opportunity to access economic and political power on the basis of systematic competition, innovation, merit and mobility. Consequently, they argue that open access social orders are characterized by "thriving markets and long term economic development" See, Douglass C. North, John Joseph Wallis, Barry R. Weingast, A Conceptual Framework for

Interpreting Recorded Human History, National Bureau of Economic Research, Working Paper Series, Cambridge (Mimeo), December 2006.

[9] Akmal Hussain, with inputs from A.R. Kemal, Imran Ali, A.I. Hamid and K. Mumtaz, Poverty Growth and Governance, UNDP, Pakistan National Human Development Report 2003, Oxford University Press, 2003, Table 14, page 63.

[10] An analysis of the mechanisms of poverty generation in the rural areas, (with special reference to the Punjab) was first conducted on the basis of a 1978 field survey, See: Akmal Hussain: Strategic Issues in Pakistan's Economic Policy, Chapter 5, Pages 101 to 176, Progressive Publishers, Lahore 1988.

[11] Akmal Hussain et.al., Poverty Growth and Governance, op.cit. Chapter 3, Table 1.

[12] Akmal Hussain, Institutions, Economic Structure and Poverty in Pakistan, South Asia Economic Journal, Volume 5, Number 1, January-June 2004, SAGE Publications, New Delhi. pages-76-77.

[13] See: Akmal Hussain et.al, Poverty, Growth and Governance, UNDP-Pakistan National Human Development Report 2003, Oxford University Press, Karachi, 2003. page 64, table 16.

[14] Akmal Hussain, et.al., Poverty, Growth and Governance, 2003, op.cit., pages 65-68.

[15] They also predominantly went to private allopathic medical practitioners due to lack of access over and poor quality of most government hospitals. Private medical clinics like government hospitals have grossly inadequate diagnostic facilities and often poorly trained staff. The result is that when the poor fall ill they suffer for a protracted period and get locked into a source of medical treatment that inspite of being expensive is frequently ineffective. Akmal Hussain et.al, UNDP, Pakistan National Human Development Report 2003, op.cit.

[16] Estimates based on Pakistan Economic Survey, 2006-07, op.cit., pages 161-174.

[17] Nomaan Majid, Pakistan: An Employment Strategy, ILO/SAAT, December 1997. pages 34, 35.

[18] Akmal Hussain, et.al., Poverty, Growth and Governance, 2003, op.cit.

[19] Pakistan Economic Survey, 2006-07, Government of Pakistan, Finance Division, Economic Advisor's Wing, Islamabad. Table 1.6, Page 11.

[20] Akmal Hussain, Power Dynamics, Institutional Instability and Economic Growth: The Case of Pakistan, 2008, op.cit.

[21] See, Overcoming Poverty, The Report of the Task Force on Poverty Eradication, May 1997. Page 6.

[22] WTO Statistical Tables, Various Years.

[23] A.R. Kemal, Patterns of Growth of Pakistan's Industrial Sector, in Khan, Shahrukh Rafi (ed.): Fifty Years of Pakistan's Economy, Oxford University Press, 1999.

[24] Akmal Hussain, Institutions, Economic Structure and Poverty in Pakistan, 2004, op.cit.

[25] Talat Anwar, Measurement of Absolute Poverty and Governance in Pakistan: 1998-99 and 2004-05, paper presented in the PIDE-PSDE, 22nd Annual General Meeting and Conference, December 06

[26] Haris Gazdar, Asad Sayeed and Akmal Hussain, Growth Poverty and Conflict: 1999-2007, Chapter 3, in Akmal Hussain: Power Dynamics, Institutional Instability and Economic Growth: The Case of Pakistan, 2008, op.cit.

[27] For estimates of the cost to the economy of corruption in Government, see: Shahid Javed Burki, Pakistan: Fifty Years of Nationhood, Vanguard Books, 2004, page 174.

[28] Talat Anwar, Measurement of Absolute Poverty and Governance in Pakistan: 1998-99 and 2004-05, op.cit.

[29] This sub-section is based on a research paper by Akmal Hussain: (Employment Generation, Poverty Alleviation and Growth in Pakistan's Rural Sector: Policies for Institutional Change, Report prepared for the ILO/CEPR, (Mimeo), March 1999.

[30] About 33 million tons of salts are annually brought into the Indus Basin Irrigation System, out of which 24 million tons are being retained. See: Interim Poverty Reduction Strategy Paper, Government of Pakistan, November 2001, Page 23.

[31] Akmal Hussain, ILO/CEPR, 1999, op.cit.

[32] Akmal Hussain, ILO/CEPR, 1999, op.cit.

[33] Yet there is no organized seed industry in Pakistan to meet the needs of farmers for the supply of vigorous varieties of seeds even in the major crops. In wheat, for example, the average age of seeds in Pakistan is 11 years compared to an average of 7 years for all developing countries. It has been shown that compared to India there was a sharp decline in growth of total factor productivity in Pakistan after 1975, which can be attributed to the poorer level of research and extension in Pakistan compared for example to India.. See: Mark W. Rosegrant and Robert Evenson: "Agricultural Productivity Growth in Pakistan and India: A comparative Analysis", presented at Pakistan Institute of Development Economists Ninth Annual General Meeting, Islamabad, 1993.

[34] If atmospheric carbon is doubled, the average summer temperatures in Pakistan are expected to increase by 1.5 C to 4.5 C (base average of 2.5 C), over the next 70 years. This could lead to a decline in wheat yields from 10 percent to 60 percent, depending on the type of wheat seed, planting time, related atmospheric/weather conditions. See: Qureshi, Ata and Iglesias: Implications of Global Climate Change for Pakistan Agriculture: Impacts on Simulated Wheat Production, Climate Institute, Washington, D. C. USA, 1992.

[35] Alim Mian and Yasin Mirza: Pakistan Soil Resources, National Conservation Strategy, Sector Paper IV, Environment and Urban Affairs Division, with IUCN, 1993.

[36] Akmal Hussain et.al., Poverty, Growth and Governance, 2003, op.cit. Chapter 3.

[37] For a discussion on the specific actions that can be undertaken to achieve this policy objective, within a public private partnership, see: Akmal Hussain, Pakistan: Poverty, Power and Economic Growth, South Asia Center for Policy Studies (Mimeo), 25 September 2008. pages 133 to 137.

[38] In the case of complaints about public services, these can be taken up at various tiers of the local government. In the case of complaints about corruption and misuse of power against citizens by government officials, these can either be taken up within the ombudsman structure or in more serious criminal cases, at various levels of the judiciary. For a detailed discussion of this issue, See: Akmal Hussain, Power Dynamics, Institutional Instability and Economic Growth: The Case of Pakistan, 2008, op.cit.

[39]   A special public services and corruption monitoring page can be devoted on a monthly basis by newspapers. This would contain independent investigative reports on the performance of government departments with respect to their targets for the coverage and quality of public services. The monitoring page would also report on corruption cases and monitor the efficiency of ombudsman's offices at the district, tehsil and union council levels

[40]   The FBS could also be required to conduct regular surveys to provide data to the public about the extent of corruption and the performance of various government departments with respect to their performance targets.

[41]   For a discussion of the specific issues on which research and subsequent diffusion can be conducted, see: Akmal Hussain, Employment Generation, Poverty Alleviation and Growth in Pakistan's Rural Sector, Policies for Institutional Change, Report prepared for the International Labour Organization, Country Employment Policy Review (CEPR), Pakistan, March 1999. page 12.

[42]   Haris Gazdar, Asad Sayeed and Akmal Hussain, Growth, Poverty and Conflict: 1999-2007, Chapter 3 in Akmal Hussain, Power Dynamics, Institutional Instability and Economic Growth: The Case of Pakistan, 2008, op.cit.,

[43]   An earlier version of the discussion in this sub-section was published in the Daily Dawn titled:
First Aid for the Poor, Daily Dawn, 24th March 2008.

[44]   Douglass C. North, John Joseph Wallis, Barry R. Weingast, A Conceptual Framework for Interpreting Recorded Human History op.cit.

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