

SCOPING PAPER DRIVERS OF PRO-POOR CHANGE IN PAKISTAN

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Executive Summary

Introduction

This paper aims to provide a review of issues relevant to pro-poor change in Pakistan's economy, politics and society. As a component of a larger study on the 'Drivers of Pro-Poor Change', this paper is about arriving at a better understanding of the context in which policies and programmes are made and implemented.

'The poor' are not a well-defined social or politically articulated category as there are multiple facets of poverty, and multiple sources of deprivation. Moreover, there are many competing policies, programmes and processes, which at different moments in time are regarded as being 'pro-poor' by different players. It is not useful to think of a 'Pro-Poor Agenda' as being any agenda that helps some pre-existing and well-defined group.

This paper approaches Pro-Poor Change using a three-step approach. Step One involves empirical reporting of relatively uncontroversial poverty outcomes in the recent years. Step Two is a description of and commentary on key issues and trends in the economy, politics, governance and society. Finally in Step Three identifies a number of 'models of change' that have been influential in the development discourse on Pakistan.

Section 1: Empirical Review of Poverty Outcomes

The issues and controversies in measuring poverty have become connected with the debate about the relative performance of different administrations. There is, however, wide consensus that poverty ratios decline significantly through the 1980s. It is also widely agreed that the decline in poverty ratios was halted or reversed since around 1990. Recent studies show that poverty trends fluctuated but continued to decline in the early 1990s, and that 1996-97 was the main turning point after which poverty ratios increased at a rapid rate.

The poverty profile in Pakistan has remained largely unchanged. The poverty ratio in rural areas is consistently around one-third higher than in urban areas. Households with illiterate heads are twice as likely to be poor than those households whose heads are literate. Landlessness is another important correlate of poverty, and formal sector employment appears to be a route out of poverty.

Recent trends in poverty outcomes have not been encouraging. Income poverty remains close to the levels attained in the late 1980s, and the most recent period appears to have been the most adverse. Trends in education and schooling too have been disappointing. While overall literacy rates have improved, the rate of progress has been slow. Significant inequalities along the lines of gender, region, rural-urban residence, and social grouping still persist. Moreover, there is evidence of actual decline in some indicators of basic schooling since the mid-1990s. Demographic and health aspects of poverty have shown steady improvement, and some indices of historical shifts – such as the sex ratio, population growth rates, fertility rates – have changed significantly in the positive direction.

Section 2: Economy

Macroeconomic trends and issues in economic management (regimes)

Macroeconomic trends and issues in economic management can be examined by using a chronological classification that corresponding with successive political administrations and regimes. Five periods are identified for review: the Ayub years (1960s), the Bhutto period (1971-77), the Zia regime (1977-88), the democratic regimes (1988-99), and the Musharaf regime (1999 onwards).

The Ayub Years (1960s): In the decade of the 1960s economic growth took off and the economy achieved a more diversified structure in terms of output, employment and investment. The state oversaw the resource re-allocation from agriculture to industry through a number of policies which included creating large rents for the manufacturing sector, turning the terms of trade against agriculture for a period, and investment in urban and industrial infrastructure. Macroeconomic trends demonstrated stability during the period. Because of Pakistan's geo-strategic importance to the US at the time, the country was the recipient of large doses of US and international aid.

Ayub's growth policies created significant regional imbalances and social dislocations in its wake also. Uneven development between the Eastern and Western wings of the country was the precursor to the dismemberment of East Pakistan. Industrial growth was predicated over high profit shares and stagnant real wages in the manufacturing sector. Policies of mechanization and introduction of HYV varieties in the agricultural sector resulted in the eviction of the landless peasantry, particularly in the Punjab. The denouement of the Ayub regime had as much to do with perceptions of poverty and inequality as it had to do with political factors.

The Bhutto Years (1971-77): The beginning of the 1970s brought about tumultuous changes in Pakistan's political economy. Bhutto's PPP had been elected in the western wing of the country on a populist agenda. For better or for worse, the Bhutto government did attempt to fulfill most of its manifesto pledges. Important intermediate goods and some consumer goods industries were nationalized, the entire financial sector was taken over by the state, as were all – barring a handful – private educational institutions. The regime also initiated land reforms twice, once in 1972 and then in 1977. The macro economy during this period demonstrated a mixed trend. The composition of investment between private and public sectors changed significantly in favour of the public sector.

While the macroeconomic environment did deteriorate during the period, there is evidence to suggest that the Bhutto regime did succeed in its professed intention of reducing inequality. Similar to the 1960s, there is sketchy evidence about poverty trends during the period, however, the evidence tends towards some reduction in absolute poverty indicators during the period.

The Zia Years (1977-88): During this period economic growth revived to the trend level of the 1960s. Growth revived in both the manufacturing and agricultural sectors, backed by strong growth in the construction sector also. There were three reasons for growth revival during the period. First, because of its opposition to the erstwhile PPP

government, confidence amongst private sector investors improved. Second, many of the large scale industrial and manufacturing investments undertaken during the Bhutto regime gestated in the 1980s and thus had a favourable impact on output growth. Last but not the least, the Zia regime faced an exceptionally favourable exogenous environment on two fronts: (a) because of the Soviet invasion in Afghanistan Pakistan once again became a recipient of large doses of US and international aid. (b) Remittances from overseas Pakistanis helped finance roughly half of the trade gap during the period.

While the regime had all the ideological predilections towards a pro-market growth strategy, its political compulsions necessitated that it kept the banks and financial institutions under its tutelage so that pay-offs can be made to important political constituencies. Deficits were partly financed by both external and internal borrowing. The increase in debt stock created serious balance of payments problems in the 1990s. Both poverty and inequality during the period reduced. Favourable developments in the Zia years proved not to be sustainable. Exogenous windfalls that sustained the regime dried up at around the same time as General Zia disappeared from the political scene because of an air crash.

The Democratic Governments (1988-99): Democratic ruled returned to Pakistan in December 1988. This has been the most unstable period so far as Pakistan's macro-economy is concerned. There have been a spate of explanations for this occurrence. Most common is that due to bad governance and corruption during the two tenures each of Prime Ministers Benazir Bhutto and Nawaz Sharif, the macro-economy went on a tail spin. Alternative explanations emphasize on adverse exogenous shocks during the decade as well as the sequencing and nature of Structural Adjustment Programmes with the IMF as important determinants towards the destabilization of the macro economy.

Growth reduced from its trend rate, inflation was high and on the whole there was little improvement in the fiscal deficit. Most important, however was that investment in the latter half of the decade dipped significantly. The most serious macroeconomic problem faced by the economy during the decade was on the external front. The exogenous environment turned adverse in the 1990s. The end of the cold war as well as the first Afghan war at the turn of the decade resulted in Pakistan's geo-strategic importance waning. After the First Gulf War in 1991, remittances from overseas Pakistanis also reduced substantially. Further, a number of loans taken in the past decades matured in the 1990s. As such the debt amortization payments almost doubled during the 1990s compared to the previous decade. These exogenous events are important determinants of the perennial BOP crisis during the 1990s.

Income poverty was declining up until 1996 and started increasing after that. With positive GDP growth increase in poverty was associated with worsening income distribution.

The Musharraf Regime (1999-the present): General Pervez Musharraf came to the helm of affairs through a military coup and retains effective executive power to date. To gauge macroeconomic performance of the government, it is important to use September 11 as a divider. A comparison of Pre-1999 and the 1999-01 periods (Tables 4 and 5) shows that in the pre-September 11 period, apart from some

improvement in the budget deficit, there was little improvement in any other macroeconomic indicator. September 11 changed Pakistan's macroeconomic fortunes significantly. Since the external constraint was the biggest problem for the macroeconomy for the past decade or so, several direct and some indirect benefits came in the offing. The most important of which was a significant re-profiling of Pakistan's external debt. Indirectly, reverse capital flight from Pakistanis resident abroad, in order to avoid scrutiny of their funds – resulted in foreign remittances having trebled in the last two years.

In 2002-03 economic growth revived. In the absence of new investment much of this growth has been driven by improvements in capacity utilization. Unless, investment revives in the economy, there are serious question about sustainability of the recent growth. There has been no reversal in the trend towards increase in the poverty head count ratio. The burden of stringent stabilization policies pursued by the regime till the September 11 reprieve has been borne disproportionately by the poor.

Issues in Agriculture

The share of agriculture in national income has declined steadily over the decades till the 1990s, and has not changed since then. Currently, agriculture accounts for around 24 per cent of national income, still ahead of manufacturing (18 per cent) and services (50 per cent). The sector grew at an average annual rate of 5.4 per cent in the 1980s and 4.4 per cent in the 1990s. Agriculture remained the mainstay of the labour force, accounting for around 47 per cent of employment. The longer term declining trend in agricultural employment was reversed in the mid-1990s, largely at the expense of construction and trade.

Three features of the agrarian economy in the 1990s are worth special mention. Despite relatively high average growth in agriculture value added, incomes in rural areas and rural poverty stagnated or worsened. There are several explanations for this paradox. First, in line with past trends, the agrarian structure continued to move towards owner self-cultivation with the marginalization of the landless poor in the agrarian economy. Second, agricultural output was particularly volatile in this period due to the effects of a drought and water shortages. Third, it is argued that terms of trade have moved against farmers in the recent years in Pakistan, with low and volatile output prices, and rising costs of inputs.

Issues in Industry

The share of manufacturing in GDP has not altered since 1969-70. The share of employment in the manufacturing sector has in fact declined between from 13% of total employment in the economy in 1982 to 11% in 2000. This basic information points to stagnation in the manufacturing sector.

Productivity (labour productivity as well as total factor productivity) growth in the manufacturing sector has either been low or negative for the most part in the 1970-1990 period. Wage growth in large scale manufacturing has also been stagnant in the 1970-90 period. The situation is unlikely to have changed since then.

Casualization of employment has become the adopted method on the part of employers. The most dominant form of casual employment is known as “contract work”. These “contract workers” are neither eligible for the employment benefits that permanent workers enjoy nor do they have the legal right to form or join unions.

Section 3: Politics, Governance and Social Change

Political system

Constitutional Crisis

In the last fifteen years, four governments were ‘constitutionally’ dismissed using Article 58 2 (b), which was inserted by General Zia as part of the Eighth constitutional amendment. This amendment to the constitution had taken away many important powers of the Prime Minister, which resulted in making the non-elected arms of the state more powerful vis-a-vis the elected arm. This clause was repealed in 1997, as an attempt by the elected legislature to regain its supremacy. While the 1973 Constitution has been amended by both politicians and the military, there is no demand for a new constitution. The reason is that there is consensus across the political spectrum on some basic issues, like the Islamic character of the state, the Federal and parliamentary systems. The present crisis regarding the Legal Framework Order is a manifestation of the tussle between the elected and non-elected arms of the state.

Conflict and Convergence of Mainstream Populism

By the mid 1990s, formal politics in Pakistan was converging towards a stable two party system: the Pakistan Muslim League (right of centre) and Pakistan Peoples Party (left of centre). It is interesting to note that both populist parties followed policies of economic liberalization, and both subscribed to the same foreign policy.

The observation that third world democracies do not stabilize because of internal bickering seems relevant in the case of Pakistan. Both the PML (N) and PPP governments used the state machinery to victimize the other during their respective tenures in government. This made the army as the main arbiter between such conflicts, shifting the balance of power from the non-elected to the elected arms of the state.

The Military in Politics

The running tension in the political system is identified as that between the elected and non-elected arms of the state. In the last two decades, the non-elected arm of the state has been almost completely dominated by the military. The military has formally intervened in the political process four times in the 56-year history of the country. It is therefore as important a political entity as others if one is to understand the reasons for political instability in Pakistani politics. The civil-military tension in Pakistani politics lies at the heart of political instability experienced in the last decade. To the extent that political stability and adherence to constitutional norms is important for pro-poor change, resolution of this tension takes priority.

Institutions of governance

Decentralization

The military government established a National Reconstruction Bureau (NRB) within a week of taking over. It introduced the Local Government Plan, and proposed police reforms, and changes in the system of electoral representation. The Local Government Plan of the NRB, however, goes beyond previous attempts at constituting local government in a number of ways including devolution of power, the restructuring of district management.

Elected local governments have taken charge across the country, and these include, for the first time, women, religious minorities and enhanced representation of labour. On the other hand, the local government system is also viewed as having been created by the military regime for diffusing civil political opposition to highly centralized military power.

Bureaucracy

Although ‘governance reform’ and ‘good governance’ became prominent issues in public discourse from the early 1990s onwards, there were few sustained attempts at the organizational reform or rejuvenation of government. The work of the NRB since late 1999 promises, of course, to be a new point of departure in this regard. A more historical view of organizations change in government is instructive. The most significant bureaucratic reforms to date were those carried out by Pakistan’s first elected government led by Zulfikar Ali Bhutto in the 1970s. These reforms led to the fragmentation of a formerly integrated structure inherited from colonial times. These reforms came in the wake of popular resentment of the bureaucracy’s perceived position as a wielder of non-representative executive power, standing aloof from ordinary people.

Judiciary

At moments of constitutional crisis the judiciary would be called to pronounce upon the legality of particular actions – such as the dismissal of a government. The expectation in certain quarters that the judiciary could be counted upon as a guardian of the constitution, however, proved to be unrealistic. The judiciary was generally reduced to the role of attempting to preserve constitutional norms while acquiescing, *post facto*, with extra-constitutional actions. Three other sets of issues that have been affected the role of the judiciary as an institution of governance. First, there has been confusion in Pakistan concerning the precise role of Islam and the Sharia (Islamic law) in the development of the legal-judicial system. Second, the day-to-day functioning of the lower judiciary is seriously complicated by resource constraints and the widespread recourse to informal and traditional forms of dispute settlement and arbitration. Third, the judiciary was seen increasingly as another vested interest group within the state that pursued its own corporate agenda in rivalry and cooperation with others such as the bureaucracy and the military.

Conflict, Security and the Rule of Law

The establishment of the rule of law came under serious challenge in Pakistan throughout the 1990s amidst ethnic and sectarian conflicts. The persistent tendency of the military to topple civilian governments is itself the major violation of the rule of law in Pakistan. The state's inability to establish the rule of law at a more micro level is a more serious challenge to its authority and legitimacy. The relations between Pakistani national security agencies and armed militant groups operating outside Pakistani borders became the focus of attention worldwide. A number of somewhat threatening labels were used to describe the condition of the state and its prognosis. These ranged from labeling Pakistan a 'weak' state to calling it a 'rogue' state.

Social Change

In the rapidly changing Pakistani society, social, political and economic processes and outcomes are heavily gendered. The last twenty years have witnessed remarkable trends and counter-trends in dichotomy between Islamic conservatism versus cosmopolitan modernism. Since the 1980s, with state-sponsored campaigns of 'Islamization', social change and gender relations have become highly politicized and contested areas. Popular mass media also provided mixed and contradictory images. The print media became more open to serious engagement with social issues. The new electronic media, initially Indian entertainment channels, forced more openness in the Pakistan electronic media. During the 1990s, a number of non-governmental organizations acquired popular acceptance and prestige in service delivery and advocacy.

Section 4: Models of Change and Stagnation

Some of the main debates and discussions on economic, political and institutional reform, and their link with poverty outcomes are summarized with the help of following six 'models of change'.

Market Driven Growth: The basic ingredients of pro-poor change already exist if only private agents were allowed to transact without undue interference. The government is an obstacle, and it needs to be right-sized, and the quality of governance improved. The main engine of change is diffused demand and supply impulses, and these should be facilitated rather than hindered. Change takes place as long as government interference is reduced. The failure of development in Pakistan in the last two decades is ascribed to large government and government interference. Weakening of the bureaucracy, political instability, the unfavourable exogenous environment and governance failures have all contributed towards increasing poverty in the past decade. In the medium run market driven reform will remain unfavourable for concerted pro-poor change.

Social Gap: There has been under-investment in the social sectors and this has led to a 'social' gap: social development has lagged behind economic growth. The Social Gap is important in its own right as an index of under-achievement in poverty reduction, education, health, gender equality, and other social goals. There is also, subsequently, a feedback loop between the Social Gap and low rates of economic growth. Social development goals must receive priority in policy as well as politics. This implies reallocation of fiscal resources towards development spending, and more development spending on the social sectors. If the Social Gap is even partly due to

cultural resistance and insufficient demand, decentralization might subvert rather than promote a Pro-Poor Agenda.

Elite Capture: The electoral process is rendered uncompetitive due to the existence of local political monopolists – actors who are able to command vote blocks on the basis of feudal or tribal affiliation. Electoral politics, therefore, are rife with rent-seeking and patronage. They help to reproduce rather than challenge existing power relations, and are unable to promote the interests of the poor and the powerless.

The Elite Capture story implies two opposing responses: that electoral politics are inherently inconsistent with pro-poor reform, and that the electoral system does have the potential for delivering pro-poor change. The appropriate response in this case would be the strengthening of modern political institutions such as parties, and thus, by default, weakening existing patron-client relations.

Political Instability and Uncertainty: Frequent dissolution of elected governments, frequent changes in policies, uncertain rule of law – these phenomena create an unstable politico-economic environment and thus deter private investment and inhibit progress towards pro-poor change.

The impact of political instability and the lack of rule of law for the poor goes much beyond the issue of private investment. Lack of access to justice, corruption and inefficiency in the delivery of social services and political victimization have a negative impact on the poor.

Emergence of New Classes and Interest Groups: There are undirected and largely unsung changes in economy and society, notably the emergence of new classes and interest groups, which have the potential for challenging existing power relations. Existing power brokers such as landowning elites, the urban rich, and state functionaries will need to accommodate the emergent classes and interest groups or face political conflict. The outcome is likely to be more egalitarian, more market-friendly and more democratic.

The Social Mobility thesis in its pure form implies that undirected societal and economic processes have created a basis for pro-middle class changes in the power structure. The interests of the emergent middle classes, however, are also likely to conflict with some of the interests of the poor. The qualified Social Mobility thesis implies that there has been an ongoing process of class and group accommodation in Pakistan through political mobilization and, sometimes, violent challenges to authority. The mode of accommodation, however, has often eroded the state's ability to carry out its minimal 'rule of law' functions.

Cultural Change and Conflict: There are incremental cultural changes – particularly with respect to gender relations and the position of women – towards modernization, greater openness, and more equality. These changes are both indigenous and also supported by cultural interaction with other societies in the region and beyond. At the same time there are tendencies towards social conservatism, often rooted in religious ideologies and tradition, which counter cultural change. The interaction between these two broadly opposing tendencies produces both synthesis and conflict.

Cultural change in the direction of modernization is likely to be pro-poor since it will lead to less unequal gender relations in Pakistan. Cultural change, moreover, might result in conflict as well as synthesis. Factors which might lead to a separation of different strands within social conservatism will promote a Pro-Poor Agenda.

Section 5: Conclusion

This paper has highlighted four broad areas of concern for a Pro-Poor Agenda. These are: economy, political system, institutions of governance, and social change. This paper has also identified several dominant ways in which Pro-Poor Change (or models of change) has been understood and debated. To conclude, several emerging themes are identified for a more detailed understanding of the Drivers of Pro-Poor Change in Pakistan. Some of these themes are subjects for more detailed ‘thematic papers’ as part of the Drivers of Change project.

Economy

Macroeconomy and economic management: The chronological review of the macroeconomy and of economic management has attempted to interpret policy positions taken by various regimes within a context of the political imperatives of the times. Current and future policy choices are also conditioned by political factors, and these will determine the prospects for pro-poor change.

Land: Agriculture remains the largest sector both in terms of output and employment. Economic institutions in agriculture such as ‘feudalism’, moreover, are thought to block pro-poor change. A more detailed analysis of the political economy of landed power, therefore, is likely to develop a better understanding of both the agricultural sector, as well as of issues in governance.

Private industrial capital: While the performance of the manufacturing sector has remained disappointing in the recent period, this sector, nevertheless, remains an important potential contributor to pro-poor change. The idea that newly emerging classes and economic interest groups that might challenge the hegemony of established power might also apply in a prominent way to the manufacturing sector.

Political system

Political parties and electoral politics: This paper has identified both sources of political conflict and instability as well as the potential for political development around a consensus political architecture as envisaged by the 1973 constitution. There has been a tendency for the incorporation of diverse political and ideological interests into the framework of the constitution. Political parties have played no small part in this process. Party-based politics also provide a possible counter to problems of elite capture and for the incorporation of emerging interest groups.

Civil military relations: Relations between elected and non-elected organs of state power have been identified in this paper as the key source of political instability. The role of the military, in particular, is a highly problematic one in the economic history of Pakistan. The imbalance between military and civil power is also a persistent source of political instability and economic uncertainty. An examination of civil-

military relations, particularly the economic underpinnings of these relations, is therefore, critical for an understanding of constraints to change.

Institutions of governance

Decentralization: The local government reforms initiated by the military government through the NRB were identified in this paper as marking a significant point of departure for the institutions of governance. An explicit aim of these reforms is to restructure existing power relations in favour of the poor. The paradox of centralized military governments supporting the decentralization of power, moreover, requires closer examination. A more nuanced understanding of the political economy of decentralization is particularly important in order to assess the sustainability and the pro-poor potential of the current reforms.

Bureaucracy: The effectiveness and quality of the organization of government emerges as a key issue for pro-poor change in a number of ways. First, if one accepts a market-oriented model of change the improvement of bureaucratic structures becomes a conspicuous residual issue in public sector reform. Second, there appears to have been an inverse relationship in Pakistan between representative government and the effectiveness of government machinery. A historical political economy analysis of the bureaucracy as a transmission mechanism for policy making and policy implementation will allow a clearer view of the political feasibility and context of future bureaucratic reform.

Conflict, security and the rule of law: The broader question of state effectiveness – or the overall effectiveness of the institutions of the modern state including the judicial systems, law and order and security – remains a critical marker of long-term development. Any discussion of policies and programmes must be logically subsequent to questions pertaining to the basic functioning of modern state institutions. The idea of a functioning state remains a project rather than a reality in Pakistan, and the most recent period has not witnessed any significant attempt at expanding the scope of the rule of law – a minimal requirement of a functioning state.

Social change

Cultural conflict or synthesis: This paper finds multiple trends within Pakistani society towards diverse cultural models. There are tendencies towards modernization, including evidence of some improvement in demographic indices of gender bias. There changes also of a qualitative nature which signal the existence of a dynamic civil society. Mass media appear to play an important part in both promoting cultural change as well as responding to it. At the same time there is also resurgence – conspicuously in the political sphere – of forces advocating social conservatism. Attitudes towards gender relations and the position of women are key markers of positions taken vis-a-vis cultural and social change in Pakistan. The extent to which the different positions are resolved through conflict or synthesis will have a impact on the possibilities of pro-poor change in Pakistan.

Acronyms and Abbreviations

BoP	Balance of Payments
DfID	Department for International Development
FATA	Federally Administrated Tribal Area
FBS	Federal Bureau of Statistics
GDP	Gross Domestic Product
GoP	Government of Pakistan
GST	General Sales Tax
HDI	Human Development Index
HIES	Household Income Expenditure Survey
HYV	High Yielding Variety
ICOR	Incremental Capital Output Ratio
IFIs	International Financial Institutions
IJI	Islami Jamhoori Itihad
IMF	International Monetary Fund
IMR	Infant Mortality Rate
IPP	Independent Power Producer
MDG	Millennium Development Goals
MMA	Muttahida Majlis-e-Amal
MQM	Mohajir Qaumi Movement (now Muttahida Qaumi Movement)
NRB	National Reconstruction Bureau
NWFP	North West Frontier Province, also known as the Frontier
PPA	Participatory Poverty Assessment
PIHS	Pakistan Integrated Household Survey
PML (N)	Pakistan Muslim League, Nawaz Group
PPP	Pakistan People's Party
PRSP	Poverty Reduction Strategy Paper
SAP	Social Action Programme
UK	United Kingdom
UNDP	United Nations Development Programme
US	United States of America
WB	World Bank

Introduction

The aim of this scoping paper is to provide a review of issues relevant to pro-poor change in Pakistan's economy, politics and society. The paper is part of a larger study on the 'Drivers of Pro-Poor Change'.

'Drivers of Change' are taken to include actors, organizations, institutions, social groups, as well as historical processes and trends.¹ Possible 'Drivers of Change', therefore, go much beyond the policy formulation and implementation process. It also goes beyond agents who are involved in the policy process. This paper is, therefore, not about policy prescriptions. It is about arriving at a better understanding of the context in which policies and programmes are made and implemented.

The paper will do three things. First, it will identify the main parameters of a pro-poor agenda in present-day Pakistan. Second, the paper will identify the main economic, political and social factors that have promoted or inhibited progress towards a pro-poor agenda. Third, the paper will provide an outlook on emerging trends with respect to these economic, political and social factors, and hence offer a prognosis for poverty reduction and pro-poor change. A number of the issues identified in this paper would form the subject of more in-depth analysis in the thematic papers.

While there is no fixed reference period for the purposes of the present exercise, the late 1980s or the early 1990s provide natural historical points of departure. The late 1980s marked the transition from military to elected civilian governments, and the early 1990s is widely thought of as the beginning of major economic reforms. The most recent period – from around 1999 onwards – is obviously of particular interest, since developments during this time are likely to have the greatest influence on the prospects for change in the short term. The most recent period has also witnessed many conspicuous developments: the return of military rule in 1999, wide-ranging programmes of economic and institutional reform, the 9/11 tragedy and its aftermath, general elections, and continuing uncertainty concerning constitutional arrangements. A somewhat longer view, however, provides a perspective on underlying and structural features of continuity and change.

This paper is based entirely on secondary material, mostly published books and articles, as well as unpublished official and unofficial documents and reports.

Problem of Defining a Pro-Poor Agenda

'The poor' are not a well-defined social category – there are multiple facets of poverty, and multiple sources of deprivation. While there is overlap and there are interlinkages, there is no exact conceptual or empirical mapping between these different forms of deprivation. From the policy point of view 'the poor' might be people living below an income poverty line, those without adequate health or education, or those excluded from markets and political processes on grounds of gender, class or ethnicity.

¹ Background papers for DFID by David Booth, Mick Moore, and Sue Unsworth, respectively, provide the necessary conceptual work on this issue.

From a political viewpoint, however, ‘the poor’ are often people who are marginalized and fragmented, without a unique identity, and therefore vulnerable, individually and in fragmented groups, to existing power relations.² It is important at the very outset, therefore, to dispense with the notion that ‘the poor’ constitute a coherent or politically articulated category. Consequently, it is not useful to think of a ‘Pro-Poor Agenda’ as being any agenda that helps some pre-existing and well-defined group.

More conceptual approaches – as in Moore (2001) and Unsworth (2001) – do provide some solutions to the problem of defining ‘pro-poor change’. Such approaches emphasize the importance of institutions and institutional change in creating opportunities and conditions for the empowerment of the poor. While these approaches are good at identifying institutional and political features of interest – for example, whether or not the state is effective in maintaining the rule of law – they refer to historical analysis for an understanding of change. In other words, the task of defining pro-poor change remains a complicated one in operational terms.

The fact is that there are many competing policies, programmes and processes, which at different moments in time are regarded as being ‘pro-poor’ by different players. It would be unwise to disregard all of these diverse claims as mere political rhetoric. The political and policy discourse in Pakistan is not unique in this regard. Short-term increases in inequality were heralded as harbingers of long-term poverty reduction in the 1960s.³ This was replaced by populist socialist slogans of ‘*roti, kapra, aur makan*’ (bread, clothing and shelter) in the 1970s.

In more recent years, all governments, political actors, and stakeholders (including international donors) have sought legitimacy on the grounds that their programme conforms to a ‘pro-poor agenda’. The range of positions included adherence as well as defiance of IMF structural adjustment programmes,⁴ promotion as well as opposition to the Social Action Plan,⁵ and support as well as criticism of infrastructure projects,⁶ to name but a few of the major policy debates in the recent years. Since the policies, political programmes and priorities of these different actors have been contested, it is apparent that there is no clear consensus on a ‘pro-poor agenda’.

Pakistan’s government became engaged with the preparation of a Poverty Reduction Strategy Paper (PRSP) in early 2000, and there is an ongoing attempt to arrive at a

² See for example the various reports of the Pakistan Participatory Poverty Assessment (PPA 2003), Haris Gazdar (2002), World Bank (2002), and Emma Hooper and Agha Imran Hamid (2003) for recent empirical commentaries on the issue.

³ This was the view expressed by economic managers during the military government of Ayub Khan, and was endorsed then by the leading international agencies at the time. See Haq (1963).

⁴ This was particularly conspicuous in the case of governments led by the Pakistan Muslim League (N).

⁵ Despite serious misgivings on the part of some commentators, the World Bank continued supporting the Social Action Plan until it was finally abandoned after its second phase in 1997.

⁶ The ‘independent power producers’ (IPPs) were invited to invest in power generation in the mid-1990s under Benazir Bhutto’s second tenure, in a move widely welcomed in Pakistan and abroad. The same decision has come under sharp criticism currently by the subsequent governments.

document through a participatory process.⁷ The PRSP aims to provide an overarching framework for poverty-reduction policies and for a pro-poor agenda on the part of the government. While the PRSP process has attracted diverse comment – ranging from support to criticism – it has not, as yet, been subjected to wider political discussion in the form of parliamentary comment or scrutiny. The PRSP has been inclusive in its overall approach to poverty – it pays attention to economic as well as social indicators. At the same time, however, the analysis of poverty, its causes, and possible policy prescriptions contained within the PRSP, quite understandably, reflects the economic and political models and judgments of its authors. Other commentators and stakeholders, also understandably, question the ‘pro-poor’ credentials of these models and judgments.

A Three Step Approach

This paper will not attempt to resolve disagreements about composition and causes of poverty in favour of any particular view. Instead, the approach adopted here seeks to represent the diverse perspectives on poverty and a ‘pro-poor agenda’ present in the policy and political discourse in Pakistan. The discussion here moves from descriptive and relatively non-controversial issues to the more analytical and debated ones.

This paper adopts a three-step approach to arriving at an understanding of Drivers of Pro-Poor Change in Pakistan. The first step is a description of relatively non-controversial poverty outcomes in the recent years. The second step attempts a descriptive commentary on the broad economic, social and political factors that might affect pro-poor change. The third step involves still more complexity as it involves the identification and summarization of the various ‘models of change’ that are or have been influential – either explicitly or implicitly -- in the understanding of poverty and pro-poor change in Pakistan.

Step One is an empirical review of poverty outcomes (Section 1). While there is little consensus on a ‘pro-poor agenda’ there is less disagreement about ‘pro-poor’ or ‘anti-poverty’ outcomes that matter. A review of poverty outcomes provides a useful starting point for an understanding of a ‘pro-poor agenda’. Pakistan’s experience in achieving ‘pro-poor’ and ‘anti-poverty’ outcomes has been mixed, and the prognosis, likewise, is a mixed and contingent one.

Step Two involves the identification of salient trends and issues in the economy (Section 2), and society and politics (Section 3). This step is largely a descriptive one though it does involve a greater degree of interpretation of the empirical evidence than Step One. The description of salient trends and issues takes in a range of issues, many of them not directly or obviously connected with poverty, but all of them considered significant factors in economy, society and politics.

Section 2 deals with the economy, provides a summary account of the macroeconomy and economic management over the last four decades. This largely descriptive account is chronologically organized to correspond with successive political

⁷ The PRSP is a critical element in financial negotiations between the government and IMF-led international development partners. An Interim-PRSP was released in November 2000, and several drafts of a “full” PRSP have been produced since then.

administrations or regimes. Section 2 also provides a brief description of recent salient issues in agriculture and industry – the two sectors of the real economy that might be particularly associated, *a priori*, with a pro-poor economic agenda.

Section 3 provides a description and commentary on developments the political system, institutions of governance, and societal trends. The section attempts to highlight continuities as well as changes in these areas in the preceding ten to fifteen years.

Step Three (Section 4) is a review (and paraphrasing) of several models of change (and stagnation) that are used and have been used in Pakistan in order to understand the linkage between the economic, social and political factors identified in Step Two and poverty outcomes presented in Step One. This step is mostly interpretive – some of the main debates and discussions on economic, political and institutional reform, and their link with poverty outcomes are summarized with the help of ‘models of change’. The models represent rival as well as complementary explanations of change and implicate drivers of change of different types.

The review is concluded (Section 5) by identifying some of the main actors, organizations, groups, institutions, and processes that have been associated with either the promotion or the blocking of change towards a pro-poor agenda. Some of these drivers or obstacles to change are to be studied in greater detail in the ‘thematic’ papers of the Drivers of Change study.

Section 1: Empirical Review of Poverty Outcomes

Poverty has come to be understood in many different and overlapping ways – including hunger, income or consumption deprivation, lack of education, poor health, gender disparity, absence of opportunity, social exclusion, and powerlessness. Widely used empirical measures of poverty take account of these different factors of concern, even if many regard ‘income deprivation’ as the core poverty indicator. This paper takes a broad view of poverty reduction in line with the Millennium Development Goals (MDGs). Besides the core poverty issues of income deprivation and hunger, the MDGs include universal primary education, gender equality, improvements in health conditions, and environmental sustainability. National anti-poverty policies – notably the Poverty Reduction Strategy Paper (PRSP) – also focus on goals broadly similar to the MDGs.⁸

The MDGs are closely related to the indicators aggregated under the Human Development Index (HDI) of the UNDP. Pakistan’s HDI rank declined from 132 out of 173 countries in 1990, to 144 out of 176 countries (a slippage of 12 places) in 2001.⁹ This signifies that Pakistan’s overall progress towards the achievement of the range of poverty indicators covered by the HDI was slower than other developing countries.

In order to appreciate the extent of Pakistan’s comparative decline in human development, some regional comparisons can be illustrative. In 1990 Pakistan’s HDI (0.311) was the third highest in the South Asia region – behind Sri Lanka (0.663) and Maldives (0.497), slightly ahead of India (0.309), and far higher than Bangladesh (0.189), Nepal (0.170) and Bhutan (0.150). In 2000, while Pakistan’s HDI had risen to 0.499, it was now behind India (0.577), and only just ahead of Bhutan (0.494), Nepal (0.490) and Bangladesh (0.478).¹⁰

Income Poverty

Income and consumption poverty has been a much-debated issue in Pakistan recently. The main sources of data for empirical measurement are the large-scale statistically representative sample surveys conducted by the Federal Bureau of Statistics. These surveys are designed to collect data on household composition, socio-economic characteristics, and household income and consumption. The most common approach to poverty measurement is to count the number of households and individuals within these households that fall below a given poverty line. Differences in empirical results

⁸ Issues such as ‘vulnerability’ and ‘empowerment’ are also widely accepted in the academic literature as critical aspects of poverty. This acceptance has been only partially incorporated into policy thinking. The Participatory Poverty Appraisal (PPA) conducted for the Planning Commission is a good example of attention to broader issues. There is little consensus, however, on the way in which the wider, more political and institutional, definitions of poverty will be incorporated into a policy framework. The PRSP, for example, remains committed to quantifiable ‘standard’ measures of poverty. This section will also report poverty trends only with respect to the relatively uncontroversial quantitative empirical standards used widely in Pakistan and elsewhere. A more nuanced political and institutional understanding of poverty is deferred till further below, and to the thematic papers in the Drivers of Change study.

⁹ See Human Development Indicators (UNDP 2003), and Human Development Report (UNDP 1993).

¹⁰ Mahbub ul Haq Human Development Centre (2003), p 24.

reported by various sources are due to differences in poverty lines and in the precise methodology of measurement.

Until recently there was no official poverty line in Pakistan. The first such poverty line was formally notified by the government in 2002.¹¹ Another widely cited poverty line is the World Bank's 'dollar-a-day' line. Much of the analysis of poverty trends and patterns had taken place using other poverty lines – the official poverty line is too recent, and the 'dollar-a-day' line was regarded as not being informed by local conditions.

There is a lively debate on recent poverty trends in Pakistan, and alternative poverty estimates have been used in this debate. There is wide consensus that poverty ratios declined significantly through the 1980s. It is also widely agreed that the decline in poverty ratios was halted or reversed since around 1990. There remain differences, however, about the precise trajectory of these indicators in the period since 1990, and the controversy has become connected with the debate about the relative performance of different administrations.

The table below (Table 1) reports three recent time series. The official Government of Pakistan (GOP) series shows that poverty was on the rise throughout the 1990s.¹² The Economic Survey, however, projects that in the period since 2000-01 poverty has begun to decline. Other poverty estimates give a different picture. Work done at the World Bank using a time-consistent estimation method shows that poverty trends fluctuated but continued to decline in the early 1990s, and that 1996-97 was the main turning point after which poverty ratios increased at a rapid rate.¹³ This view is supported by a different but also time-consistent methodology used in a technical paper of the Federal Bureau of Statistics.¹⁴

Table 1: Three Alternative Series on the Poverty Head-Count Ratio

Year of survey	GOP series	WB series	FBS technical paper
1987-88	29.2	37.4	--
1990-91	26.1	34.0	--
1992-93	26.8	25.7	26.6
1993-94	28.7	28.6	29.3
1996-97	29.8	24.0	26.3
1998-99	30.6	32.6	32.2
2000-01 ¹⁵	32.1	n.a.	

Source: Finance Division (2003), World Bank (2002), and Federal Bureau of Statistics (2001), based on HIES and PIHS data.

¹¹ The establishment of an official poverty line is an important advance in promoting policy engagement with an anti-poverty agenda. According to the Economic Survey 2002-03 (Finance Division 2003), poverty line was set at 673 rupees per capita per month at 1998-99 prices.

¹² Economic Survey 2002-03 (Finance Division 2003).

¹³ World Bank (2002).

¹⁴ Federal Bureau of Statistics (2001).

¹⁵ Poverty estimates for 2000-01 have been subject to controversy in Pakistan. It has been suspected that the official data were 'revised' using a re-survey after it was discovered that poverty indicators had worsened. The GOP figure might be based on the 'revised' data.

Data on income and consumption poverty also allow analysis of patterns and correlates of poverty. Poverty profiles are usually constructed with reference to household characteristics such as place of residence (whether it is rural or urban), type of economic activity, asset ownership, and human capital. The poverty profile in Pakistan has remained largely unchanged. The poverty ratio in rural areas is consistently around one-third higher than in urban areas. Households with illiterate heads are twice as likely to be poor than those households whose heads are literate. Landlessness is another important correlate of poverty, and formal sector employment appears to be a route out of poverty.

Region – provinces and sub-provincial units – is known to be an important correlate of poverty. There are sampling issues, however, in the interpretation of regional poverty profiles in the recent household budget data.¹⁶ While there is general agreement that Balochistan faces some of the most extreme forms of poverty household survey data show it to be relatively prosperous. The same is true for other regions such as rural Sindh. Rankings of poverty based on other data sources confirm the widely held perception of regional inequality with Balochistan and Sindh standing out as provinces of extreme deprivation.¹⁷

Ethnicity, kinship, caste and position in social hierarchy are known to be significant correlates of poverty but these are also not captured in the existing large-scale survey data. There are a growing number of qualitative studies of poverty, however, which do pay attention to these social characteristics and correlates of poverty.¹⁸

Demography and Health

Pakistan's population stood at 132 million in the 1998 Population Census, and was estimated to be 145 million in 2003. The average annual growth rate of the population increased from 1.8 per cent in the 1950s to 3.6 per cent in the 1970s. Thereafter it decline to 3.1 per cent in the 1980s and to 2.7 per cent in the late 1990s. The current population growth rate has been estimated at around 2.2 per cent.¹⁹ These figures indicate that the recent period has witnessed a significant decline in population growth rates, and it has been argued that Pakistan is undergoing a demographic transition. Fertility rates had, indeed, declined from 5.9 in the early 1990s to 4.2 in the late 1990s.²⁰

The female-male sex ratio (number of females to every 100 males in the population) is a commonly used index of gender disparity in the most fundamental aspect of well-being – namely human survival. In 1998 Pakistan had 92 females for every 100 males in the population – or one of the lowest sex ratios in the world. The immediate causes of the female survival disadvantage are thought to be girls' poor access to health facilities compared with boys. High rates of maternal mortality are also thought to

¹⁶ See, for example, the technical note in World Bank (2002).

¹⁷ See, for example, SPDC (2002).

¹⁸ See for example the reports of the Participatory Poverty Appraisal (PPA 2003), and background papers for the World Bank Pakistan Poverty Assessment especially Gazdar (2002), "A Qualitative Survey of Poverty in Pakistan: Concepts, Methodology and Main Findings".

¹⁹ Based on Census and National Institute of Population Studies (NIPS). See Ministry of Population Welfare (2002).

²⁰ Based on PIHS data, reported in World Bank (2002).

contribute to the adverse sex ratio. The sex ratio has been improving over time. In 1961, for example, there were only 86 females for every 100 males and in 1981 the number was 90. Even with the improvements, however, there were estimated to be over 8 million ‘missing women’ in Pakistan.²¹

Besides the sex ratio, other demographic indicators have also witnessed improvement in the recent years. The infant mortality rate (IMR), or the number of deaths of children aged one year or less per 1,000 live births was 127 in 1991, and declined to 83 in 1998-99 – an improvement of over a third. Moreover, the female IMR in 1998-99 was actually lower than the male IMR, signifying that at least one important contributor of female disadvantage had been reversed.²²

Basic Education and Schooling

Levels of education and literacy have increased over longer periods of time – e.g. the literacy rate went up from 26 per cent in the 1981 census to 44 per cent in the 1998 census.²³ The rate of change is slow, and there remain persistent inequalities between sexes, regions, and rural-urban areas. Literacy among urban males, for example, was three-and-a-half times as high as that among rural females. Likewise, the overall literacy rate in rural FATA was less than a fifth of that of urban Islamabad. Other sources of inequality such as kinship or social grouping have also persisted, though these have not been measured in the large-scale survey data.²⁴

Table 2: Literacy Ratios by Sex and Rural-Urban Residence, 1998

	All areas	Rural	Urban
Both sexes	44	34	63
Females	32	20	55
Males	55	46	70

Source: Population Census 1998

Table 3: Literacy Ratios by Region and Rural-Urban Residence, 1998-99

	All areas	Rural	Urban
NWFP	35	31	54
Punjab	47	38	65
Sindh	45	26	64
Balochistan	25	18	47
Islamabad	73	63	77
FATA	17	17	--

Source: Pakistan Integrated Household Survey, 1998-99

Most disturbingly, the poor literacy picture was compounded by evidence of decline rather than progress in the recent period. The gross enrolment rate increased from 65

²¹ The ‘missing women’ terminology is due to Amartya Sen. See, for example, Sen (1999).

²² These figures are from successive rounds of the Pakistan Integrated Household Survey (PIHS), and reported in World Bank (2002).

²³ The source of this data is 1998 Census Report of Pakistan (Population Census Organization 2001).

²⁴ Micro-level surveys reveal caste or kinship group as a significant source of educational inequality in parts of rural Pakistan. See, for example, Gazdar (2002b) “Who Missed School? Caste and Schooling in Rural Pakistan”.

per cent in 1991, to 71 per cent in 1995-96, but then declined to 70 per cent in 1996-97 and further to 69 per cent in 1998-99.²⁵

Summing Up

Recent trends in poverty outcomes have not been encouraging. Income poverty remains close to the levels attained in the late 1980s, and the most recent period appears to have been the most adverse. Trends in education and schooling too have been disappointing. While overall literacy rates have improved, the rate of progress has been slow. Significant inequalities along the lines of gender, region, rural-urban residence, and social grouping still persist. Moreover, there is evidence of actual decline in some indicators of basic schooling since the mid-1990s. Demographic and health aspects of poverty have shown steady improvement, and some indicators of long-term transition – such as the sex ratio, population growth rates, fertility rates – have changed significantly in the positive direction.

Even the relatively uncontroversial empirical exercise undertaken above shows clearly the multiple dimensions of poverty, and therefore a complex understanding of a pro-poor agenda. To reiterate, there is no unique and all-inclusive definition of ‘the poor’. People without assets, land and education, are more likely to suffer from income poverty. Some regions are also poorer and poverty disproportionately affects some social groups. Educational deprivation is suffered across the population, but most particularly by rural women. Health deprivation also affects women more adversely than men, and rural people more adversely than those living in urban areas.

A number of structural features of poverty in Pakistan are highlighted in the review above. These are gender, class (landlessness), region, rural-urban residence, and social grouping. These are among the many different dimensions of poverty, and there are no prior grounds for believing that pro-poor change in one dimension will necessarily improve matters in the other dimension. At the very least, however, a pro-poor agenda in Pakistan will be concerned with positive changes in some of these structural features of Pakistani society and economy.

²⁵ Based on PIHS rounds, reported in World Bank (2002).

Section 2: The Economy

This section and the next one (Section 3, on politics, governance and society) aim to describe and comment on some of the key historical features, trends and developments that might have influenced or will influence poverty and pro-poor change in Pakistan. The present section deals with the economy. A large part of the discussion of the economy is organized as a chronological account of macroeconomic trends and economic management under successive political administrations or regimes (Section 2.1). The remainder of this section (Section 2.2) highlights recent trends and key emerging issues in agriculture and industry -- two sectors that might be expected to play an important part in generating pro-poor growth.

2.1 Macroeconomic Trends and Economic Management

Macroeconomic changes impact on prospects for pro-poor change in a significant manner. Availability of resources and prioritization of resource allocation towards pro-poor expenditure are underpinned by patterns of macroeconomic developments. This section will provide a bird's eye view to Pakistan's macro-economic path since the 1960s. Analysis has been divided across political regimes so that comparison across different regimes can be made.

The Ayub Years (1960s)

Pakistan was a quintessentially agricultural economy at the time of independence in 1947. The decade of the 1950s was both politically and economically tumultuous. In the decade of the 1960s economic growth took off and the economy achieved a more diversified structure in terms of output, employment and investment.

Table 4: Macro Economic Indicators in Different Regimes

	1960s	1971-77	1977-88	1988-99
GDP Growth	6.8	4.8	6.7	4.5
Inflation	3.2	12.5	7.5	10.4
Investment as % of GDP	16.9	15.9	17	18.6
<i>Private</i>	9.2	5.6	7.7	10.8
<i>Public</i>	7.6	10.3	9.3	7.8
Fiscal Deficit	2.1	5.3	6.3	7.0
Remittances (\$ Billion)	-	-	2.5	1.8

Source: Ahmed and Amjad (1984), and Economic Survey, various issues

As seen in Table 4, GDP growth in the 1960s averaged a healthy 6.8% per annum. Per capita income also increased at roughly 3% per annum for this period. While the agricultural sector grew at 5% per cent per annum on average, manufacturing growth at roughly 10% per annum during the period led the high growth regime in the 1960s. The decade of the 1960s also witnessed significant structural change in the economy as the share of agriculture declined from 46% of GDP in 1960 to 38% in 1970 and the share of manufacturing more than doubled during the period.²⁶

²⁶ Ahmed and Amjad (1984).

The state oversaw the resource re-allocation from agriculture to industry through a number of policies which included creating large rents for the manufacturing sector, turning the terms of trade against agriculture for a period, and investment in urban and industrial infrastructure. The 1960s also saw important developments in agriculture. Mechanization of agriculture in the first half of the 1960s, the introduction of high yield variety (HYV) seeds in the latter half of the decade and enhanced water availability through the coming on-stream of the Mangla Dam resulted in increasing agricultural output.²⁷

Other Macroeconomic trends demonstrated stability during the period. Inflation remained low, the budget deficit was low, the investment-GDP ratio averaged at 18 per cent and peaked at 23% of GDP in 1964-65. Because of Pakistan's geo-strategic importance to the US at the time, the country was the recipient of large doses of US and international aid. Foreign savings – mainly aid and grants – was in the order of 10% of GDP and financed roughly half of total investment in the first half of the 1960s. After the 1965 war with India, however, aid was curtailed to 4% of GDP by 1970.²⁸ Curtailment of aid, however, did not result in a significant dip in the growth rate as much of the decline in investment was made up by enhancing the productivity of investment.²⁹

Ayub's growth policies created significant regional imbalances and social dislocations in its wake also. Uneven development between the Eastern and Western wings of the country was the precursor to the dismemberment of East Pakistan and the liberation of Bangladesh.³⁰ Industrial growth was predicated over high profit shares and stagnant real wages in the manufacturing sector.³¹ The growing concentration of industrial and financial wealth amongst the now infamous '22 families' became a political battle cry regarding the lopsided developmental impact of industrialization in the country. Policies of mechanization and introduction of HYV varieties in the agricultural sector resulted in the eviction of the landless peasantry, particularly in the Punjab. These dislocations meant that, at best, there was little change in inequality and poverty during the decade.³² The denouement of the Ayub regime had as much to do with perceptions of poverty and inequality as it had to do with political factors.

The Bhutto Years (1971-77)

The beginning of the 1970s brought about tumultuous changes in Pakistan's political economy. Zulfikar Ali Bhutto and his Pakistan People's Party came into power in December 1971 on the heels of the liberation of Bangladesh and the defeat of the Pakistan Army on the Eastern front. The ownership structure and management of the economy went through significant change during this period. Bhutto's PPP had been elected in the western wing of the country on a populist agenda. Populist promises made in the manifesto included nationalization of key industries, the financial sector

²⁷ Papanek (1967).

²⁸ See Husain (1992) for details on aid flows during the 1960s.

²⁹ See Sayeed (1995), Amjad (1982) and Ahmed (1980).

³⁰ The debate is summed up in a special issue on "Income Inequalities in Pakistan" by the *Pakistan Economic and Social Review* in 1976.

³¹ Ahmed (1980)

³² There is mixed evidence regarding trends in poverty and inequality. For a detailed discussion on data and methodological problems in the 1960s, see Gazdar (1999). For different estimates on poverty and inequality in the 1960s, see Zaidi (1999).

and education. The manifesto had also promised land reforms to break the stranglehold of the feudal lobby.

For better or for worse, the Bhutto government did attempt to fulfill most of its manifesto pledges. Important intermediate goods and some consumer goods industries were nationalized, the entire financial sector was taken over by the state, as were all – barring a handful – private educational institutions. The regime also initiated land reforms twice, once in 1972 and then in 1977. While the former land reform was implemented, the literature suggests that it did little to break the stranglehold of large landowners.³³

The macro economy during this period demonstrated a mixed trend. GDP growth decelerated to 4.7 per cent during the period. Manufacturing growth decelerated in the 1971-77 period from an average of roughly 10% in the 1960s to 2 percent. Similarly growth in agriculture also plummeted from an average of 5% in the previous decade to 2% in the 1971-77 period. Services, however, exhibited a high growth rate of 7.2% of GDP. The share of services, as a result, also increased during this period.

The investment-GDP ratio did somewhat decline to about 16% of GDP compared to 18% of GDP a decade earlier. What is more interesting and important is that the composition of investment between private and public sectors changed significantly. Whereas private sector investment dominated the investment profile in the 1960s, because of the nationalization of industry and the financial sector, private sector investment plummeted during the period. To make up for the investment shortfall, the Bhutto government invested heavily through the public sector. As a result, during the period, the share of private investment have compared to that of the public sector. There was another stated rationale for enhancing investment in the public sector. The government had observed that the structure of the manufacturing industry was heavily biased towards consumer goods industries. Thus the need to invest in long-gestation capital and intermediate goods industries was felt.³⁴ The Pakistan Steel Mills, a number of cement plants as well as the heavy mechanical complex were initiated during the period. Because of the long gestation period of such industries, investment efficiency during the period was lower than the period before and after.³⁵

The move towards the public sector in different spheres of the economy meant that the fiscal balance was adversely affected. The budget deficit during the period increased from an average of 2.1% in the previous decade to 7.1% of GDP during the period.

The increasing budget deficit as well as exogenous developments (increase in the price of oil because of the 1973 oil shock and floods in 1973) resulted in the regime having run through the highest rate of inflation for any regime in the country's history.

While the macroeconomic environment did deteriorate during the period, there is evidence to suggest that the Bhutto regime did succeed in its professed intention of

³³ Husain (1989) and Gazdar (1999) both have argued along these lines.

³⁴ Mubashir Hasan, the Finance Minister during the Bhutto government has outlined these policies in his recent book. See Hasan (2000).

³⁵ Sayeed (1995)

reducing inequality.³⁶ Similar to the 1960s, there is sketchy evidence about poverty trends during the period, however, the evidence tends towards some reduction in absolute poverty indicators during the period.³⁷

Perceptions about the Ayub and Bhutto regimes, supported somewhat by evidence, paint a paradoxical picture: in the high growth and macro-economically stable period, both poverty and inequality remained stagnant, whereas in the low growth and high fiscal deficit period during the Bhutto regime, exhibited improvements in both these socially important and politically sensitive indicators.

The Zia Years: 1977-88

General Ziaul Haq seized power through a military coup in July 1977. General Zia and the military were to rule Pakistan for the next eleven years.³⁸

During this period economic growth revived to the trend level of the 1960s. Growth revived in both the manufacturing³⁹ and agricultural sectors, backed by strong growth in the construction sector also.

There were broadly three reasons for growth revival during the period. First, because of its opposition to the erstwhile PPP government, confidence amongst private sector investors improved.⁴⁰ Second, many of the large scale industrial and manufacturing investments undertaken during the Bhutto regime gestated in the 1980s and thus had a favourable impact on output growth.⁴¹

Last but not the least, the Zia regime faced an exceptionally favourable exogenous environment on two fronts. First, because of the Soviet invasion in Afghanistan in 1979, Pakistan once again became a recipient of large doses of US and international aid. Concessional aid from multilateral agencies increased from an average of 7.4% of net inflows into Pakistan in 1971-75 to 24% in 1981-85. Similarly the grant component in total resource inflows virtually doubled from 15% to 30% during the same period.⁴² Secondly, Remittances from overseas Pakistanis helped finance roughly half of the trade gap during the period. The external financing constraint was thus relieved during the period.

The Zia government, however, did not completely alter the far reaching changes in economic governance introduced by the Bhutto government. Nationalization carried out by the Bhutto government in the industrial, financial and educational domains was not altered by the regime. The only change was that the Zia regime selectively allowed private sector participation in these areas. The result was that the regime ran

³⁶ See Gazdar (1999).

³⁷ See Zaidi, op. cit and Banuri and Mahmood (1992).

³⁸ In 1985, General Zia held party less elections. There was an elected Parliament after that but the main opposition forces, including the PPP, boycotted those elections.

³⁹ Although growth in the manufacturing sector revived during the period, total factor productivity during the period was lower than that in the 1960s. A large part of this growth came through new investments. See Sayeed (1995, chapter 6 for details).

⁴⁰ Although the share of public investment in the aggregate was higher, the rate of growth of private investment accelerated during the period.

⁴¹ See Sayeed (1995 and 2002) and Zaidi (1999) for details.

⁴² Husain (1992)

large fiscal deficits. While the regime had all the ideological predilections towards a pro-market growth strategy, its political compulsions necessitated that it kept the banks and financial institutions under its tutelage so that pay-offs can be made to important political constituencies.⁴³

These deficits were partly financed by both external and internal borrowing. Easy availability of foreign loans because of Pakistan's geo-strategic importance at the time coupled with the necessity to run large fiscal deficits meant that the country's debt stock increased at a fast rate. Total public debt during the Zia years increased from 48% of GDP in 1977 to 77% of GDP in 1988.⁴⁴ Particularly important was the growth in external debt which grew at a rate of 7% per annum during the period. This increase in debt stock created serious balance of payments problems in the 1990s.

Both poverty and inequality during the period reduced. The Gini coefficient declined from 0.39 in 1978-79 to 0.35 during the period and poverty estimates also showed a declining trend.⁴⁵ Reasons for this decline in poverty are twofold. One that growth revived and with improving income distribution, the fruits of economic growth were more widely dispersed. Second, remittances from the Gulf, mentioned earlier, played an important role in relieving poverty in certain areas.⁴⁶

Favourable developments in the Zia years proved not to be sustainable. Although growth rates were high, much of this was financed through debt creation – both domestic and external. While we know that productivity in the manufacturing sector was declining, the situation in other sectors is likely to have been not much different. Exogenous windfalls that sustained the regime – large flow of remittances from the Gulf and foreign aid due to the Afghan war – dried up at around the same time as General Zia disappeared from the political scene because of an air crash.

The Democratic Governments: 1988-99

Representative democratic government was revived in December 1988, and the country continued to be governed by elected governments – with several short interruptions – till October 1999. Of all the main political phases, the 1988-1999 period was marked by the least stable macroeconomic conditions (see Table 4). A range of explanations has been offered. Most commonly, it has been argued that the macro-economy was destabilized due to bad governance and corruption during the two tenures each of Prime Ministers Benazir Bhutto and Nawaz Sharif.⁴⁷ Alternative explanations emphasize on adverse exogenous shocks during the decade as well as the sequencing and nature of Structural Adjustment Programmes with the IMF as important determinants towards the destabilization of the macro economy.⁴⁸

⁴³ Sayeed, (1995, chapter 4) and Sayeed and Rashid (2003)

⁴⁴ Pasha and Ghaus (1996)

⁴⁵ Gazdar (1999)

⁴⁶ Addleton (1992) shows that a large number of migrants to the Gulf went from northern Punjab and the NWFP – two areas where the incidence of poverty was high at the time.

⁴⁷ See Hasan (1998), Husain (1999) and World Bank (2002a) for a detailed articulation of this view.

⁴⁸ See Zaman (1993), Noman (1997), Zaidi (1999) and Sayeed (2002a and 2002b) for alternative explanations.

In November of 1988, the outgoing unelected government signed an IMF Structural Adjustment agreement that bound the incoming elected government of Benazir Bhutto to implement the programme. Reduction in the burgeoning fiscal deficit, trade liberalization and privatization were the essential features of this programme.⁴⁹ While Pakistan's macro economy had started showing signs of strain by that time, in 1988 none of the macroeconomic indicators – low foreign exchange reserves, rampant inflation and debt servicing difficulties – had deteriorated enough to prompt IMF assistance.⁵⁰ It has been argued that one reason for going to the IMF at that juncture was to reign in the elected government from fiscal profligacy at a time when the external situation was becoming unfavourable.⁵¹

Be that as it may, Pakistan entered into no less than eight different IMF agreements, none of which ran their full course.⁵² Partly under IMF pressure and partly due to their own commitment to an agenda of economic liberalization, the first Nawaz Sharif government instituted radical measures to liberalize the economy in the Economic Reforms Act of 1991. The most far-reaching element in these reforms was in the financial sector. The current account was completely liberalized and partial liberalization of the capital account was carried out. Foreign currency accounts for both resident and non-resident Pakistanis were instituted and subsidy on domestic interest rates was reduced. Reforms in the 'real economy' included removal of subsidies and administered prices, deregulation of investment decisions, reduction in import tariffs and wide ranging privatization.

As we see in Table 4, growth reduced from its trend rate, inflation was high and on the whole there was little improvement in the fiscal deficit. Most important, however was that investment in the latter half of the decade dipped significantly. The main reason was that the government, unable to meet its deficit target, would reduce public investment. As a result, public investment declined from an average of 7.2% of the GDP in the 1980s to 5.3% in the 1990s. The expectation at the time of liberalization that private investment will replace the reduction in public investment was not borne out.⁵³ Moreover, investment efficiency, measured through the Incremental Capital Output Ratio (ICOR) during the period also declined.⁵⁴

The most serious macroeconomic problem faced by the economy during the decade was on the external front. The share of debt servicing to foreign exchange earnings increased from 29% in 1993 to 38% by 1997. This increased burden meant that frequently the foreign exchange reserves would be reduced to a level where they could barely finance a few months of imports.⁵⁵ This would prompt resort to IMF funding. Each time that the government went afresh for a new agreement, the conditionalities were more stringent. Such balance of payment (BOP) crises also meant that Pakistan's credit rating kept deteriorating over the period, which in turn

⁴⁹ See, Zaidi (1999, chapt 15) and Zaman, (1995) for details.

⁵⁰ Zaidi (1999).

⁵¹ Sayeed (2002).

⁵² For details, see Zaman (1995)

⁵³ One reason for low private investment is that in Pakistan it has been shown that public investment has a crowding in effect on private investment (IMF 1993) and Hyder (2002).

⁵⁴ GOP (2001) and Sayeed and Rashid (2003).

⁵⁵ Such a situation occurred on distinct occasions, but generally in the post 1996 period reserves were on average never more than 6-7 weeks of imports. See the State Bank of Pakistan (2003) for historical data on reserves.

meant that other multilateral and private funding was either not available or was available at higher interest rates.

If the exogenous environment was favourable during the 1980s, it turned adverse in the 1990s. The end of the cold war as well as the first Afghan war at the turn of the decade resulted in Pakistan's geo-strategic importance waning.⁵⁶ After the First Gulf War in 1991, remittances from overseas Pakistanis also reduced substantially (See Table 4). Thereafter in 1998, when Pakistan tested its nuclear bomb in response to India's test, further multilateral and bilateral sanctions were slapped on the country. Further, a number of loans taken in the past decades matured in the 1990s. As such the debt amortization payments almost doubled during the 1990s compared to the previous decade.⁵⁷ These exogenous events were important determinants of the perennial BOP crisis during the 1990s.

While there were governance and policy failures during the decade,⁵⁸ the above mentioned exogenous developments played no small part in the destabilization of the macro economy in the 1990s. The fact that both the primary budget and current account deficits were declining during the period⁵⁹ demonstrates that the democratic governments cannot be blamed for fiscal profligacy in the 1990s.

As shown in Section 1, income poverty (measured through head count ratios) was declining up until 1996 and started increasing after that. With positive GDP growth (and positive per capita growth also) increase in poverty will necessarily be associated with worsening income distribution. This, indeed, is the conclusion reached by some analysts.⁶⁰ Reduction in subsidy on utilities,⁶¹ deregulation of administered prices, increasing rates of unemployment,⁶² and the disproportionate impact of the economic down-turn on sectors such as construction, have perhaps contributed to this increase in inequality. It needs to be mentioned also that many of these distributionally adverse measures were undertaken by elected governments, albeit half-heartedly, under the pressure of the IMF and other multilateral donors.⁶³

The Musharraf Regime (1999-the present)

⁵⁶ The most direct impact was that international aid was to be spread more thinly as Eastern Europe and Central Asia had become eligible for such assistance. Because of the end of Pakistan's strategic alliance with the US, the Pressler Amendments on nuclear issues were imposed on the country. This in turn resulted in reduction in direct assistance from the US.

⁵⁷ Sayeed and Rashid (2003).

⁵⁸ The specific policy regarding Foreign Currency Accounts – which created an incentive for the dollarization of the economy – liberalisation of the financial sector before the real economy and the inability of governments to control contingent liabilities of some large public sector organisations and finally the freezing of the foreign currency accounts after the nuclear tests were important policy and governance errors during the period. In the social sectors, failure of the flagship Social Action Programme (SAP) launched jointly by the Government and multilateral and bilateral donors was perhaps the most important policy/governance failure with regard to the anti-poverty agenda.

⁵⁹ GOP (2001).

⁶⁰ Prominent among these is SPDC (2002).

⁶¹ The withdrawal of untargeted subsidies is likely to have been regressive in the short term, particularly in the absence of new targeted subsidies.

⁶² The rate of unemployment increased from 3.1 per cent in 1990 to 5.9 per cent in 1999 (Economic Survey 2002-2003).

⁶³ The fact that many of the agreements did not run their full course was because elected governments were concerned about their unpopular repercussions.

Pakistan was subjected to yet another military coup in 1999. General Pervez Musharraf came to the helm of affairs and continued to wield *de facto* executive authority even after the election of a parliament and prime minister in October 2002. At the time of the coup, General Musharraf declared that the “economy is in a state of collapse.” Regardless of the veracity of this statement,⁶⁴ the regime declared ‘revival of the economy’ and poverty alleviation as central planks of its agenda. The policy framework however was not altered, only that stabilization prescriptions – put forth by the donors – were to be implemented more faithfully.

To gauge macroeconomic performance of the government, it is important to use September 11 as a divider. A comparison of Pre-1999 and the 1999-01 periods (Tables 4 and 5) shows that in the pre-September 11 period, apart from some improvement in the budget deficit, there was little improvement in any other macroeconomic indicator. In fact, because of sanctions imposed on Pakistan after the coup, bi-lateral assistance from many countries had stopped and the crisis on the external account had accentuated. On the 30th of June 2001 committed outflows of foreign exchange exceeded inflows by \$4.56 billion. Default on foreign loan obligations had been avoided through a short-term Paris Club reschedule that was to expire in December 2001 as well as a 10-month Standby agreement with the IMF where a number of conditionalities were to be met up front.

Table 5: Macro Economic Indicators pre- and post-September 11, 2001

	1999-01	2001-03
	(Pre Sep 11)	(Post Sep 11)
GDP Growth	3.4	4.25
Inflation	4.6	3.4
Investment as % of GDP	14.1	13.1
<i>Private</i>	8.2	8.5
<i>Public</i>	5.9	4.6
Fiscal Deficit	6.0	4.9
Remittances (\$ Billion)	1.0	3.3
Foreign Exchange Reserves (\$ Billion)	1.7	9.5

Source: Economic Survey, various issues, and State Bank of Pakistan (2003).

During the first two years of the Musharraf regime there was no revival either in GDP growth or investment. There was no perceptible growth revival in any of the commodity producing sectors, i.e. agriculture, manufacturing and construction. The dip in investment levels witnessed since the nuclear tests were further accentuated during the period.

The only macroeconomic indicator that improved was the budget deficit. Even this improvement was not due to improvement in revenue collection or reduction in current expenditure but was met by slashing public investment. However, the

⁶⁴ According to Hafiz Pasha – a prominent Pakistani macro economist – at the time of the military take over, “the economy was not in a state of collapse....if any thing there were visible signs of recovery both in the financial and real sectors of the economy.” (Pasha, 1999).

achievement of this important target enabled the government to complete the Standby agreement reached with the IMF successfully.

September 11 changed Pakistan's macroeconomic fortunes significantly. Once Pakistan took a U-turn on its foreign policy and joined the 'war on terrorism' it had reverted to its historical role as a key geo-strategic ally of the US. Since the external constraint was the biggest problem for the macro-economy for the preceding decade or so, several direct and some indirect benefits came in the offing. The most important of which was a significant re-profiling of Pakistan's external debt. The country's entire bilateral debt of \$12.5 billion – about 40% of its external debt stock – was restructured for a period of 38 years at reduced interest rates. According to the State Bank, Pakistan's debt servicing liabilities will decline by roughly US \$2.7 billion between 2002 and 2004 and thereafter between US \$8.6 billion and \$11 billion depending on the interest rates negotiated with individual countries.⁶⁵ Similarly, the net present value of Pakistan's external debt is expected to decline by 27% to 43% between now and 2017. Only three other countries – Poland, Egypt and Yugoslavia – have been given such generous debt relief by the Paris Club.

In addition to the debt rescheduling Pakistan received bilateral budgetary support close to \$1 billion from the US and Japan soon after hostilities in Afghanistan started. Moreover, the US paid another \$1 billion in the last two years to Pakistan for providing logistical support and air bases to its troops. Not only have these inflows reduced the pressure on the BOP but have also created fiscal space for public investment.

There were also indirect benefits, paradoxically, of the post-9/11 situation. Reverse capital flight from Pakistanis resident in the US, UK and some of the Gulf countries, in order to avoid scrutiny of their funds – resulted in foreign remittances having trebled in the last two years.⁶⁶ This direct and indirect inflow of foreign exchange not only resulted in the country having accumulated an unprecedented level of foreign exchange reserves – equivalent to 11 months of imports at last count – but also in strengthening the value of the Rupee.

In 2002-03 growth has revived to 5.1%. There are indications, however, that much of the incoming foreign exchange inflows have been channeled into speculative rather than productive investment⁶⁷ and levels of fixed capital formation have remained virtually stagnant. Much of the recent economic growth has, therefore, been driven by the demand side, with the supply side of the economy simply responding through improvements in capacity utilization. In the absence of a revival of investment in the productive sectors, there are serious question marks about sustainability of growth witnessed in the last one year.

As the data on poverty presented in Table 1 shows, there has been no reversal in the trend towards increase in the poverty head count ratio. The burden of stringent stabilization policies pursued by the regime till the September 11 reprieve has been

⁶⁵ SBP (2002).

⁶⁶ Remittances in 2001 were \$ 1087 million and jumped to \$ 4236 million in 2003. Moreover, remittances from the US were a mere 12% of total remittances. In 2003, the share of remittances from the US had increased to 29% of total remittances.

⁶⁷ This is evidenced by the rapid increase in the prices of real estate and the stock market.

borne disproportionately by the poor.⁶⁸ While data on inequality for this period is not available, based on an increasing shift towards indirect taxation after the imposition of GST on agricultural inputs as well as on utilities is expected to have increased inequality measured through the Gini Coefficient.⁶⁹

2.2 Selected Issues Agriculture and Industry

Agriculture

Although the share of agriculture in national income has declined steadily over the decades, there was virtually no change in the 1990s. Currently, agriculture accounts for around 24 per cent of national income, still ahead of manufacturing (18 per cent) and services (50 per cent). The sector grew at an average annual rate of 5.4 per cent in the 1980s and 4.4 per cent in the 1990s. The growth in the 1990s, however, was highly volatile, ranging from negative 5 per cent in 1992-93 (due to large-scale flooding), to 12 per cent in 1995-96. Agriculture remained the mainstay of the labour force, accounting for around 47 per cent of employment. The longer term declining trend in agricultural employment was reversed in the mid-1990s, largely at the expense of construction and trade.⁷⁰

Despite relatively high average growth in agricultural value added, incomes in rural areas and rural poverty stagnated or worsened. There are several explanations for this paradox.

First, in line with past trends, the agrarian structure continued to move towards owner self-cultivation with the marginalization of the landless poor in the agrarian economy. The landless poor continued to be pushed out of tenancy and into casual wage employment. For them the linkage between growth and poverty reduction became weaker, and is likely to become weaker still in the future.⁷¹

Second, agricultural output was particularly volatile in this period due to the effects of a drought and water shortages. The drought, however, simply exacerbated longer term problems in the management of the river and canal irrigation systems in Pakistan. Water and irrigation came to be widely recognized as the leading constraints to the sustenance, let alone growth, of the agrarian economy.⁷² Irrigation management has also emerged a major source of conflict between individual water users as well as between provinces.

Third, it is argued that terms of trade have moved against farmers in the recent years in Pakistan, with low and volatile output prices, and rising costs of inputs. Growth in

⁶⁸ SPDC (2002).

⁶⁹ SPDC (op.cit) has argued that the move towards introducing a broad-based GST has had an adverse distributional impact.

⁷⁰ Economic Survey 2002-03 (Finance Division 2003).

⁷¹ See Haris Gazdar, Ayesha Khan and Themrise Khan (2002), 'Land Tenure, Rural Livelihoods and Institutional Innovation'.

⁷² See, for example, various studies carried out by the International Irrigation Management Institute (IIMI) during 1997 and 1999 on irrigation water management in Sindh and Punjab provinces. See also, Kaiser Bengali (2003), and World Bank (2002).

agricultural value added, therefore, contributed less significantly to incomes in the sector.⁷³

Issues in Industry

The share of manufacturing in GDP has not altered since 1969-70.⁷⁴ The share of employment in the manufacturing sector has in fact declined between from 13% of total employment in the economy in 1982 to 11% in 2000.⁷⁵ This basic information points to stagnation in the manufacturing sector. While an analysis of the stagnation of the industrial sector is beyond the remit of this paper, it is important to comment on trends in wages and contractual arrangements.

Increasing labour and total factor productivity create the basis for sustainable improvements in wage growth. Productivity growth in the manufacturing sector has either been low or negative for the most part in the 1970-1990 period.⁷⁶ This is true for both labour productivity as well as total factor productivity. The situation is unlikely to have improved since then.

Data shows that wage growth in large-scale manufacturing has been stagnant in the 1970-90 period. With significant deceleration in manufacturing growth as well as a rising non-wage cost curve for the manufacturing since the onset of liberalization, improvements in real wages are unlikely.⁷⁷

There is growing evidence that casualization of employment is the adopted method on the part of employers.⁷⁸ The most dominant form of casual employment in the formal manufacturing sector is to hire workers through a middleman, known as a labour contractor. The contractor in turn has entered into an informal agreement with the employer for provision of labour for a pre-determined lump sum.⁷⁹ Contract workers are neither eligible for the employment benefits that permanent workers enjoy nor do they have the legal right to form or join unions.⁸⁰

One can conclude that there is very little pro-poor change that is expected in the manufacturing sector. Unless conditions are created for non-wage costs to become stable and predictable, neither the sector will attract much investment nor productivity growth will take place.⁸¹

⁷³ The issue of sectoral terms of trade has been a popular one historically (see Appleyard 1987), but has not received much attention recently. There is evidence from qualitative surveys of poverty, however, that farmers have felt effective relative prices moving against them (see PPA 2003, Gazdar 2002).

⁷⁴ Sayeed (2002).

⁷⁵ Computed from FBS, *Labour Force Survey*, Various Issues.

⁷⁶ Wizarat (2002). Reliable data analysis since 1990-91 is not available.

⁷⁷ For a detailed elaboration on this issue, see Sayeed and Ali (1999).

⁷⁸ In a recent survey conducted on woman workers in the large scale manufacturing, it was found that only 17% of the women workers had a formal employment contract (Sayeed and Khattak 2001).

⁷⁹ Sayeed and Ali (1999).

⁸⁰ Amjad (2001).

⁸¹ Creation of stable property rights is another important political requisite in addition to policy issues of liberalization and globalization. See Sayeed (2002) for details.

Section 3: Politics, Governance, and Society

This section continues shifts the focus from the economy to trends in politics, institutions of governance, and society. All of these themes are closely connected with one another – and indeed with the economy. There is some merit, nevertheless, in treating the economy as well as politics, governance and society severally, in order to identify significant patterns and tendencies. This section begins with an account of the politics (Section 3.1) and highlights some of the main sources of tension in the political system. Section 3.2 then provides a brief review of emerging issues in institutions of governance: local government reform, the bureaucracy, judiciary, and state effectiveness. Finally, Section 3.3 ends with comments on society and social change.

3.1 Political system

To say that Pakistan's politics has been unstable is an understatement. Since 1985, there have been thirteen different governments.⁸² What have been the issues that have caused the political system to remain so unstable? Some of the issues raised in the literature with regard to political instability are briefly summarized below.

Constitutional Crisis

Four of the governments were dismissed 'constitutionally.' Article 58 2 (b) inserted by General Zia as part of the Eight constitutional amendment became a constitutionally mandated manner for the unelected arms of the state to dismiss elected governments.⁸³ This particular clause was repealed in 1997. Some have argued that the military intervention of 1999 took place because this safety valve was removed by the then PML (N) government. This may be the case, but it is important to note that the Eight Amendment to the constitution had taken away many important powers of the Prime Minister. The Prime Minister could no longer appoint military chiefs, provincial governors or the Chief Justices of the High Courts or the Supreme Court. This imbalance had resulted in making the non-elected arms of the state more powerful vis-a-vis the elected arm.⁸⁴ Thus the unanimous repeal of Article 58 2 (b) alongwith other discretionary powers of the President was an attempt by the elected legislature to regain its supremacy.

Regardless of a number of attempts by both politicians and the military to amend the constitution for their own narrow interests, the fundamental political architecture envisaged in the 1973 Constitution has survived the test of time and the ravages of extra-constitutional government. In its judgment validating the 1999 coup, for example, the Supreme Court provided General Musharraf the powers to amend the constitution with the proviso that three essential features of the Constitution – (a) the

⁸² Six of these have been elected governments, one military and six have been caretaker governments for a short span of 3 months.

⁸³ In two of the four dismissals the Supreme Court held that the decision to dismiss the government was wrong (Junejo in 1988 and Nawaz Sharif in 1993). However in both instances the governments were not allowed to function after the dismissal was declared invalid. See Waseem (1994) for details.

⁸⁴ Jalal (1995) has characterised the post-colonial state in South Asia as being dominated by this tension.

Islamic character of the state, (b) the Federal structure of governance, and (c) the parliamentary form of representation – were preserved.

While there are competing claims for specific constitutional changes – for example in the make-up of provincial boundaries -- there is no demand from across the political spectrum for a new constitutional architecture.⁸⁵ In contrast with the first 25 years of Pakistan's existence, when three different constitutions were tried out, a period of 30 years has lapsed since the present one was adopted.

One possible reason for the resilience of the constitution despite the frequent failure of constitutional government is that there are numerous cross cutting political fissures in the country, and all main players understand that a fresh debate on constitutional architecture might never arrive at a resolution. The other, perhaps more important, reason is that there is consensus across the political spectrum on some basic issues. There has been a tendency, in fact, for very diverse political constituencies, which had formerly adopted extra-constitutional positions, to now identify constitutional means for expressing their demands.⁸⁶

Where there is tension and division, it has to do with the conduct of constitutional government, and most conspicuously, the perpetual conflict between the elected and non-elected arms of the state. The crisis with regard to the Legal Framework Order (LFO) is part of this unresolved conflict in the political system of Pakistan.

Conflict and Convergence of Mainstream Populism

By the mid 1990s, formal politics in Pakistan was converging towards a stable two party system. The Pakistan Muslim League (N) was initially a motley group of pro-establishment right of centre political forces put together by the military establishment to counter the anti-establishment left-of-centre PPP. After the dismissal of the IJI Government in 1993, Nawaz Sharif became a political leader in his own right and his PML (N) emerged as a major centre-right political party which had broken its umbilical cord with the establishment.

While the rhetoric and policy postures of both the political parties can be termed as populist⁸⁷, their actual policy postures in government had more similarities than differences. Both followed policies of economic liberalization and stabilization – dictated by the IFIs – both held a belligerent posture on the Kashmir issue⁸⁸ and relations with India, both adhered to the doctrine of strategic depth vis-à-vis

⁸⁵ The idea of the federation, for example, has proven to be robust to demands for greater centralization (abolition of provinces) as well as those of greater decentralization (confederation). Similarly, support for parliamentary representation is impervious to the occasional probing from the margins in favour of a presidential system.

⁸⁶ Some of the leading Islamic parties, for example, now believe that the 1973 constitution provides the basis for Islamic government. Conversely, erstwhile sub-nationalist secessionist movements (such as those based on Sindhi, Baloch and Pashtun ethnicity) now argue their cases in terms of the balance of power between the federation and the federating units (provinces).

⁸⁷ This is amply demonstrated by the manifestos of both the major parties at the time of the 1993 and 1997 elections. For an analysis see Waseem (1994) and Wilder (1999).

⁸⁸ Arguably towards the end of his stint, Nawaz Sharif was seeking a permanent solution on the Kashmir issue with the purpose to improve relations with India.

Afghanistan and both used strong arm methods to deal with urban violence unleashed by the MQM in Karachi.

With a two party system having emerged and convergence on policy matters, why did Pakistan's politics continue to remain unstable? One obvious reason is that it would have altered the balance of power from the non-elected to the elected arms of the state. Interference by the non-elected arms of government was given legitimacy by continuous conflict between the two political parties. Both the PML (N) and PPP governments used the state machinery to persecute and victimize the other during their respective tenures in government. This allowed the army to emerge as an arbiter between the conflicting parties, to the ultimate cost of both parties. It remains to be seen to what extent this experience might modify the future strategies of the two protagonists, and encourage them towards greater mutual tolerance and cooperation.

Ethnicity and Federalism

Since Pakistan is a multi-national state, ethnic politics has occupied an important place in the polity. The liberation of Bangladesh in 1971 was based on ethnic nationalism and at different times in its history Pashtun, Sindhi and Baloch nationalism has profoundly impacted on national politics.⁸⁹

In the last two decades, yet another ethnic group representing urban Sindh has emerged on the political horizon. It claims a distinct ethnic identity based on linguistic commonality and ancestral origins in areas now constituting India. This group – the MQM – not only has electoral support in urban Sindh but has also the ability to unleash organized violence as a mode of confrontation with other ethnic groups and the state.

Sindh is unique in the sense that the province is the arena of ethnic conflict between two different ethnic groups. The result of this conflict is that the federal government has intervened in the administration and politics of the province to a much greater extent than in other provinces. Both political and economic development of the province has suffered as a result.

In the Frontier province, new tensions are emerging since the US invasion of Afghanistan and the demise of the Taliban regime. Because of Islamabad's decision to support the 'war on terrorism' waged by the Americans, in the perception of some observers the rise of the MMA is a religious manifestation of the reassertion of Pakhtun ethnicity.⁹⁰

Ethnic politics also manifest itself with reference to distribution of resources. In fiscal matters as well as in the distribution of water and other natural resources and the construction of large dams, the smaller provinces bear a grudge against the numerically larger Punjab province.

A number of political issues as well as those of resource distribution can be resolved within the existing constitutional framework. However, the dominance of the Punjab

⁸⁹ Waseem (1994a) and Ahmed (1998) provide comprehensive accounts of ethnic politics in Pakistan.

⁹⁰ Zaidi (2002).

amongst the non-elected arms of the state – particularly the military has been the major impediment in the workings of a federal constitution.

Religion in Politics

Religious political parties have been active in electoral politics since the beginning. However, the Afghan Jihad in the 1980s coupled with General Zia's search for legitimacy on the basis of Islam has propelled the religious right to a prominent position in formal politics. Thereafter the fact that the army used religious groups to fight its proxy battles in Kashmir and in installing the Taliban regime in Afghanistan has enabled both political and militant Islamic groups to form alliances with the non-elected arms of the state, particularly its security and intelligence agencies.

Till recently the electoral presence of religious political parties was minimal. However, their nuisance value in imposing Islamic edicts and not allowing other mainstream parties to undo discriminatory laws against women in society has been critical. As such the weight of religious political parties in domestic politics was disproportionate to their electoral strength.

In the 2002 election, the alliance of religious parties – the MMA – has for the first time claimed more than 10% of the popular vote and has emerged as the majority party in the provinces of Frontier and Balochistan.⁹¹ While there are a number of factors for the recent electoral gains made by the religious parties, the fact that they were opposed to the US invasion of Afghanistan at time when no other party publicly took that position was an important factor in their electoral success.⁹²

The Military in Politics

The running tension in the political system is identified as that between the elected and non-elected arms of the state. In the last two decades, the non-elected arm of the state has been almost completely dominated by the military.⁹³ The military has formally intervened in the political process four times in the 56-year history of the country. It is therefore as important a political entity as others if one is to understand the reasons for political instability in Pakistani politics.

When not directly in power – especially during the 1988-99 period – the role of the military in the political process remained crucial. It manufactured an anti-PPP alliance for 1988 and 1990 elections.⁹⁴ Pakistan's foreign and security policy – particularly militancy in Kashmir and the creation of the Taliban – is alleged to have been

⁹¹ Not coincidentally both these provinces border Afghanistan.

⁹² The war in Afghanistan and the search for Taliban and Al Qaeda fugitives in the bordering provinces made the anti-US posture of the MMA touch real lives of people who consider themselves victimized by Pakistani and foreign security agencies. Earlier, while people might have respected these religious parties their agenda of religious purity was considered irrelevant for electoral purposes given the transactional nature of Pakistani politics.

⁹³ Cheema (forthcoming) shows that the 'steel frame' of the bureaucracy has been broken in the last three decades. As such the bureaucracy is no longer a part of what was once characterized as the 'military-bureaucratic oligarchy' that ruled Pakistan in the early years of its existence.

⁹⁴ See Rizvi (2000). There is a case pending in the Supreme Court in which the then Chief of Army Staff has been accused of directly funding anti-PPP activities through money laundering.

formulated and executed by the military.⁹⁵ Domestic law and order policy, especially with regard to the containment of MQM's through state violence, is also considered to have been initiated by the army. Moreover, the role of the army chief in the constitutional dismissal of at least two elected governments during the 1990s is also well acknowledged.

Why is Pakistan's military so interventionist in this day and age? At the time of partition of India, the military was the only entity which had its institutional structure intact.⁹⁶ Over the years its direct role in the political process and subversion of the political process at other times, amongst other factors, has meant that it remains the only coherent institution in the country.

The institutional coherence of the military has also enabled it to become a predator. On the argument of military threat from India, the military appropriated more than half of central government expenditure up until the mid 1970s. Since then the share of defence expenditure has reduced as a proportion of both GDP and budgetary expenditure.⁹⁷ However, to date military expenditure remains camouflaged as a one line item in budget documents and is not debated in parliament.⁹⁸

Since the end of the cold war and the consequent downgrading of Pakistan as a strategic ally in the 1990s as well as the fiscal crunch faced by the country in the last decade prompted the armed forces to expand their commercial role. The military coup has further cemented the role of the army as a corporate entity through capturing market share in a number of important industrial and service activities.⁹⁹

The civil-military tension in Pakistani politics lies at the heart of political instability experienced in the last decade. To the extent that political stability and adherence to constitutional norms is important for pro-poor change, resolution of this tension takes priority.

3.2 Institutions of governance

Closely related to the problems of the political system are those of the institutions of governance. As in other developing countries, there was also a strong realization in Pakistan that the reform of organizations and institutions of the state needed to go hand-in-hand with economic and political reform. The key areas of governance that are discussed here are: decentralization, bureaucracy, and judiciary. This sub-section ends with comments on conflict, security and the rule of law – themes that have been conspicuous in the recent years in analyses of state institutions in Pakistan.

The devolution reforms

Economic management and institutional reform were the two main prongs of the stated aims of the military government that took power in 1999. The government created a National Reconstruction Bureau (NRB) within a week of taking over. The

⁹⁵ On the role of the army in supporting the Taliban, see Rashid (2002).

⁹⁶ Jalal (1990)

⁹⁷ Pasha and Fatima (1999).

⁹⁸ Asad Sayeed, "A Matter of Accountability," *Dawn*, June 28, 2003.

⁹⁹ See Siddiqi-Agha (2000).

NRB was entrusted with the task of initiating far-reaching reforms of state institutions. The flagship of NRB's reform programme was the Local Government Plan which began to be implemented from mid-2000 onwards. The NRB also proposed other fundamental changes in the governance structure of the state – such as police reforms, and changes in the system of electoral representation. Some of these other reforms were linked to the Local Government Plan while others were independent of it.

The Local Government Plan involves several fundamental changes in the governance structure of Pakistan. Although the constitution formally envisages the creation of local government – political power was traditionally concentrated around the federal and provincial tiers. The tenure of elected local governments has been erratic, particularly during those periods when elected governments were in place at the federal and provincial levels. Conversely, elected local governments have been instituted during periods of military rule.

The Local Government Plan of the NRB, however, goes beyond previous attempts at constituting local government in a number of ways. Not only does this plan lay out elaborate and interlinking rules of electoral representation at three levels – district, tehsil, and union council – but it also involves the transfer of significant powers and authority down to these levels of government. All of the main line departments, for example, are supposed to be transferred to the district level. Other functions are devolved to the tehsil and union council levels. Moreover, the Local Government Plan revises the role of the administration and places it under the control of elected local government. The functions of the formerly powerful 'District Management Group' inherited from colonial times have been radically altered and broken down.¹⁰⁰ Two aspects of the reform – namely, elevation of elected local government, and the restructuring of district management – are arguably radical steps of historical significance.

Some of the positive outcomes of the plan are already apparent. Elected local governments have taken charge across the country, and these include, for the first time, women, religious minorities and enhanced representation of labour.

While much of the discussion has focused on the potential governance gains of system reform, there have also been voices that warn about the politics of reform. It has been noticeable in Pakistan's history, for example, that non-elected military governments had tended to favour local government, while elected civil governments have concentrated power at the federal and provincial levels.

The political explanation of this apparent paradox is that military governments have found local government a convenient instrument for gaining popular legitimacy (or acquiescence) while at the same time sidelining established federal and provincial political leaders who might field a challenge. According to this view, in the hands of a military regime, local government is not an instrument for decentralized civil power, but one for diffusing civil political opposition to highly centralized military power. It is now widely acknowledged that the present experiment with local government is

¹⁰⁰ The executive, judicial and land revenue functions of the former District Commissioners have been separated and assigned to other offices, and the new functions defined for the incoming District Coordination Officers.

also vulnerable to such abuse, with serious charges of political interference and manipulation in the functioning of local government.

Bureaucracy

Although ‘governance reform’ and ‘good governance’ became prominent issues in public discourse from the early 1990s onwards, there were few sustained attempts at the organizational reform or rejuvenation of government. Some proponents of market-oriented reform believed that the economic role of the bureaucracy had been reduced to rent-seeking. For them the main path to reform was ‘downsizing’ and privatization. There was little space for a more positive approach to the reform of government corresponding with the development needs of the country.¹⁰¹ The work of the NRB since late 1999 promises, of course, to be a new point of departure in this regard.

A more historical view of organizations change in government is instructive. The most significant bureaucratic reforms to date were those carried out by Pakistan’s first elected government led by Zulfikar Ali Bhutto in the 1970s. These reforms led to the fragmentation of a formerly integrated structure inherited from colonial times. The main thrust of the Bhutto reforms was to reduce the corporate power of the bureaucracy – through the abolition of the elite CSP (Civil Service of Pakistan) core – and to make the bureaucracy subservient to the political leadership. These reforms came in the wake of popular resentment of the bureaucracy’s perceived position as a wielder of non-representative executive power, standing aloof from ordinary people.

The Bhutto reforms created conditions that continued to shape the quality and effectiveness of the organization of government, well after the regime itself came to an end in 1977. The military government of General Zia (1977-1988) did little to reverse the bureaucracy’s loss of authority, even though power had lapsed from elected representatives to the non-elected organs of the state. The revival of elected governments further sharpened the tension between the goals of rules-based technocratic governance on the one hand and popular representation on the other. The main instrument of control over the bureaucracy in the 1990s was the executive power held by ministers on transfers and postings.¹⁰² After the coup of October 1999 control passed into the hands of the military, and there was an influx of military officers into bureaucratic positions.

Judiciary

The judiciary was closely associated with problems of governance in Pakistan throughout its history. At moments of constitutional crisis the high judiciary would be called to pronounce upon the legality of particular actions – such as the dismissal of a government. This tendency continued in the 1990s. The expectation in certain quarters that the judiciary could be counted upon as a guardian of the constitution, however, proved to be unrealistic. The judiciary, therefore, was generally reduced to

¹⁰¹ See Shafqat (1999) for a useful review.

¹⁰² See Shafqat (1999).

the role of attempting to preserve constitutional norms while acquiescing, *post facto*, with extra-constitutional actions.¹⁰³

It appears paradoxical that constitutionally elected civilian regimes, particularly the latter two periods of government led by Benazir Bhutto and Nawaz Sharif respectively, appeared more prone to overt conflict with the judiciary than were unelected regimes. The explanation for this paradox lay, ironically, in the greater willingness on the part of the senior judges to assert their institutional autonomy from the executive during periods of civilian rule.¹⁰⁴

Besides the problematic position of the higher judiciary in times of constitutional crisis, there are three other sets of issues that have been affected the role of the judiciary as an institution of governance in Pakistan's recent history.

First, there has been confusion in Pakistan concerning the precise role of Islam and the Sharia (Islamic law) in the development of the legal-judicial system. There are parallel systems of law with, sometimes, contradictory implications. This problem has existed at least since the early 1980s, and there does not appear to be, as yet, a tendency towards synthesis.

Second, the day-to-day functioning of the lower judiciary or the 'bread and butter' of judicial work, is seriously complicated by resource constraints and the widespread recourse, on the part of litigants, to informal and traditional forms of dispute settlement and arbitration. The weakness of the judicial system and the strength of customary and informal practice are two sides of the same coin. This fundamental contradiction also came into sharp relief in the most recent period particularly with regard to informal arbitration over 'honour crime' and other aspects of gender relations.

Third, the judiciary was seen increasingly, from the 1990s onwards, as another vested interest group within the state that pursued its own corporate agenda in rivalry and cooperation with others such as the bureaucracy and the military.¹⁰⁵

Conflict, security and the rule of law

One of the basic functions of a modern state – namely the establishment of the rule of law – came under serious challenge in Pakistan throughout the 1990s. This challenge will continue to characterize the Pakistani state in the foreseeable future. It might be argued that the persistent tendency of the military to topple civilian governments is itself the major violation of the rule of law in Pakistan. This position is technically correct, of course, but 'high' violations of the rule of law are generally treated as 'political' rather than 'legal' problems. The state's inability to establish the rule of law at a more micro level is regarded as a more serious challenge to its authority and legitimacy. The two issues are, of course, linked.

¹⁰³ The so-called "doctrine of necessity" has provided a durable jurisprudential basis for this role of the judiciary in Pakistan.

¹⁰⁴ Both elected prime ministers of the 1990s found themselves in open conflict with the senior judges, who were willing, nevertheless to offer wide-ranging powers to General Musharaf's military government.

¹⁰⁵ Or, more precisely, as a junior rival or partner of the military.

The 1990s saw several internal challenges to the rule of law, and hence to internal security and the economic environment in Pakistan. The largest city of the country and its commercial and industrial hub was virtually paralyzed by a long-running conflict between an ethnic-based political party, other parties and state agencies. There was also the rise of sectarian religious organizations with violent armed factions. The limits to the authority of the state were constantly challenged in the so-called tribal areas of Balochistan and in the NWFP belt¹⁰⁶.

There were conspicuous security and rule of law issues in Pakistan's external relations that came to a head after 9/11. The relations between Pakistani national security agencies and armed militant groups operating outside Pakistani borders became the focus of attention worldwide. In fact, according to many commentators problems of internal conflict were also closely related to the conduct of national security agencies, and were the outcome of these agencies' interference with the political process.

A number of somewhat threatening labels were used to describe the condition of the state and its prognosis. It was argued that from being a 'weak' state, Pakistan was in danger of becoming a 'collapsed' or 'failed' state. Some of the more politically-motivated external commentary also feared Pakistan's evolution into a 'rogue' state – i.e. a state that willfully violates international rules, laws and conventions. While the attitude of foreign commentators changed with renewed (positive) interest in Pakistan's strategic position, many of the internal factors that led to state 'weakness' and the danger of 'state collapse' remain in place.

3.3 Social change

Pakistani society is undergoing rapid and seemingly confusing changes. There is much justification for the feminist view that gender relations in general and patriarchy in particular form the basis of most other social relations in Pakistan. While this is true in most societies, it can be argued that in Pakistan a gendered perspective is central and indispensable to any understanding of social, political and economic processes and outcomes. Social change in Pakistan, therefore, is closely associated with the position of women and changes in gender relations.

The conventional 'tradition versus modernity' framework of social change allows for a simple dichotomy in Pakistan between Islamic conservatism versus cosmopolitan modernism. The critical test of these two apparently opposing tendencies is in their outlook on gender relations and on the position of women in society. The last twenty years or so have witnessed remarkable trends and counter-trends.

Since the 1980s, with state-sponsored campaigns of 'Islamization', social change and gender relations have become highly politicized and contested areas. The reversal of relatively liberal laws concerning the position of women went hand in hand with the adoption of conservative social mores among large segments of society. These tendencies continued in the 1990s and gender relations remained within the realm of mainstream political discourse. There were also many high-profile cases of violence

¹⁰⁶ For reporting on internal conflict and insecurity see Dahal, Shiva Hari, et al (2003) and the references cited there.

against women and issues such as ‘honour crime’ acquired prominence. The same period also saw increasing numbers of women breaking traditional norms of seclusion and purdah and venturing out to schools, colleges, offices and factories. These latter changes affected not only urban areas but also rural localities.

Popular mass media also provided mixed and contradictory images. At one level the media became more open to serious engagement with social issues – issues which might previously have been censored or simply brushed under the carpet by cautious editors. Not only did this happen with the print media – with a number of special interest publications mushrooming – but there were new openings in the electronic media. Satellite television spread rapidly in Pakistan through the 1990s, not only in urban areas but in remote rural areas. In some ways the new technology represented a ‘leap-frogging’ effect. The new electronic media, initially Indian or Indian-oriented entertainment channels, forced more openness in the Pakistan electronic media, and much of this new openness challenged the hegemony of conservative social mores on the airwaves.

Social changes of other types were also conspicuous from the 1990s onwards. A number of non-governmental organizations acquired popular acceptance and prestige in specific areas of work. Some of these organizations, such as the Edhi Foundation, and the Aga Khan Foundation became known for remarkable successes in service delivery. Others, such as the Human Rights Commission of Pakistan, established themselves as authoritative watchdogs, lobbyists and campaigners.

Section 4: Models of Change and Stagnation

Social, political and economic changes in Pakistan have been complex. Some changes have been ‘Pro-Poor’, others ‘Anti-Poor’ and yet others have had as yet ambiguous effects on the poor and poverty. In policy and public debate and academic literature there is a variety of complementary and rival explanations on the sources of poverty outcomes. This section attempts to summarize these diverse explanations with reference to a number of distinct stylized models. Some of these models have been articulated clearly in the literature and represent well-established formal positions held by various protagonists. Other models represent the paraphrasing of dominant yet informally held views that have influence in the public discourse.

4.1 Market Driven Growth

Thesis

The basic ingredients of pro-poor change already exist if only private agents were allowed to transact without undue interference. The government is an obstacle, and it needs to be right-sized, and the quality of governance improved. The main engine of change is diffused demand and supply impulses, and these should be facilitated rather than hindered. Change takes place as long as government interference is reduced. The failure of development in Pakistan in the last two decades is ascribed to large government and government interference.

Discussion

The state-market dichotomy underpins the early phase of the neo-liberal economic agenda.¹⁰⁷ This view has become more nuanced on the basis of both the developmental successes and subsequent crises in East Asia, the creation of stable property rights as well as appropriate social conditions for the emergence of pure market economies has long been debated in the literature.¹⁰⁸

In the case of Pakistan, since 1991 there has been a consensus on market driven change. Liberalization, deregulation, privatization and right-sizing of government has also taken place in varying degrees.¹⁰⁹ As shown earlier this change has not resulted in either a surge in growth and investment or in poverty reduction. Concerns of proper sequencing of market driven reforms as well as issues of creating stable property rights, the rule of law as pre-requisites for market driven change need to be simultaneously addressed. Moreover, the debate on the demarcation of the respective roles of states and markets is not settled, either empirically or theoretically. Contextualization of the historical and social bases of state and society in different countries and regions is required to gauge the extent to which market driven reforms

¹⁰⁷ Williamson (1990)

¹⁰⁸ See North (1990) for an institutional perspective on capitalist development and Polanyi (1944) on the socio-political pre-requisites for market driven growth to take place.

¹⁰⁹ Some of the information is provided in Section 1. Also see Sayeed and Rashid (2003) on the extent of policy change in a pro-market direction in Pakistan. The size of government has been reduced from 26% of GDP in the late 1980s to 22% in 1997 (World Bank 1998). If one takes out debt servicing and defence, the interventionist arm of the state would have reduced proportionately more.

can deliver pro-poor change. Such a multi-disciplinary perspective is missing in the Pakistani context.

Implications for Pro-poor Agenda

The literature on market driven growth does acknowledge the importance of social safety nets in the period of transition to market driven growth. This, in turn, requires both resources as well as the political and administrative capacity of the state to put in place such mechanisms. In the past decade, Pakistan has lacked both. Weakening of the bureaucracy, political instability, the unfavourable exogenous environment and governance failures have all contributed towards increasing poverty in this period of transition. While the exogenous environment has somewhat improved, other constraints remain. In the medium run, therefore, market driven reform will remain unfavourable for concerted pro-poor change.

4.2 Social Gap

Thesis

There has been under-investment in the social sectors and this has led to a ‘social’ gap: social development has lagged behind economic growth. The Social Gap is important in its own right as an index of under-achievement in poverty reduction, education, health, gender equality, and other social goals. There is also, subsequently, a feedback loop between the Social Gap and low rates of economic growth.

Discussion

The Social Gap thesis emerged directly out of empirical observations that Pakistan’s social indicators lagged behind countries with comparable historical endowments. This view gathered supported from the late 1980s onwards and was buttressed by similar concerns in the international development discourse.¹¹⁰ Although the term Social Gap was first used in Pakistan by the World Bank (2002), the central proposition has been stated and elaborated by a range of policy-makers, analysts and commentators.¹¹¹

The Social Gap thesis also allows for a ‘feedback’ mechanism: slow progress in social development ultimately hinders future economic growth.¹¹² The feedback mechanism is not essential to the main thesis, since social development goals are widely agreed to be important in their own right. It is considered a useful complement to the Social Gap thesis, as it negates the existence of a trade-off between economic and social objectives. The main linking story between the Social Gap and economic growth is the human capital theory.

¹¹⁰ Jean Dreze and Amartya Sen’s “Hunger and Public Action” (1989) was an influential contributor to the international debate. The emergence of the UNDP’s Human Development Index further raised interest in comparative country experience.

¹¹¹ Official recognition of the Social Gap thesis can be found in the work of the National Commission for Human Development as well as the PRSP. Wider public concerns can be gauged from reports of non-governmental research organizations such as the Mahbubul Haq Human Development Centre, and the Social Policy and Development Centre.

¹¹² See, for example, Birdsall (1993).

At its simplest the Social Gap story is about public under-investment in the social sectors. This, indeed, was the thrust of programmes such as the Social Action Plan in the 1990s. A more sophisticated reading of the thesis emphasizes the importance not only of fiscal under-investment, but political under-investment in the social sectors. Political economy explanations of the Social Gap include cultural resistance, insufficient public demand, mismatched elite priorities, elite resistance, and elite capture.

Implications for Pro-Poor Agenda

The Social Gap thesis implies that social development goals must receive priority in policy as well as politics. In terms of fiscal resources it implies a reallocation not only towards development spending (possibly at the expense of other sectors and macroeconomic targets), but also within development spending towards the social sectors (possibly at the expense of infrastructure). The possibility of a trade-off between goals of economic management and addressing the Social Gap, at least in the short term, needs to be acknowledged. In politics a pro-poor agenda will involve the strengthening of constituencies that have an interest in promoting social development goals. If the Social Gap is even partly due to cultural resistance and insufficient demand, decentralization might subvert rather than promote a Pro-Poor Agenda.

4.3 Elite Capture

Thesis

The electoral process is rendered uncompetitive due to the existence of local political monopolists – actors who are able to command vote blocks on the basis of feudal or tribal affiliation. Electoral politics, therefore, are rife with rent-seeking and patronage. They help to reproduce rather than challenge existing power relations, and are unable to promote the interests of the poor and the powerless.

Discussion

Political perspectives on policy performance are widely accepted in Pakistan. The idea that policy failure ought to be explained with reference to vested interests, and not exclusively in terms of policy quality, is now part of mainstream discourse.¹¹³

It is possible to identify three types of thinking about elite behaviour and its relationship with public policy. First, the elites have different priorities, values and mind-sets, and therefore they cannot properly acknowledge or address the problems and perspectives of the poor.¹¹⁴ Second, the elites actively preserve their positions of privilege by opposing any public policy that might empower poor people.¹¹⁵ Third,

¹¹³ Political economy perspectives have become acceptable even in the thinking of organizations such as the World Bank that previously confined themselves to technical and technocratic analyses (see Easterly, 2001, and World Bank 2002).

¹¹⁴ Some of the early work on ‘participation’ was premised on the view that policy-makers do not ‘know’ what the poor need or want. See, for example, Chambers (1983).

¹¹⁵ The Elite Resistance view was popular until the 1980s and was supported by anecdotes of landlords not allowing schools to be built in their villages. The rapid demand-led expansion of public

the elites engage in the capture of public resources, thus rendering public policy ineffectual.

The third story or the 'Elite Capture' story is thought to be particularly pernicious in Pakistan because it subverts the potential role of the electoral process as an instrument of change. According to this view, local elites -- say feudal landlords -- enjoy prior monopolistic social and economic power over their constituents. These monopolistic patron-client relations get reproduced in the political domain as the patrons have access to subservient vote blocks of clients. These patron-client relations are thought to be the most prevalent in the poorest parts of the country -- viz. rural Sindh, southern Punjab, and Balochistan.

In the Elite Capture story, the patrons capture public resources such as schools and infrastructure projects for their own private appropriation for their supporters.¹¹⁶ They do not face electoral sanctions because they have a captive vote bank or because they are able to buy off dissent. The electoral system simply returns existing patrons -- 'feudal landlords' or 'tribal chieftains' -- to power.

There are logical as well as empirical objections (or qualifications) to the Elite Capture story. It is logically difficult to sustain the existence of strong patron-client relations, and yet argue that there is monopolistic or absolute elite capture. If the elites are obliged to make real pay-offs to their supporters the political transaction is more active than presumed. At an empirical level, it is clear that elections tend to be relatively competitive in Pakistan, barring very few exceptional areas. Competition is fierce even if the rivals are opposing factions of the same local elite -- sometimes members of the same extended family.¹¹⁷ The Elite Capture story also fails to adequately explain the resilience of political parties in Pakistan.

The Elite Capture story nevertheless remains an influential one. It is a dominant view among many policy makers and urban-based commentators about the rural electoral transaction.¹¹⁸

Implications for Pro-Poor Agenda

The Elite Capture story implies two opposing responses, both of which have been present in Pakistan. Its pure form -- i.e. without incorporating the qualifications registered above about the nature of the political transaction -- implies that electoral politics are inherently inconsistent with pro-poor reform. This, indeed, has been the text and sub-text of some supporters of military governments in Pakistan.¹¹⁹ The

infrastructure since the mid-1980s weakened this view as an insight into local elite behaviour, though it remains relevant to the understanding of higher level political contest between classes and interest groups.

¹¹⁶ This is in contrast to the Elite Resistance story, since the local elite in this case actively seeks public projects for its constituency.

¹¹⁷ On the nature of the political transaction see Andrew Wilder (1999) and World Bank (2002).

¹¹⁸ Much of the mobilization around General Musharraf's reform programme was, indeed, premised on the Elite Capture story of electoral politics. This thesis is also implicit in Waseem and Burki (2002). A key test of the success of Local Government Plan, for example, was the extent to which existing local elites were displaced.

¹¹⁹ Support for the idea of a strong reformist dictator is usually premised on the 'corrupt', 'feudal' and 'patron-client' nature of electoral politics.

qualified form of the Elite Capture story, however, implies that the electoral system does have the potential for delivering pro-poor change. The appropriate response in this case would be the strengthening of modern political institutions such as parties, and thus, by default, weakening existing patron-client relations.¹²⁰

4.4 Political Instability and Uncertainty

Thesis

Frequent dissolution of elected governments, frequent changes in policies, uncertain rule of law – these phenomena create an unstable politico-economic environment and thus deter private investment and inhibit progress towards pro-poor change.

Discussion

That uncertainty borne out of political instability in Pakistan goes against investment and economic activity in general is beyond doubt. A few issues from this argument however need to be unraveled.

Several reasons for political instability during the 1990s have been discussed earlier. To reiterate, civil-military tensions and mutual intolerance amongst the mainstream political leadership (in that order) have to be resolved for political stability. While there were certain differences in the mode of governance, the 1990s did witness remarkable stability in policy formulation in the realm of economic, foreign and internal security policies. The underlying problem of creation and enforcement of property rights has resulted in the large gap between policy formulation and implementation so lamented in Pakistan. Because of the role of the unelected arms of the state and external impositions in policy formulation, the requisite ownership and legitimacy for certain policies has never been created. Ethnic tensions (particularly in Sindh and now in the Frontier) and the failure to resolve disputes through constitutionally mandated mechanisms has fostered violence and undermined the rule of law in the country. This again takes us back to resolution of important tensions addressed in the previous section. Finally, private investment is not only deterred by the lack of stability and rule of law. The incentive structure created by policies of liberalization have themselves been negative for productive private investment.¹²¹

Implications for Pro-Poor Agenda

The impact of political instability and the lack of rule of law for the poor goes much beyond the issue of private investment. Lack of access to justice, corruption and inefficiency in the delivery of social services and political victimization (borne out of political instability) have a negative impact on the poor. However, to address these matters, more structural concerns identified earlier should become the focus of analysis rather than treating these matters as subjective failures of leaders.

¹²⁰ These are, indeed, the conclusions of Waseem and Burki (2002). A problem with their analysis was that they aimed their policy recommendations at a military government without adequately taking into account the possibility that the military itself might act as a special interest group.

¹²¹ Sayeed (2002) and World Bank (2002a).

4.5 Emergence of New Classes and Interest Groups

Thesis

There are undirected and largely unsung changes in economy and society, notably the emergence of new classes and interest groups, which have the potential for challenging existing power relations. Existing power brokers such as landowning elites, the urban rich, and state functionaries will need to accommodate the emergent classes and interest groups or face political conflict. The outcome is likely to be more egalitarian, more market-friendly and more democratic.

Discussion

The ‘Social Mobility’ thesis has been formalized by a number of commentators as a counter-thesis to the idea that Pakistani society is rigid and immune to change.

An important version of the thesis resembles the Marxian theory of capitalist development with its stress on the autonomous agency of emerging economic interest groups:¹²² there are long term and undirected shifts in economy and society such as migration, urbanization, changes in the organization of agricultural production, spread of market relations, and loosening of traditional sources of authority, which have given rise to new sets of political-economic players. These new players include migrants, artisans, traders, and informal financial intermediaries (*arthis*) who are inadequately represented in the existing power structures, and who might constitute a ‘new middle class’. These new classes and groups provide the space from which the old power structures could be and are being challenged.

While the ‘new middle class’ thesis is an important characterization of social mobility in Pakistan, there are a number of useful points of qualification.

First, the experience of social mobility in Pakistan cannot be confined to peaceful and apolitical processes with which the emergence of the ‘new middle class’ is associated. There have been several significant instances of ‘power accommodation’ in Pakistan as a result of political mobilization, sometimes of a violent nature.¹²³

Second, there is considerable evidence of the persistence and reproduction of inequalities along the lines of caste, *biraderi* (kinship network) and ethnicity, which account for continuity of many power structures despite the opportunities provided by the market. In fact, market segmentation remained an important aspect of social exclusion in Pakistan.¹²⁴

Third, it has been observed that social mobility has occurred alongside the erosion of the rule of law and the state’s ability to enforce contracts. This has meant that private

¹²² See, for example, Hasan (2002), Zaidi (2000) and Siddiqui (2001).

¹²³ The most dramatic of these was the mobilization in the late 1960s and early 1970s led by Zulfikar Ali Bhutto and the PPP which created space for the accommodation of sections of the poor, as well as of ethnic groups which had been excluded from state power. The violent uprising of the Baloch against Bhutto’s government led, ultimately, to the recognition of some of their concerns by the state.

¹²⁴ See PPA reports (2003), Gazdar (2002), World Bank (2002), The Collective Team (2003) for empirical observations about labour market segmentation.

and social power has become more and not less important in the arbitration of economic and political relations.

Fourth, there is a counter thesis to this on the role of the middle class as an inhibitor to pro-poor change. While this thesis agrees that the middle class has become an important and influential player in Pakistan's political economy, its role towards dynamic capitalist development or poverty alleviation is negative. The historical evolution of the middle class in Pakistan is such that on the basis of its organizational strength, it is able to divert resources towards itself from the poor as well as capitalists through a process of unproductive rent-seeking.¹²⁵

Implications for Pro-Poor Agenda

The Social Mobility thesis in its pure form implies that undirected societal and economic processes have created a basis for pro-middle class changes in the power structure. To the extent that these changes can form the basis of a Pro-Poor Agenda they should be supported. The interests of the emergent middle classes, however, are also likely to conflict with some of the interests of the poor. The qualified Social Mobility thesis implies that there has been an ongoing process of class and group accommodation in Pakistan through political mobilization and, sometimes, violent challenges to authority. The mode of accommodation, however, has often eroded the state's ability to carry out its minimal 'rule of law' functions. A Pro-Poor Agenda will involve supporting institutions of political accommodation rather than supporting any particular 'emergent' groups.

4.6 Cultural Change and Conflict

Thesis

There are incremental cultural changes – particularly with respect to gender relations and the position of women – towards modernization, greater openness, and more equality. These changes are both indigenous and also supported by cultural interaction with other societies in the region and beyond. At the same time there are tendencies towards social conservatism, often rooted in religious ideologies and tradition, which counter cultural change. The interaction between these two broadly opposing tendencies produces both synthesis and conflict.

Discussion

Social conservatism – rooted in religious ideology and tradition – has been politically conspicuous in Pakistan at least since the late 1970s. These trends received strong state backing during military rule in the 1980s.¹²⁶ A significant factor – at the societal level – was the first-hand exposure of ordinary Pakistanis, through migration, with traditional religious societies of the Gulf region. Social conservatism has occurred, however, within the less conspicuous but perhaps more significant context of modernization, greater openness and more equality. The former has been interpreted as a reaction to the latter.

¹²⁵ See Khan (2000), Sayeed (2002) and Cheema (forthcoming) for an elaboration of this thesis.

¹²⁶ See Khawar Mumtaz and Fareeda Shaheed's "Women of Pakistan: Two Steps Forward, One Step Back?" (1987).

According to the 'Cultural Change' thesis incremental secular changes such as greater political and market integration, greater schooling and labour participation of women, as well as globalization, are likely to be countered in a highly politicized manner by forces of social conservatism. Women are likely to bear the main cost of this conflict, since the conflict is largely – in substantive as well as symbolic terms – about gender relations and patriarchy.

The conflict, moreover, is understood in different ways by the various protagonists. The wider discourse encompasses dichotomies such as 'Islam versus secularism', 'individual rights versus honour codes', and 'globalization versus national sovereignty'. The compounding of diverse political interests in this debate complicates the process of synthesis. One conspicuous example is the platform of the Muttahida Majlis-e-Amal (MMA), an alliance of religious parties, which made electoral gains in 2002. MMA's negotiations with other protagonists about otherwise secular issues are likely to involve bargaining and concessions over issues of cultural symbolism.

It is interesting, however, to qualify the 'conflict' view of cultural change with a recognition of possible avenues of 'synthesis' – in other words, areas where the two apparently opposing tendencies of cultural change and social conservatism – might find mutual accommodation. One such possibility, paradoxically, lies with the role of religious political parties who might need to look after secular concerns of their constituents.¹²⁷

External factors are usually seen to provoke conflict rather than synthesis – for example, through the conflation of globalization with an adversarial attitude towards 'the West', or the influence of Gulf Islam in the 1980s. The more recent interaction with external societies, however, has produced new possibilities for synthesis. In particular, the cultural influence of more liberal societies in Gulf such as Dubai has begun to rival that of conservative Saudi Arabia. Dubai which became a favourite destination for Pakistani labour in 1970s, has also attracted Pakistani capital and professional, commercial and media activities since the 1990s. The Dubai blend of tradition and cosmopolitanism is widely admired as a possible model of cultural synthesis by Pakistani elites and middle classes.¹²⁸

Finally, it is important to note that there is some tension between economic mobility and cultural change. Social conservatism has found a broad constituency among the emerging middle classes. This is understandable in the sense that conservative ideologies allow the upwardly mobile to distance themselves from the 'unschooled poor' and also provides them with social and political leverage vis-à-vis the 'westernised elites'.¹²⁹

¹²⁷ It is interesting, for example, that MMA-led mass protests have greater participation of women than comparable street demonstrations by secular parties.

¹²⁸ While it is common to hear electoral promises such as 'we'll make our city another Dubai', the religiously significant locations of Saudi Arabia are never mentioned in this vein.

¹²⁹ In some ways the process is similar to that of Sanskritization of the upwardly mobile groups in India (Srinivas 1989).

Implications for Pro-Poor Agenda

Cultural change in the direction of modernization is likely to be pro-poor since it will lead to less unequal gender relations in Pakistan. Cultural change, moreover, might result in conflict as well as synthesis. A Pro-Poor Agenda, at least in the short to medium term, will be helped by synthesis and hindered by conflict. Factors which might lead to a separation of different strands within social conservatism – e.g. between faith-based individual identity, anxiety about tradition, concern about national sovereignty, protection of privilege, and party-political interest – will promote a Pro-Poor Agenda.

Section 5: Conclusion

The foregoing review has summarized trends in poverty outcomes (Section 1), current and emerging economic, political, governance social issues (Sections 2 and 3), and the dominant modes of thinking about problems of development and change in Pakistan (Section 4). The main conclusion of this review is that there are multiple pro-poor agenda, and there are diverse and sometimes rival perspectives on these agenda.

Recent trends in some of the poverty outcomes – such as income poverty and education indicators -- have not been encouraging, and there is a lively debate on the precise history and causes of low achievement. Other indicators such as demographic, health and mortality indices as well as gender bias indices have shown improvements. Some of these improvements are likely to be due to recent policy interventions, while others have resulted from longer-term shifts in provision and demand.

While the linkage between economic growth and the reduction of income poverty has been a close one, and while recent stagnation in poverty decline is partly due to economic retardation, there is sufficient evidence for concern that the growth-poverty linkage has become weaker. Emerging patterns of economic growth might be less effective in reducing income poverty than was the case in the decades of the 1970s, 1980s and 1990s. In particular, the most recent period has revealed underlying tensions between the aims and methods of achieving macroeconomic stabilization on the one hand and long-term growth and poverty-reduction on the other.

In politics, the period from 1988 to 1999 can be seen as one during which Pakistan experimented with elected civilian governments of various types. The role of the military while always present remained, for the most part, in the background. From 1999 onwards, however, the military re-emerged openly as a dominant political actor. The current political situation in Pakistan is marked by unresolved tensions, and conflicts of legitimacy between elected (civilian) and non-elected (military) arms of the state.

Recent social trends, too, reveal contradictory tendencies: significant cultural change towards modernization, openness and gender equality on the one hand, with the resurgence and politicization of social conservatism on the other. These structural features and tendencies in Pakistan's economy, society and politics are complicated as well as enriched by 'external' and 'exogenous' factors. The country's engagement (or disengagement) with the strategic interests of powerful external players has determined to a great extent international perceptions about the state's development potential, success, or even viability.

5.1 Framework for Analyzing Drivers of Pro-Poor Change

Pakistan's recent history indicates that an understanding of political, economic and social change in general – and pro-poor change in particular – will require attention to four interlinked but distinct levels of process: directed change, undirected change, agency formation, and conflict resolution.

Directed change: policy analysis

Directed change refers to the outcome of specific policy and programmatic interventions. In principle, the direction might come from the public (through the electoral process or advocacy) or it might come from reform-oriented individuals and organizations with agency. In practice it is customary to defer the issue of agency to political analysis.

Policy-making and policy-implementation are quite largely about directed change. The role of the wider structural context, shocks, and political and institutional conditions can be treated as exogenous factors. The main focus is on the formulation of 'correct' policies and programmes and their effective implementation. Much of the discussion about policies and programmes such as economic stabilization, the PRSP, and the Local Government Plan falls in this category.

It is essential, of course, to be able to examine and predict the impact of recent, current, and emerging policy and programmatic interventions on poverty and the poor. This task is regularly undertaken to a great extent by various official and non-governmental policy analysts.

Undirected change: structural analysis

There are many changes, as the review above showed, which are of a longer term nature, and are outcomes not of current policies or programmes, but of historical shifts in economic, social and political patterns. Long term demographic transitions, incremental cultural changes, and the emergence of new classes and interest groups are part of the wider context within which policy operates.

There is, of course, a close connection between policy and undirected change, even if the relationship might be more complex than envisaged by policy analysis. The decentralization reforms, for example, might change the local governance and the local power structures in unpredictable ways. Similarly, reforms aimed at liberalization of the economy through loosening bureaucratic controls might have the effect of strengthening the military's corporate interests.

While these undirected changes can be documented, modeled and therefore analyzed, there are other undirected changes such as exogenous shocks which are less amenable to prediction. Shocks both positive and negative – both political (such as 9/11) as well as natural (such as the drought) – will continue to be influential in the determination of development and poverty outcomes.

Agency formation: political analysis

Policy analysis, even within the wider context of structural analysis, takes the issue of agency for granted. The directed change in question might arise from the electoral process (as in the case of some of the populist programmes) or it might be part of an elite-driven reform programme. Moreover, policy analysis normally treats the state as the dominant and politically-neutral policy agent. Policies and programmes are analyzed with reference to their technical claims and performance.

Our review above has shown, however, that questions of agency are critical to the understanding of change in Pakistan. This is so, not least, because the neutrality, capacity, and at times the very viability, of the state have been routinely called into question. The process of agency formation, therefore, cannot be taken for granted but needs to be brought explicitly into the analysis. It is also not sufficient to defer the question of agency to ‘strong leader’ or ‘external player’. While individual leaders as well as external players will contend with state institutions as agents of change in the coming years, internal interest group politics have played, and are likely to play, a dominant role in the process of agency formation.

The interplay between interest groups such as the military, the bureaucracy, the landed elite, private capital, as well as other coalitions and alliances around identity, ideology and economic interest, will continue to shape the nature of agency as well as policy.

Conflict resolution and perpetuation

There are multiple sources of political tension and conflict in Pakistan. These originate in divergent economic interests, group identity, ethnicity, kinship, cultural challenges, ideological concerns, and strategic alignments. These same sources of tension and conflict across groups are, understandably, sources of cohesion and harmony within groups and segments of society. Poverty and social exclusion in Pakistan can be understood in terms of inter and intra-group dynamics. The poor are often people who are either excluded from coherent social groupings, or those who are marginalized within existing groupings.

Tension and conflict between (and within groupings) is partly a reflection of social change and mobility. Established norms of power have been and are being challenged on a continuous basis. The apparent weakness of the state is part of the process of resistance and accommodation of emerging classes and interest groups.

The existence of multiple unresolved tensions and conflicts, however, limits the remit of directed change – let alone directed pro-poor change. It is also far from certain that the underlying tensions and conflicts will find benign syntheses in the near future. The prolonged absence of resolution can result in economic volatility and worse, political violence and insecurity.

While the problems of pro-poor change cannot be reduced to any single cleavage in Pakistani society, it is possible to point to three signs of positive opportunity, and one dominant area of blockage, and one area of potential destabilization.

On the positive side, the three areas are (a) the resilience of national political parties, (b) the integration of national markets, and (c) cultural openness.

The resilience of national political parties, particularly the Pakistan Peoples’ Party, the Pakistan Muslim League, and lately the Muttahida Majlis-e-Amal, despite sustained campaigns against established politicians is significant because it shows that at least some of the tensions and conflicts might eventually be harmonized and synthesized through democratic political processes.

Market integration and penetration is also a significant feature of Pakistan, since markets provide the means for harmonizing diverse economic interests in a non-confrontational manner. Market outcomes generally enjoy legitimacy as long as they are seen as being based on a level playing field.

Cultural openness is partly related to market integration, but is important in its own right. Changes in the content of mass media reflect the openness to new ideas and images. Other, perhaps slower but more fundamental changes in norms of gender relations remain less conspicuous but significant. The possibility of synthesis between cultural change and social conservatism needs to be taken seriously.

While party politics, market integration, and cultural openness offer opportunities for the resolution and harmonization of potential tensions and conflicts, it is important also to identify areas of blockage and destabilization. The military in Pakistan which has often been regarded as a source of security and continuity, remains above the main processes of political and economic synthesis. Given that the military is a powerful political and economic player, the civil-military duality can block the harmonization of other sources of tension and conflict.

Finally, Pakistan remains vulnerable to external developments largely beyond its control, such as the changing security and strategic imperatives of global and regional powers. External shocks might have some positive effects – the U.S-led response to 9/11 resulted in the facilitation of macroeconomic management – but their overall political impact might be uncertain.

5.2 Emerging themes

This paper has highlighted – in Sections 2 and 3 -- four broad areas of concern for a Pro-Poor Agenda. These are: economy, political system, institutions of governance, and social change. This paper has also identified several dominant ways in which Pro-Poor Change (or models of change) has been understood and debated (Section 4). To conclude, several emerging themes are identified for a more detailed understanding of the Drivers of Pro-Poor Change in Pakistan. Some of these themes are subjects for more detailed ‘thematic papers’ as part of the Drivers of Change project.

Economy

This paper finds merit in approaching economic problems and constraints from the point of view of political and group interests – in other words, a political economy perspective. There is already a considerable body of ‘technical’ analysis on issues of economic management, poverty trends, and various sectors and industries. While the technical economic paradigm has been very useful in identifying problems and suggesting policy prescriptions, it does not ask questions about the political feasibility of the possible policy options.

Macroeconomy and economic management: The chronological review of the macroeconomy and of economic management (Section 2.1) has attempted to interpret policy positions taken by various regimes within a context of the political imperatives

of the times. Current and future policy choices are also conditioned by political factors, and these will determine the prospects for pro-poor change.

Land: Agriculture remains the largest sector both in terms of output and employment (Section 2.2). Economic institutions in agriculture such as ‘feudalism’, moreover, are thought to block pro-poor change (e.g Elite Capture in Section 4.3). A more detailed analysis of the political economy of landed power, therefore, is likely to develop a better understanding of both the agricultural sector, as well as of issues in governance.¹³⁰

Private industrial capital: While the performance of the manufacturing sector has remained disappointing in the recent period, this sector, nevertheless, remains an important potential contributor to pro-poor change (Section 2.2). The idea that newly emerging classes and economic interest groups that might challenge the hegemony of established power (Section 4.5) might also apply in a prominent way to the manufacturing sector.¹³¹

Political system

Political parties and electoral politics: This paper has identified both sources of political conflict and instability as well as the potential for political development around a consensus political architecture as envisaged by the 1973 constitution (Section 3.1).¹³² There has been a tendency for the incorporation of diverse political and ideological interests into the framework of the constitution. Political parties have played no small part in this process. Party-based politics also provide a possible counter to problems of elite capture (Section 4.3) and for the incorporation of emerging interest groups (Section 4.5).

Civil military relations: Relations between elected and non-elected organs of state power have been identified in this paper as the key source of political instability (Section 3.1). The role of the military, in particular, is a highly problematic one in the economic history of Pakistan (Section 2.1). The imbalance between military and civil power is also a persistent source of political instability and economic uncertainty (Section 4.4). An examination of civil-military relations, particularly the economic underpinnings of these relations, is therefore, critical for an understanding of constraints to change.¹³³

Institutions of governance

Decentralization: The local government reforms initiated by the military government through the NRB were identified in this paper as marking a significant point of departure for the institutions of governance (Section 3.2). An explicit aim of these

¹³⁰ A thematic paper on the political economy of land is proposed as part of the Drivers of Change project.

¹³¹ A thematic paper on the role of private industrial capital is proposed as part of the Drivers of Change project. This paper will aim to address some of the issues raised in Sections 2.2 and 3.5 here.

¹³² Political instability, including the failure of cooperative behaviour between parties, is also identified as a factor inhibiting pro-poor change (see Section 4.4).

¹³³ A thematic paper on civil-military relations, particularly on the corporate interests of the military is proposed as part of the Drivers of Change project.

reforms is to restructure existing power relations in favour of the poor. The paradox of centralized military governments supporting the decentralization of power, moreover, requires closer examination. A more nuanced understanding of the political economy of decentralization is particularly important in order to assess the sustainability and the pro-poor potential of the current reforms.¹³⁴

Bureaucracy: The effectiveness and quality of the organization of government emerges as a key issue for pro-poor change in a number of ways. First, if one accepts a market-oriented model of change (Section 4.1) the improvement of bureaucratic structures becomes a conspicuous residual issue in public sector reform. Second, there appears to have been an inverse relationship in Pakistan between representative government and the effectiveness of government machinery (Section 3.2). A historical political economy analysis of the bureaucracy as a transmission mechanism for policy making and policy implementation will allow a clearer view of the political feasibility and context of future bureaucratic reform.¹³⁵

Conflict, security and the rule of law: The broader question of state effectiveness – or the overall effectiveness of the institutions of the modern state including the judicial systems, law and order and security – remains a critical marker of long-term development. Any discussion of policies and programmes must be logically subsequent to questions pertaining to the basic functioning of modern state institutions. The idea of a functioning state remains a project rather than a reality in Pakistan, and the most recent period has not witnessed any significant attempt at expanding the scope of the rule of law – a minimal requirement of a functioning state.

Social change

Cultural conflict or synthesis: This paper finds multiple trends within Pakistani society towards diverse cultural models (Section 3.3 and Section 4.6). There are tendencies towards modernization, including evidence of some improvement in demographic indices of gender bias (Section 1). There changes also of a qualitative nature which signal the existence of a dynamic civil society. Mass media appear to play an important part in both promoting cultural change as well as responding to it. At the same time there is also resurgence – conspicuously in the political sphere – of forces advocating social conservatism. Attitudes towards gender relations and the position of women are key markers of positions taken vis-a-vis cultural and social change in Pakistan. The extent to which the different positions are resolved through conflict or synthesis will have an impact on the possibilities of pro-poor change in Pakistan.¹³⁶

¹³⁴ A thematic paper on the devolution reforms has been proposed as part of the Drivers of Change study.

¹³⁵ A thematic paper on the bureaucracy has been proposed as part of the Drivers of Change study.

¹³⁶ The Drivers of Change study proposes three thematic papers, respectively, on the civil society, Islam and social change, and the changing role of mass media in Pakistan.

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