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Structural Adjustment, Labour and the Poor in Pakistan

Shahrukh Rafi Khan[*] and Safiya Aftab

Abstract

In this paper we cite evidence regarding the likely impact of IMF/World Bank policies on labour and the poor in Pakistan. Our findings show that since the 1987 bout of structural adjustment, public sector employment has decreased while wages have been frozen. Also, overall unemployment in occupations with a high incidence of the poor has dramatically increased and real wages of skilled and unskilled labour sharply declined. In addition, subsidies that were critical to the consumption pattern of the poor have been cut while the burden of indirect taxes on the poorest income group has increased. Not surprisingly, there has been an increase in poverty and inequality, particularly in the rural areas.

Introduction

In his much cited article, Huntington stated "Through the IMF and other international economic institutions, the West promotes its economic interests and imposes on other nations, the economic policies it thinks appropriate."[1] Such statements are enough to make even the most level headed Third World thinkers paranoid. Cross country evidence has not conclusively demonstrated that countries that have tried to reform their economies according to IMF/World Bank inspired structural adjustment prescriptions (in exchange for loans) have succeeded. There are some success stories and many failures. Establishing success empirically is difficult since often counter-factuals are needed but not available i.e. what would have been the condition of the country without structural adjustment? Even when enough time has passed to assess reforms, it is difficult to isolate the impact of structural reforms from everything else going on in the economy. Failures stare one in the face in the form of riots that have so frequently followed structural adjustment programmes in the Third World.

From the perspective of the Bretton Woods Institutions, failure can be defined by looking at a country's performance indicators, such as the growth rate, or in terms of meeting specific performance indicators identified as conditionalities for specific loans. In fact, from the Fund/Bank point of view the two could be regarded as synonymous since the conditionalities are viewed

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[*] Sustainable Development Policy Institute.

[1] Huntington (1993) pp. 39.

as necessary for robust economic growth. Broader social indicators such as the Human Development Indicators are clearly relevant in judging performance but, until recently, have been viewed as secondary. Some may argue that such indicators are only being paid lip-service to, although this point would also need to be established empirically.

Why do industrialised countries push structural adjustment? Perhaps they want to see poor countries shaped in their own image. The best motive to ascribe to them is that they are persuaded by the evidence that this is in the interest of the economies they lend to. As prudent bankers, the IMF and the World Bank worry about repayments. However, there is a distinction between the short and long run interests of the country. For example, a devaluation may improve the balance of payments in the short-run and avoid default, but does it help in the long run? This is really an empirical issue and the answer is likely to differ for each country. Among other things, the outcome depends on the relative demand and supply elasticities of our imports and exports. Meanwhile production costs do go up due to more expensive imports in rupee terms and this could lead to higher inflation. Higher costs of production could also hurt future exports. On the other hand, a devaluation is definitely in the interest of industrialised country trading partners, since they have access to cheaper raw materials. Foreign investors benefit as hard currencies now go further. The recommendation of currency convertibility to encourage foreign investment allows easy profit repatriation. But currency convertibility can bring with it destabilising capital movements and encourage capital flight.[2] Debtor countries also tend to lose from a devaluation as the local currency value of the foreign debt (which is denominated in dollars) increases substantially.

There is no question that LDCs need access to foreign technologies, marketing and managerial skills. But the price could be that of wiping out domestic industry. If industries lack competition, foreign investment may be one welcome antidote. If that is not the issue, a hard nosed and selective attitude towards foreign investment may be warranted. Once again, there is no substitute for a case by case empirical examination if a reasonably honest administrative capacity exists. If it does not, many have rightly recognised that to be first on the reform agenda.

The main point in this paper is that, in as much as it is possible, evidence rather than rhetoric should be guiding national policy with regard to structural reform. Those reforms which are in the national interest should be

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[2] This in fact happened in a number of Latin American economies including Chile and Argentina in the early eighties and again recently in mexico and other Latin American and Asian countries.

implemented anyway. However, until LDCs get their fiscal house in order, they can use these reforms as leverage for loans. Those not in the national interest should be resisted. A solid foundation of empirical evidence would help in the negotiation process. This paper draws together some of the important evidence with regard to the impact of structural adjustment on the poor and identifies other areas where much research needs to be done.

There is an important qualification to what was stated in the paragraph above. On many issues, it is not at all clear what the national interest means. In fact, since structural reforms usually have a differential impact on different social classes, one invariably needs to go beyond thinking in broad categories such as the national interest. The conceptual framework needs to have two components. First, the assessment of reforms by social class and second, whether society would be better off with the reform once the gainers compensate the losers.[3]

The paper starts with an overview of structural adjustment agreements in Pakistan. The likely impact on labour and the poor are discussed next on a conceptual level. We present evidence of the likely impact of structural adjustment on labour and the poor in the forth section and end with certain concluding remarks.

Overview of structural adjustment agreements in Pakistan

Pakistan's first agreement with the IMF dates back to 1958. This was a standby loan for SDR 25 million, but it was not utilised. Since the first plea to the IMF for assistance in 1978-79 by the Zia regime, some form of conditionality in return for loans has become a permanent feature in the economic landscape of the country.[4] In this brief section we focus on conditionalities that are likely to have a direct or indirect impact on labour or the poor.

The Zia-ul-Haq regime began the process of liberalisation. However, after Zia's death, towards the end of the 1987-88 fiscal year when elections were pending, the more concerted period of adjustment began. A surge in imports, coup0led with a sharp reduction in worker's remittances served to drive the current account deficit up to 4.4 per cent of the GDP. The budget deficit in the same year shot to a record level of 8.5 per cent of the GDP.[5]

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[3] This latter is of course the standard Pareto condition applied to social classes rather than individuals.

[4] The following description of structural adjustment agreements is partly based on sections of chapter 5 of *Just Adjustment* eds. Banuri, Khan and Mahmood (1997).

[5] *Economic Survey 1995-96*, Statistical Appendix (1996, p. 138, p. 160).

The government was not equipped to deal with these persistent macroeconomic imbalances and began to negotiate with the IMF and the World Bank for the disbursement of a series of loans under the Structural Adjustment Facility.[6] It signed a three-year agreement with the IMF for a structural adjustment facility of $ 2.1 billion. This was to be accompanied by a package of structural reforms.

The first Structural Adjustment Facility was ratified and signed on December 28, 1988 by the first Benazir Bhutto government, which besides other conditionalities, called for a substantial reduction in the budgetary deficit from 8.5 to 4.8 per cent of GDP over the 1988-89 to 1990-91 period. To meet these objectives the revenue-GDP ratio was raised to 20 per cent by 1990-91 through a series of measures which included the extension of General Sales Tax to cover at least 30 per cent of domestic industrial production, and reforms in the tax collection and assessment systems. The expenditure-GDP ratio was to be contained to less than 25 per cent of the GDP, largely through reductions in cash and economic subsidies. The conditionalities also included ensuring controls on inflation and credit expansion and instituting a series of financial and exchange rate reforms. The resource mobilisation measures proposed by the Programme included the introduction of a generalised system of sales taxes, withdrawal of exemptions from custom duties, imposition of user charges and improvement in tax administration.

The government responded to these conditionalities immediately and did institute a series of reforms, but they remained largely unsuccessful in achieving the performance criteria set by the donor agencies. The government subsequently re-negotiated these terms to delay adjustment by an extra year.

The objectives of the 1991-1994 structural adjustment programme were set down in a memorandum at the time of the agreement. The broad objectives to be achieved over a three year period, largely remained consistent with the earlier agreement. They were an annual growth rate of GDP of at least 5.5 per cent of GDP, increase in foreign exchange reserves to at least 4 weeks of imports, decrease in the external debt ratio from 31 to 25 per cent of GDP, decrease in fiscal deficit eventually from 8.5 to 4.5 per cent of GDP, increase in domestic savings from 9 to 10 per cent of

[6] SAF loans are designed to address immediate balance of payments (BOP) crises. They may provide general import financing or may be used to finance the import needs of a particular sector. Although the loans are almost always meant to correct BOP payments difficulties, there is a string of conditionalities attached to them which relate to all sectors of the economy and are aimed at bringing about fundamental changes in the macroeconomic structure of the economy.

GDP, increase in gross investment from 16 to 19 per cent of GDP, reduction in domestic borrowing for budgetary support to 4 per cent of GDP, bank borrowing of no more than 1 per cent of GDP, decreased reliance on taxes on international trade, especially import duties and an expansion of the tax base.

In August 1993, the interim government set about negotiating a stand-by agreement with the Bank and the Fund, and announced a set of economic reforms that essentially set the guidelines for the economic policies of the next government. In December 1993, the newly elected government formalised the agreement with these agencies by submitting a request for another three year Structural Adjustment Facility loan equal to the amount of SDR 606.6 million.[7] The proposal was approved in February 1994, and carried with it an even more stringent set of conditionalities. This time the emphasis was on trade reforms including the elimination of multiple exchange rate practices, full convertibility of the rupee and stringent tariff reduction over a three year period. Taxation reforms that were suggested included the extension of the general sales tax to cover almost all items on the free list and all businesses in the trading and services sectors as well as the imposition of further excise duties on utilities. However, the situation in 1994-95 was more difficult than that in 1988-89. The Gulf war led to a drop in remittances from overseas Pakistanis to $1.4 billion, while the disruption of trade with Middle Eastern countries jacked up the total loss in foreign exchange earnings for this reason to approximately $2 billion. In addition, political differences led to the winding up and termination of bilateral aid from the USA which made the generation of additional revenues more necessary.

The performance criteria of the 1994 EFF/ESAF agreement required the budget deficit to be restricted to 4 per cent of GDP, inflation contained to 7 per cent and the highest import tariff reduced to 70 per cent in 1994-95, 45 per cent in 1995-96 and 35 per cent in 1996-97. However, due to political compulsions and adverse financial considerations, described in the paragraph above, in framing the 1994-95 budget, Pakistan reneged on the revenue and tariff targets. This led to the angry cancellation by the IMF of the Structural Adjustment Facility. The Government of Pakistan then IMF of the Structural contrite, made all the proper noises about keeping within specified targets and hoped for a resumption of the Structural Adjustment Facility (SAF). While a SAF was not granted by the IMF, a standby loan of $600 million for balance of payments support was agreed to.

[7] This was the biggest ever loan request received by the Fund under the Saf according to Dawn (Jan 21, 1994).

Some conceptual issues

Should the poor worry about structural adjustment? The answer is probably yes, although again this is an empirical issue. As mentioned above, one of the more stringent conditionalities of the SAF loans is that the government should reduce the budget deficit through suitable demand management policies and by specific reforms aimed at cutting expenditures and increasing revenues. Curtailing expenditure invariably translates into cuts in subsidies and in expenditure on social sectors, measures which are easier to undertake than, say, a substantial reduction in defence spending.

But these expenditure cuts are likely to adversely affect the poorer sections of society, as do wage restraints and increases in utility charges, which are also recommended by the Bank and the Fund. The imposition of a comprehensive General Sales Tax and the subsequent inflation will also hurt the poor more. Structural adjustment programmes also tend to be followed by widespread unemployment. In a country such as Pakistan, where the government is the largest employer, a reduction in government expenditure immediately translates into a freeze on recruitment in government offices.[8] The imposition of greater taxes on the business community also tends to lead to large scale laying off of industrial workers, as does privatisation. Inflation, the withdrawal of subsidies and, consequently, higher food prices in urban areas and greater unemployment are all part and parcel of adjustment programmes. It is not surprising that social unrest, and in many cases rioting, tends to follow intensive adjustment programmes.

Is the assumption about excessive and wasteful state expenditure warranted? Sometimes, but not always. Once again this is an empirical issue. It could be that inadequate physical and social infrastructure is resulting in a shortfall in production. In this case the answer would be to focus primarily on enhancing production rather than paring down expenditure.

In the next section we report evidence on the changed socio-economic conditions of labour and the poor over the recent structural adjustment period. It would be naïve to assume that structural adjustment "caused" these changes. Nonetheless, it is important to note how conditions have worsened and the burden of proof that this is not due to structural adjustment is on those who espouse it.

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[8] There has been a ban on recruitment in government offices in Pakistan since June 1990. This has been lifted for short periods from time to time, but has always been reimposed and is still in effect.

Some evidence from Pakistan

Since the onset of the medium-term structural adjustment programme in 1987-88, the socio-economic conditions of labour and the poor seem to have deteriorated. While it is not possible in all cases to view structural adjustment as a "cause", in many cases there does appear to be a direct association. We start by reviewing the overall household economic progress by income group.

Table-1: Household monthly income and the percentage distribution of households by income groups[9]

Income Groups	Household monthly income in real terms	
	1987-88	**1992-93**
I	634.49	282.93
II	1084.15	629.15
III	1744.13	1030.58
IV	2742.23	1572.77
V	5250.64	3326.60

Source: Calculated from *Household Income and Expenditure Survey, 1987-88* (1990, p. 183). Household Integrated Economic survey 1992-93 (1996, p. 254).

Notes: The income groups across the two years respectively represent 8.9, 36.7, 20.5, 23.4, 10.5 per cent and 9.5, 31.9, 23.1, 22.1, and 13.4 per cent of the population.

As shown in Table-1 above, real income in all income groups declined over the period under study. The magnitude of the decline is highest for the lowest income group (56 per cent) and lowest for the highest income group (37 per cent). The Federal Bureau of Statistics gives inflation adjusted classifications of what income levels constitute low, middle and high income households in various years. The table above was calculated using the income categories defined in the *Household Integrated Expenditure Survey 1987-88*. This ensured that the data would be comparable over the period under study.

[9] The consumer price index drawn from the Economic Survey 1995-96, Statistical Appendix (1996, p. 137) was used to deflate 1992-93 nominal values to a 1987-88 base.

The income distribution evident from households sample survey data is typically compressed. This is because the poorest in the lowest income group, that do not even have fixed dwellings or reside in *Kachi Abadies* (shanty towns), get excluded. Such exclusion is also the case for the very rich since a mean real monthly income of about Rs. 5,000/- ($192) for the upper income bracket for 1992-93 is unrealistically low. This also explains the apparent contradiction of a recorded increase in real per capita income during a period for which our results show mean household real income falling across the board for all income groups. It appears that all the recorded increase in per capita income for the country is accounted for by the increase in the income of the super rich.

Although structural adjustment may not be a cause of observed changes in standards of living, yet it is not possible to rule out an association. This is particularly the case with regard to employment and wages in the public sector. Responding to calls for fiscal discipline, the government pared down the work force and, until recently, froze wages as is evident from Table-2 below.

Table-2: Share of public sector employment cost in public expenditure and GDP

	Share of public sector employment cost in	
Years	Public expenditure	GDP
1988-89	35.3	7.9
1989-90	34.5	7.5
1990-91	32.3	7.0
1991-92	30.6	6.7
1992-93	28.7	5.9

Source: Adopted from Kemal (1994, p. 8).

There is a steady decline in the public sector employment cost which coincides with the 1987-88 medium term structural adjustment period. This resulted from freezing nominal wages of government employees, bans on recruitment and the encouragement of early retirements via golden handshakes.[10] While reducing the size of the public sector per se may not be injurious, expecting the labour market to

[10] Bilquese (1992, pp. 4-5) shows that for most public sector employees, “there was a massive erosion (in real wages) in the late eighties.”

somehow absorb larger numbers is unrealistic. This is evident even from the much doubled official unemployment statistics as reported in Table-3 below.[11]

Table-1: Unemployment rates by occupational categories in Pakistan

Occupational Groups	1987-88	1990-91	1993-94
Professional and Technical	5.3	6.7	6.1
Administrative and Managerial	n.a.	15.9	9.8
Clerical and Related	3.2	15.1	13.5
Sales	3.2	2.6	3.7
Services	3.2	9.6	8.3
Agricultural	0.9	1.9	1.0
Production and Related Services	7.1	13.3	10.5

Source: Calculated from various *Labour Force Surveys,* 1987-88 (1989, p. 232), 1990-91 (1993, p. 335) and 1993-94 (1994, p. 421).

One would expect a concentration of the poor in the clerical, sales, services, agricultural, production and related categories. In all these, the unemployment rate has risen dramatically between 1987-88 and 1990-91.[12] However, in most cases, unemployment in 1993-94 was lower than in 1990-91, although still much higher than 1987-88. More spot observations over time are needed to see if this represents a continuing trend.

In addition to a decline in unemployment, real wages for skilled and unskilled labour over this period also declined dramatically as reported below in Table-4.

[11] Part of the increase in unemployment rates represent a concession by the Federal Bureau of Statistics that they had been under-stating the unemployment rates in the past. Even so, the increase in unemployment rates are dramatic.

[12] Chaudhry and Chaudhry (1992, pp. 6-8) in a more detailed study of the agricultural sector show that growth in employment opportunities in the 1984-85 to 1989-90 period at 0.65 per cent came to a virtual standstill compared to earlier periods. They attribute this to a fall in agricultural profitability due to the elimination of input subsidies.

Table-4: Nominal daily wage of skilled and unskilled workers deflated by the food price index (1980-81 = 100)

Year	Unskilled workers (labourer)		Skilled workers (mason)	
	Peshawar (lowest)	Karachi (highest)	Peshawar (lowest)	Karachi (highest)
1980-81	18.00	27.5	60.0	65.0
1981-82	19.3	24.7	60.6	67.4
1982-83	18.7	25.4	62.6	67.0
1983-84	20.0	23.6	63.9	63.5
1984-85	18.4	22.6	53.9	58.5
1985-86	17.8	28.2	55.3	57.1
1986-87	20.4	27.3	51.1	61.4
{Period Change (%) (1980-81 / 1986-87)}	(+13.3)	(-0.7)	(-16.5)	(-7.0)
1987-88	17.2	31.0	48.8	63.6
1988-89	18.5	30.6	44.8	67.0
1989-90	20.0	30.1	48.0	63.8
1990-91	18.3	27.9	48.9	59.6
1991-92	21.0	26.2	40.1	58.2
1992-93	20.0	26.1	40.4	60.2
1993-94	17.6	25.8	40.0	56.9
1994-95	17.8	23.3	40.0	51.4
{Period Change (%) (1987-88 / 1993-95)}	(+0.8)	(-24.8)	(-18.0)	(-19.2)

Source: *Economic Survey, 1995-96,* Statistical Appendix, (1996), pp. 25-26 for nominal wages and p. 146 for the food price index.

Notes: Peshawar and Karachi were selected as the two major cities with the lowest and highest daily wages in the base period.

For unskilled workers, there is a convergence of wages in Peshawar where they were the lowest with those in Karachi where they were the highest. This is to be expected as migration south to Karachi could be expected to gradually cause the wages in the northern urban centers to rise. However, real wages for unskilled workers in Karachi dclined by about one per cent in the 1980-81 to 1986-87 period and about 25 per cent in the 1987-88 to 1994-95 period.

The decline in real wages for skilled workers occurred in both cities and in both periods, although more in the later period. Between 1980-81 and 1986-87 real wages for masons declined by 16.5 per cent and 7.0 per cent while during the 1987-88 to 1994-95 period they declined by 18.0 and 19.2 per cent in Peshawar and Karachi respectively.

One would also expect increasing unemployment and a decline in real wages to be accompanied by increasing inequality and poverty. This is indeed the case as is evident from Table-5 below.

Table-5: Inequality and absolute poverty in Pakistan

	Overall			Rural		Urban	
	Income share ratios	Gini	Poverty	Gini	Poverty	Gini	Poverty
1984-85	6.2	.43	18.3	.35	21.1	.38	11.1
1987-88	5.5	.35	16.6	.31	19.6	.37	8.7
1990-91	6.1	.41	17.2	.41	20.6	.39	9.8

Source: Adopted from Malik et. al. (Table II.1 and II.5). Recent estimates in Gazdar (1994) based on the 1991 Pakistan Integrated Household Survey (PIHS) are much higher..

As Table-5 above shows, inequality as reflected by income share ratios and gini coefficients, has increased as has absolute poverty. Income share ratios represent the ratios of the income share of the richest twenty per cent of the households divided by the income share of the bottom twenty per cent. The numbers show an equalisation trend in the mid to late eighties that was reversed in the early nineties. The same story is evident from the gini coefficients. The urban-rural disaggregation shows the sharp rise in inequality in the rural areas relative to the urban areas.

The poverty numbers are based on a head count of the percentage of the population below a calorie based poverty line. Not surprisingly, the numbers reflect the pattern evident from measures of inequality. There is the same pattern of decline in absolute poverty from the mid to the late eighties and then a rise in the early nineties. Second, poverty is strikingly more a rural than an urban phenomenon and has become more so over time. Another study by Malik on nutrition (1992), based on data from the

National Nutrition Survey of 1985-87 and the Demographic and Health Survey 1990-91 shows that there has been an improvement in nutritional status over time for children below the age of two years. However, this trend has been reversed for the age group of four to five years. In any case, the prevalence of chronic and severe malnutrition is high in the country by all accounts.

Unemployment could account for much of the increase in inequality and in poverty, although this issue needs further exploration. Given the consumption pattern of the poor and the incidence of taxes and subsidies which prevailed prior to the recent structural adjustment measures, one could have anticipated the increase in poverty and can certainly explain it with hindsight. We first look at how spending on subsidies and social services have fared as a percent of total expenditures. We have also included expenditures on defense and interest payments in Table-6 below.

Table-6: Proportion of total government spending on subsidies, Social sectors, interest payments and defense

Year	Current Subsidies	Social Services	Interest	Defense
1987-88	4.4	9.6	18.4	26.1
1988-89	6.6	9.6	18.9	25.4
1989-90	4.1	9.1	21.1	26.5
1990-91	4.1	10.8	19.2	24.8
1991-92	2.5	14.1	19.4	23.6
1992-93	2.1	15.7	22.6	25.0
1993-94	1.4	15.5	24.9	25.2
1994-95 (RE)	1.5	16.5	23.8	23.4

Source: *Economic Survey, 1995-96,* Statistical Appendix, (1996), p. 140).

Notes: RE = Revised Estimate.

It is of interest that defence expenditures have been contained and that interest payments continue to expand. Our focus here is on social services and subsidies. Expenditures on social services have steadily increased and it therefore seems that there is more than lip service concerning the increase in focus on the social sectors. There is an implicit subsidy involved in social sector expenditures since the government is not recovering all such expenditures in user charges. Education is an important component of social services, and given the major shift during the Seventh Plan away from expenditures on higher education and towards primary education, the rural poor are so far the recipients of this subsidy.[13] These subsidies in education and public health may be reduced to some extent if user charges are imposed. Also, the combined expenditure on education and health as a percentage of GDP remained virtually unchanged between 1987-88 and 1995-96.[14]

The picture with regard to the steady decrease in subsidies is not so sanguine. As the table below indicates, the bulk of the subsidies were on wheat, sugar and edible oil which are an important component of the total consumption basket of the poor.

Table-7: Subsidies on wheat, sugar and edible oil as a percentage of current subsidies

Year	Subsidies on wheat and sugar	Subsidies on edible oil
1987-88	49.3	-
1988-89	54.9	21.4
1989-90	50.0	-
1990-91	43.3	21.1
1991-92	51.0	2.0
1992-93	52.7	-
1993-94	70.4	9.0
1994-95 (RE)	53.2	12.5

Source: *Pakistan Economic Survey,* 1995-96, p. 141).

Notes: RE = Revised Estimate.

The table above shows that not only have total subsidies declined but the share of wheat, sugar and edible oil in these subsidies have also declined sharply. The decline in subsidy accompanied an increase in the support price of wheat which rose from Rs. 64 per 40 kg in 1983-84 to Rs. 173 per 40 kg in 1995-96, an increase of one hundred and seventy per cent. Between 1984 and 1994, nominal wages for unskilled labour in Karachi increased one

[13] Education expenditures by plan period are cited in Table-3 of the SPDI Citizen's Report (1996), chapter on education.
[14] *Pakistan Economic Survey 1995-96*, Statistical Appendix, (1996, p. 7).

hundred and fifty-seven per cent.[15] The increase in wheat price is of concern since the lowest income group derive 70 per cent of their potein and 55 per cent of their calories from this source.[16] Also of concern is the changing share of wheat in the consumption basket of the lowest income group as reported in the Table below.

Table-8: Expenditure on wheat and fuel as a proportion of total household expenditure

Income Groups	Wheat		Fuel	
	1987-88	1992-93	1987-88	1992-93
I	12.07	24.71	7.76	17.65
II	10.82	13.34	7.06	10.16
III	9.21	10.19	6.19	7.67
IV	7.34	7.97	5.57	6.38
V	6.02	4.15	4.49	3.89

Source: Calculated from *Household Income and Expenditure Survey, 1987-88* (1989, pp. 183, 233, 263) and *Household Integrated Economic survey 1992-93* (1996, pp. 254, 287, 322).

Notes: As in Table-2.

As is shown in Table-8 above, expenditure on wheat increased sharply for low and middle income households. This is contrary to past trends and expectations and could be accounted for by a substitution away from other foods. Ender, Wasay and Mahmood (1992, p. 1164) show a declining trend in the consumption of wheat in the past for the lowest income quartile and argue that this is expected with a rise in prosperity.

Looking at the consumption pattern of the poor shows that they have been hurt many times over. Not only have they borne a disproportionate burden of the cuts in employment, cuts in employment, cuts in subsidies and the rise in prices, but they have also started bearing more of the tax burden. Using consumption patterns, Kemal and Mahmood (Just Development, Chapter 4) showed that the burden of taxes on the poor increased by 10.3 per cent while that on the richest group declined by 4.3 per cent between 1987-88. Taking only the poorest and richest income categories into account, the indirect tax structure remained mildly progressive with the poor paying 7.8

[15] *Pakistan Economic Survey 1995-96*, Statistical Appendix, (1996, pp. 26, 60).
[16] Khan, Kazmi and Ahmed (1996, Table-2).

per cent of their income in taxes and the richest 11.0 per cent in 1990-91. During this period, the share of indirect taxes in total taxes also declined from 87 per cent of total taxes to 84 per cent and it has declined further to 72 per cent by 1995-96.[17] However, a simple decline in indirect taxes as a percentage of the total is not enough. The real issue is how sensitive the indirect tax structure (now referred to as the Generalised Sales Tax) is to the consumption pattern of the poor (via exemptions) and how this subsequently affects their tax-burden.

Concluding remarks

Our approach to structural adjustment is not an ideological one. We believe that some sensible policies may be recommended as part of the structural adjustment package and one needs to keep the national interest in mind when assessing structural reform. However, it may not always be helpful to think on such a broad level, since the impact of structural adjustment is likely to differ a great deal by income group. This paper focuses primarily on the impact of the post 1987-88 bouts of structural adjustment policies on labour and the poor.

The evidence to date is less than heartening. Owing to privatisation, golden handshakes, and an employment and wage freeze, the share of public sector employment cost in total public sector employment decreased from 35.3 to 28.7 per cent. In the presence of excessive under-employment and public sector inefficiency, this could be considered a positive outcome. However, one would hope that the private sector is then picking up the slack. Even taking into account the recognition by the Federal Bureau of Statistics that they had been understating unemployment rates prior to 1990-91, the increase in unemployment rates by occupational categories from 1987-88 to 1990-91, and indeed 1993-94 are dramatic, particularly in occupations where one would expect a high incidence of poor workers. At the same time, the wages of skilled and unskilled labour have drastically declined.

One would expect an increase in inequality and poverty to accompany high unemployment rates and declining real wages and that is indeed what occurred. Between 1987-88 and 1990-91, inequality and poverty both increased notably. Apart from unemployment, cuts in subsidies and increases in prices of commodities that are a big component of the consumption pattern of the poor account for this phenomenon. Finally, while the reliance on indirect taxes decreased over 1987-88 to 1990-91 and while the indirect tax structure in Pakistan was mildly progressive in the

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[17] *Economic Survey* 1995-96, Statistical Appendix (1996, p. 137).

base year, the incidence of indirect taxes on the poorest tax group increased during this period by 10.4 per cent while that on the richest tax bracket declined by 4.3 per cent.

Our research shows that structural adjustment conditionalities are proving to be detrimental for the socio-economic well being of the poor. We recommend that the government pay close attention to the effects of these policies on employment and on the consumption pattern of the poor. The Social Action Plan, which seeks to build human capital of the rural poor, may be a reasonable long run solution. However, in the short and medium term, the job and nutritional needs of the poor need to be directly addressed through well run patronage free programmes.

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The Catch-up Process in a Global Economy: An Analytical Approach

Irfan ul Haque*

The diverse growth experience of economies across the globe is perhaps the most intriguing question that the economics profession faces. The economies of East Asia have grown rapidly over the past three decades, while the economic performance of the South Asian and Latin American countries has been relatively mediocre, although better than that of the African countries, where the per capita incomes have been generally declining. Among the developed countries also, there has been considerable diversity of economic performance.

There is no dearth of research on the question, but there is little agreement among economists on what explains the diversity of economic growth experience. One reason for the absence of consensus is that economic growth is a relatively recent phenomenon and we, as economists or social scientists, still do not understand well what factors bring it about. Sustained economic expansion and rise in living standards can be traced back only to the late eighteenth century, i.e., the time when the Industrial Revolution started in Great Britain. This is not to suggest that there had been little social or economic change prior to that epoch. Quite the contrary. Agricultural practices had been improved over time, and there is a rich record of the mastery and ingenuity of artisans all over the world. But such improvements in products and processes as occurred over the period prior to the Industrial Revolution somehow did not become an economic force, leading to a general improvement in the living standards.[1]

The fact that there was little sustained economic growth until the Industrial Revolution also implies that income disparities across nations, hovering around subsistence levels, were very much smaller than what we currently observe. While the per capita income in the richest countries today is more than two hundred times that of the poorest countries, the income disparity was no more than two to one around the late eighteenth century. (Dosi et al 1993) In other words, the sharp income disparities

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[1] Indeed, if there had been any sustained rise in living standards since (say) the time of Moses, some 5000 years ago, the results would have been truly astounding. Just the investment of one dollar, at a rate of interest of no more than a quarter of one percent a year, would have yielded an income level of well over two hundred thousand dollars today!

that we observe across the world are also of recent origin. Prior to the Industrial Revolution, it was still of course possible for some nations or social groups to grow rich—and there are many monuments reflecting the riches of by-one ages—but this was possible only through plundering other nations or exploiting other social classes. What the experience of the last two hundred years has shown is that the increase in the living standards can, in principle, be widely shared, even though the actual record of countries differs very widely.

Three examples stand out in the growth experience of the last two hundred years. First, the experience of Great Britain showed that a sustained increase in the living standards over the long term was a feasible proposition.[2] Later, the Japanese experience after the Meiji Revolution of the late nineteenth century showed that the process of growth could be considerably accelerated and that sustained economic expansion was not solely a European phenomenon.[3] More recently, that is over the last thirty years, the East Asian developing countries have demonstrated that the speed of catch-up with the living standards of the more advanced countries can be compressed to a much shorter time period.

This article attempts to elucidate three propositions that help to explain the growth experience, without attempting to give a comprehensive treatment to the subject. The three propositions are:

* Technological prowess—i.e., the ability to generate and manage technological change—is a critical factor in explaining countries' ability to raise their standards of living.
* The best measure of technological prowess is the growth in labour productivity over time. And,
* The growth in labour productivity—or technological dynamism—is best explained by: (i) investment in physical capital; (ii) investment in human capital; (iii) and investment in the build up of what has come to be called "national technological capabilities".

Technological Prowess

The central importance of technological progress is recognised in the literature on economic growth. With technological progress absent, the

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[2] There is, of course, a strong body of opinion that holds that the development of Great Britain, as well as other colonial countries, was brought about through the exploitation of today's colonies. The purpose here is not to open this debate, but simply to state the record of Britain's growth.

[3] Japan until not too long ago was the sole country with a non-European population that was a member of the OECD (Organization of Economic Cooperation and Development).

catch-up in living standards for the lagging countries would be a rather simple matter. All they would need to do is equip labour with ever increasing amounts of capital, which would raise labour productivity. We know that this is not a realistic explanation.

Economic growth is synonymous with an increasing quantity, quality and variety of goods that have become available to mankind over time. It also implies that, thanks to steady improvements in methods of production, physical arduousness of work has declined over time: all the product of technological change. This is, however, not a one-step change, but rather an intrinsically dynamic process, where technological knowledge feeds on itself. Through increasing the range of available products and production processes, technological progress widens and raises the potential for economic expansion. But this process also multiplies the range of possible combinations of known goods and processes, thus opening up new avenues to exploit the available knowledge.

The ability of nations to take advantage of these opportunities is crucial in determining their capacity for economic growth. It is one thing to be able to put together a product or master a particular production process—taking advantage of the existing knowledge—but quite another to be able to make product and process improvements, and add to technological knowledge. The former variety of skill or knowledge acquisition of course cannot be ignored in a discussion of policies for economic growth, it is often the first necessary step to developing the capability of generating technological change. But, equally, this first step is not a guarantee for technological dynamism. It is not uncommon that the state-of-the-art industrial plants are established in developing countries, but (depending on the speed of technological advances elsewhere), these plants become out-of-date and uneconomic fairly quickly.

The capabilities to generate, and then manage technological change depend on a culture of problem-solving: identifying a problem, and then systematically looking for an answer. This in turn is a product of a general environment of intellectual curiosity and inquisitiveness about natural and physical phenomena. The birth of this environment of scientific inquiry explains better than anything else the timing and location of the Industrial Revolution. As noted by Abdus Salam, the famous physicist:

...there centuries ago, around the year 1660, two of the greatest monuments of modern history were erected, one in the West and one in the East: St. Paul's Cathedral in London and the Taj Mahal in Agra. Between them, the two symbolise...the comparative level of architectural technology, the comparative level of craftsmanship and the comparative level of affluence and sophistication the two cultures had attained at that epoch of history. But at the same time, there was also created—and this time only in the West—a third monument, a monument still greater in its eventual import for humanity. This was Newton's *Principia* published in 1687." (1989, p. 5)

There has been considerable discussion on how such an environment comes to be created. Essentially, there are two sets of explanations: those that attribute it to religious or ethnic factors (such as Protestant ethics to explain the European advances, or Confucianism to explain the Japanese performance) and those that hold "necessity is the mother of invention". While the role of either cannot be denied, they are inadequate as sole explanations. If the former is accepted, the question arises why technological dynamism took root at a given point in history, considering that Protestantism or Confucianism (or any other set of beliefs) predate the incidence of the Industrial Revolution by many centuries. Similarly, while it is true that a large number of technological advances are responses to some real economic need, this is not a satisfactory explanation since there is no evidence of a correlation between the pressure of wants and technological dynamism. Certainly, the countries in deep penury are not usually technologically the most dynamic.

One thing, however, seems to be clear: the capabilities to generate technological change are manmade, and different places at different times have shown themselves to be technologically dynamic. It is in this respect that the experience of Japan and other East Asian economies is very relevant to developing countries: Each of these countries was dismissed not too long ago as incapable of making rapid economic progress. The following quote is perhaps typical of the perception about East Asia at the end of the Second World War: "Forty-three years ago an influential government report in an important developing country observed that labour today shunned hard, productive jobs and sought easy, merchant-like work. The report showed that workers' productivity had fallen, wages were too high, and enterprises were inefficient and heavily subsidised. The country had virtually priced itself out of international markets and faced a severe competitive threat from newly industrialising China and India. It was overpopulated and becoming more so. This would be the last opportunity, concluded the Prime Minister in July 1947, to discover whether his country would be able to stand on its own two feet or become a permanent burden for the rest of the world. That country was Japan." (World Bank 1991, pp. 13-14) There is considerable empirical evidence that countries that invested in bringing about technological change (e.g., through R&D expenditures) were better able to grow rapidly and catch up with the more advanced countries. (See, e.g., Dosi *et al* 1990). Fagerberg (1998) concluded from his statistical results that "...to catch up with the developed countries...semi-industrialised countries cannot rely only on a combination of technology imports and investments, but have to increase their national technological activities as well." (p. 451)

The Measurement of Technological Progress

Economists have essentially employed two measures of technological progress: the growth in the so-called total factor productivity (sometimes also called multi-factor productivity) and growth of labour productivity. Productivity of capital is normally not considered to estimate technological change, since the nature of output as well as capital can change with technological change. Empirically, the output-capital ratio is found to be rather stable over time, reflecting that increased output is associated with greater reliance on capital.

Total factor productivity (or TFP), as its name implies, measures the improvements in productivity of all factors taken together. In order to measure it, some assumptions have to be made to aggregate various outputs and inputs, which are often questionable. TFP at any given time is equal to:

$$\frac{X_1}{X_1},$$

where X_t and Y_t represent, respectively, outputs and inputs aggregated on the basis of given weights.

Solow (1957) is credited with a method of estimating TFP growth, using the standard Neo-Classical production function and retaining the assumption that factors earn rewards equal to the value of their marginal products. This approach allowed him to separate the *shifts* in the production function over time. His starting point was that, in the absence of technological change, a constant returns to scale production function would fully exhaust the value of output if factors earned rewards equal to their marginal products, and this will hold true for variations in the use of factors as well. Technical progress will have occurred if there is a residual of output left over after the factors of production have been paid their rewards equal to their marginal products. That is:

$$\text{TFP Growth} = \frac{\Delta X_t}{X_t} \quad \Sigma\beta_i \quad \frac{\Delta K_i}{K_i},$$

where K_i represents factor input i and β_i represents that factor's share in the output based on its marginal product.

The TFP measure, however, is fraught with serious conceptual and practical problems. The idea of deriving a quotient of general efficiency of input use is obviously appealing, but strong and unrealistic assumptions have to be made to derive the estimate. If the production function is not constant returns to scale or if the factors of production do not get paid according to their marginal productivities, the Solow procedure breaks down. Furthermore, being in the nature of a residual, the measure of TFP growth contains all the measurement errors, which in the case of physical and human capital can be particularly serious. (Haque 1995) When the estimate refers to national efficiency, the sectoral biases in production can influence it. For all these reasons, it has been aptly called a "measure of our ignorance". TFP estimates certainly have their uses, but as indicators of technological progress they are quite unsatisfactory.

Labour productivity growth, as an indicator of technological advance, is also seriously deficient, but it does have the merit that conceptually it is relatively straight-forward. Notwithstanding the differences in the types of labour, measuring output per unit of a more or less homogenous input presents less serious conceptual or practical problems. It too faces some serious measurement problems, but at least conceptually its meaning is quite clear. The main weakness of labour productivity as a measure of technological sophistication is that it can rise simply by equipping workers with more capital: this may just represent a *movement* along a given production function, rather than reflect its *shift* over time. However, to the extent that more capital intensive techniques represent more advanced technologies, an increase in labour productivity would mean greater technological sophistication. It is seldom, if ever, the case that more capital intensive techniques simply mean more of the same capital good being employed per head of employed person. (Two shovels instead of one per labourer is not a more efficient technique). Thus, in fact, it is quite impossible to distinguish between the movements along a production function and its shifts over time, except by adopting strong assumptions, such as those required for deriving TFP estimates.

From the point of view of long term growth, labour productivity has an appeal for two reasons. One might say that labour productivity growth is twice blessed:

It is the main determinant of the rise in living standards over time; and

Labour productivity growth is a key determinant of a country's ability to compete in the world market, thereby ensuring that economic growth is sustainable over time.

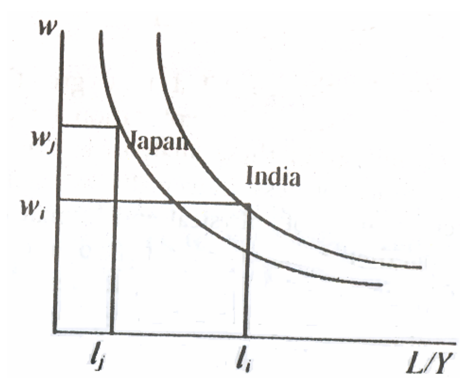
The relationship between living standards and productivity growth is quite straight-forward: per capita income is simply equal to the product of labour productivity, the employment rate, and the proportion of the population in the labour force:

$$\frac{Y}{P} = \frac{Y}{L}\frac{L}{N}\frac{N}{P}$$

where *Y, P, L,* and *N* stand for national output, population, employed persons, and active population, respectively. If the above equation is converted into growth rates, it shows that the growth in per capita income is equal to the sum of growth of labour productivity *(Y/L)*, the rate of change in the employment rate *(L/N)*, and the rate of change of the proportion of population in the active labour force *(N/P)*.

Although, the employment rate can fluctuate widely in the short term, it displays little change in the long term. Economies have a tendency to hover around a long term rate of employment. The size of the active population does change over time, because of demographics (birth and death rates influence the size of the working-age population) or social change (participation of women or children in the work-force). However, there is no definite trend that the proportion of active population may follow, and some of the changes may be off-setting each other (e.g., as child labour declines, a greater number of women may enter the labour force). In short, if in the long term, there is little or only a modest change in the employment rate and the proportion of active population, the growth in per capita income will be quite close to the growth in labour productivity. To put it differently, it is impossible in the long term to raise living standards without raising labour productivity.

Figure 1



Economic growth and a rise in living standards cannot be sustained in an open trading environment if the country's balance of payments is not viable. Although countries may rely on foreign financing for a number of years, ultimately the viability of the balance of payments depends on export growth. Exports must rise rapidly enough to prevent the trade balance from becoming so large that it cannot be financed. The growth in labour productivity is an important factor in determining export growth.

The relationship between productivity growth and export performance can be demonstrated easily through Figure 1, where the locus of labour cost, as the main element of variable costs, has been traced, indicating that the share of labour costs can either be reduced by means of reducing wages or by increasing labour productivity (the inverse of *L/Y*). Thus Japan with its higher wages than India's ($w_j > w_i$) can remain more competitive than India simply because of higher labour productivity ($l_j < l_i$). There are, of course, other factors that can influence a country's ability to compete in the world market (quality of products produced, timeliness and quality of service, etc.) but labour productivity is in some sense a fundamental factor. There is considerable evidence that countries with higher labour productivity growth also tend to be more successful in increasing their shares in the world market. (See Haque 1995)

There are also some interesting policy implications of the relationship between productivity and export performance. In Figure 1, India could become as competitive as Japan by means of reduced wages (through, for example, a devaluation of the Indian rupee). If, however, the goal is to improve the standard of living over time, then productivity improvement measures will have to be the focus of development strategy. The success of the East Asian tigers (Korea, Taiwan, Singapore, and Hong Kong) lay precisely in remaining internationally competitive while their standards of living rose.

Determinants of Technological Dynamism

Recent advances in the so-called new growth theory show that technological differences are the main explanation for differences in growth experience. Since technology in these analyses is equated with knowledge, which is held to be more or less universally available, the models place emphasis on the accumulation of physical and human capital (especially the latter). The two together make the access to and use of the growing technological knowledge possible. The empirical estimates of the impact of human capital are indeed very impressive. They consistently show a major and statistically highly significant impact of human capital on economic growth. (See e.g., Barro 1991, Baumol 1989, and World Bank 1993)

The usual measures of human capital accumulation—i.e., the school enrolment rates—do not, however, capture the countries' technological sophistication and dynamism. Education and engineering skills are of course prerequisites to achieving technological mastery, but they do not by themselves determine the pace at which technologies are improved and put to work in productive activities. The experience of the centrally-planned economies shows that educational, scientific, and even engineering achievements can fail to materially affect economic perfo0rmance. There are also many developing countries (e.g., India, Pakistan, and Bangladesh) where despite the low supply of educated and skilled labour and technical expertise, there is unemployment among the available stock of engineers, scientists, and medical doctors, many of whom ultimately migrate to other countries.

Technological dynamism requires investment in building technological capabilities, and creating a culture of intellectual curiosity, a drive to innovate, and a certain motivation for making small incremental improvements within individual firms (what the Japanese call "kaizan"). This requires governments dedicated to economic growth and private enterprise committed to national development. This seems to suggest that there is a sort of virtuous circle involved here. Just as Nurkse several decades ago drew attention to developing countries being caught in the trap of low investment, low growth, and low savings, the same could be true of technological dynamism.

While the evidence on the relation between human capital and innovative effort and productivity growth has been found to be strong, there could also be a reverse causation. As Nelson (1981) points out: "Just as a high rate of capital formation and a well-educated work force stimulate technological advance, so technological advance stimulates a high rate of capital formation and motivates young people to acquire formal education." (p. 1055)

To this virtuous circle of investment, human capital accumulation, and economic growth should also be added the openness of the economy to world trade. Although foreign trade can have a negative impact on the domestic economy, competition in the world market feeds technological dynamism. This happens through domestic producers being exposed to different products and approaches to production, skill improvement from usage of imported goods, and not least the buyer-seller contacts which often yield technological improvements in products and processes.

Competing in the world market obviously requires exploiting a country's existing strengths, but countries have constantly to be searching for new areas of competence in order to sustain rapid growth. This is not a passive pursuit, but rather requires deliberate strategy to stay abreast, if not ahead of technological developments elsewhere.

Conclusions

The vast income disparities that we observe today in the world are of relatively recent origin. These disparities have arisen out of the differing pace of economic expansion of different countries and regions observed over the last two hundred years. A major factor that explains the differences in economic performance is technological dynamism, which is, on the one hand, determined by human capital and technological prowess, and, on the other, by the exposure of domestic producers to the world market. However, openness to international trade needs to be accompanied by deliberate promotion of capabilities to search, evaluate, adapt and develop technologies to enhance a country's competitiveness.

The rapidly growing economies of East Asia evidently overcame the hurdles to the virtuous circle of trade-technology-competitiveness, and started to catch up with the developed world. How they did it is obviously a subject of much discussion and research, but two things appear to be conspicuous in their experience: a national commitment to economic development and pragmatism in their national strategies and government policies.

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Institution-Building – Lessons from History

Nadeem ul Haque[1]

In the post war world, numerous attempts at all levels – multinational, bilateral and domestic – have been made to foster growth and development in the low income world so that these countries can catch up with their richer brethren from the industrial countries. Why has growth not been faster? What can be done to make these countries achieve more balanced and sustainable growth? These are important questions of the day that are preoccupying all serious positive social science and development policymaking. To a large extent, many of the answers that are being derived relate to the failure of these countries to develop key institutions. Most practitioners and thinkers are now in agreement on this issue but remain perplexed at what is required to develop these institutions. The public sector's attempts at developing the institutions within its fold have not succeeded. The fostering of non-governmental institutions also remains fairly uneven in its results. Donor funding for institutional support too has had very limited results despite the extensive history of sectoral and institutional reform that has been supported by substantial financial and technical assistance and resources.

One area that the practitioners and thinkers in the sphere of institution-building seem to be paying little attention to is the origins and development of more successful institutions in the world. Most of the institutions that command international respect are in the western industrial countries. These include the major universities such as Oxford, Cambridge, Harvard and Chicago, think tanks such as Brookings, Carnegie, Rand, court systems, stock exchanges and central banks etc. How were these established and how did they develop to the extent of gaining the respect of the society around them? What was their contribution to the society in which they were situated? These are important questions that may allow us to understand the difficulties with institution building in the low income countries. We examine the history of two major universities in the US to derive certain important implications for institution-building.

Rockefeller, Harper and the University of Chicago

The University of Chicago (U of C) offers us a wonderful opportunity to look at institutional development in modern times and at a rapid rate. The traditional universities such as Oxford, Cambridge and Harvard have a

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[1] The views are those of the author's alone and should not be construed to be those of the international Monetary Fund.

long history of development. U of C, on the other hand, was set up in 1892 and had established itself as a major research university by the turn of the century. A few years later it began to contribute to key economic policy issues such as the setting up of the Federal Reserve Board and major advances in science such as the splitting of the atom. Let us review the essential ingredients of this success.

The birth of the University was the result of a happy circumstance where an important philanthropist, John D. Rockefeller (JDR) was supported and joined by the entire educational community of the time in the venture to set up a major educational establishment in Chicago. JDR, the richest man of the time and given to very aggressive business practices, remains one of the most important philanthropists of all time. In his life he gave around half a billion dollars to various institution-building enterprises and set in motion a tradition that his children continue to date. This is an even bigger sum of money if we adjust for the amount of inflation that has taken place in the last eighty years or so since his demise. In today's prices, JDR would have given away something like $ 77.7 billion.[2]

However, even more interesting is the manner in which JDR made his gifts to allow the sapling on an institution to grow. JDR was not a distant or overbearing contributor or interested in receiving accolades. He took a keen interest in selecting the man who it was generally believed could undertake such an enterprise – William Rainey Harper. JDR did not possess the arrogance that came of power and money. He would not expect Harper and others who were interested in the 'proposed college at Chicago' to approach him. He would not summon them as he could, given his wealth and power. Instead numerous letters written by Harper to others involved in the project show that JDR would undertake lengthy journeys to visit him in places such as Poughkeepsie and New Haven. As Harper records, "He seemed to have nothing to do except talk with me." He would even wait while Harper taught his class so that they could resume the discussion.

When the University started functioning, JDR announced through Gates, his close associate in most charitable and personal investment and business matters, 'While he (JDR) is, of course, closely interested in the conduct of the institution, he has refrained from making suggestions, and would prefer in general not to take an active part in the counsels of the management. He prefers to rest the whole weight of the management on the shoulders of the proper officers. Donors can be certain that their gifts

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[2] Long time series data suggests that the change in the CPI between 1913 to 1995 was 1536 per cent.

will be preserved and made continuously and largely useful, after their own voices can no longer be heard, only in so far as they see wisdom and skill in management, quite independently of themselves, now. No management can gain skill except as it exercises its functions independently, with the privilege of making errors and the authority to correct them." Goodspeed, another member of the group involved in setting up the University, also records that "Mr. Rockefeller never, under any circumstances, could be induced to recommend the employment or dismissal of a member of the faculty or give any advice whatever regarding the teaching force." JDR resisted the overbearing management of the interfering benefactor who, drunk on his wealth, presumed to know it all. In fact, frequent references to his restraint and respect for professional management can be cited.

JDR was not interested in accolades or praise. When the University opened its doors in 1892, he was invited to a formal opening ceremony with pomp and show, but "he advised against any formal opening ceremonies and thought it would in any case be hardly possible for him to attend." He did not visit the University until he was finally persuaded to attend the quinquennial and the decennial celebrations, those being the only two occasions when he visited U of C. His sentiments are best captured by his own speech at the quinquennial celebration, "Why shouldn't people give the University of Chicago money, time and their best efforts? Why not? It is the grandest opportunity ever presented. Where were gathered, ever, a better Board of Trustees, a better faculty? I am profoundly thankful that I had anything to do with this affair. The good lord gave me the money and how could I withhold it from Chicago?" He noted that he had merely made 'a beginning' and said that "you have the privilege to complete it." The institution-building philanthropist realised that his money was only a part of the process and without the main participants doing their bit, his donation, no matter how big, would not bear fruit if a dedicated management did not emerge to develop an outstanding academic environment. He was, therefore, conscious of not exaggerating his role and therefore stifling the venture.

JDR's respect for academics and professionalism, and his skill as an institution-builder again becomes evident when he decided to give complete autonomous control to Harper who was the main visionary of the time. JDR was hoping to set up a college with a few hundred thousand dollars. Harper wished for a university with an emphasis on research and graduate education at a time when even Harvard was a mere undergraduate institution. Harper's plan was much vaster in scale than that envisaged by others who were involved in the project. As Rockefeller's biographers, Harr and Johnson note, "He wanted to rival Oxford and Cambridge, the great German universities, and the best schools in the Eastern United States." Harper's thinking prevailed because JDR always maintained that he was merely providing the money and he did not wish to involve himself in running a university.

Harper set himself the task of "organising an institution of a distinctively new type" and considered it to be an 'educational experiment' that had to prove itself. From the beginning, he planned a university steeped in original research and investigation. He encouraged publication and developed the concept of a university press. As a result, the now famous University of Chicago Press, the publisher of the Encyclopedia Britannica was founded. To encourage research, departmental journals were encouraged. Among those that were founded then, several such as the *Journal of Political Economy* are now among the leading research publications in the world. He encouraged continuing and extension education where part-time education was encouraged. To make education more convenient for the student, he developed the quarter system with continuous graduation, thereby breaking away from the tradition of graduating only in the summer.

The success of Harper's experiment is evident from the following. First, almost all his ideas are universally accepted now with all major universities adopting the themes that he propounded. Second, U of C remains one of the finest universities in the world claiming among the largest number of Nobel prize recipients on its faculty. Third, U of C's name has been associated with many of the important academic events of this century.

Harper set about hiring a faculty before the university was established. He wanted to get the very best and in particular was looking for 'head professors' who would develop their own departments. Goodspeed notes that "He sought big men, men already established and recognised as exceptionally able." Harper worked very hard to get the faculty he wanted. He was willing to increase the salaries by substantial amounts of people he wanted. Harr and Johnson note that "He (Harper) wanted to assemble the most brilliant faculty in the world by paying an unheard of salary of $ 7,000 per year."[3] [4]

Harper knew that in order to attract a good faculty, he must provide them with an atmosphere to flourish. Though himself an academic of considerable achievements with many books and publications and numerous important university appointments, he was not in competition with his faculty. He recognised the need to encourage and develop this faculty. "He

[3] Harr and Johnson (1988) page 15.
[4] Equivalent to $ 108,000 in 1995 using the CPI data presented above.

rejoiced in the growing reputation of members of the faculty as though they were his own. Every distinction they received gave him pleasure. Every book they published was a source of satisfaction to him..........he was proud of the honours they received and he watched the development of growing scholars with joy and pride." Harper established the approach that continues to be followed by most major universities --- to hire the best, attracting them with incentive pay packages, and allowing them to do their research and writing free of restraints.

An undertaking of this size was not possible without major funding. Between 1892 and 1915, JDR provided a princely sum of about $ 35 million to the U of C in keeping with his vision of participating in "the grandest opportunity ever presented." In today's dollars, this is equivalent to about $ 536 million. It was a big and liberal grant that allowed the academic vision of Harper to flourish. To place this in perspective, consider some of the loans arranged by the World Bank which is a big multilateral development finance institution financing the development of education in developing economies for the reform of the entire education sectors in developing countries. For example, in Pakistan the World Bank arranged a Social Action Programme, part of which concerns education with financing of $ 200 million in 1994.[5] Similarly, a sector loan for the reform of 'middle schooling' was provided for $ 115 million in 1992. Contrast with JDR's donation, the numbers are worthy of further thought.

The upshot of this marriage between a generous grant from a non-interfering philanthropist and a talented visionary for rearing the institution created a marvel in the academic world. The university started in the year 1892 with a very strong faculty of 128 faculty members who were to teach 594 students with 276 in undergraduate departments. "Harper succeeded in attracting extraordinary faculty and a large and impressive student body and in establishing important innovations in higher education."[6] Over the years, the university has been amongst the foremost contributors to fundamental research in many areas. Many notable academics, Nobel prizewinners, path breakers in their own subjects have been associated with the U of C --- too many to enumerate in a paper such as this. In academics, the U of C established a name for itself very early in its life and retained a position of eminence, thanks to the ingenuity of its founders. And that is something that we should try to learn from.

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[5] See World Bank 1995.

[6] Harr and Johnson (1988) page 28.

II. Jefferson and the University of Virginia

After his retirement from public life and two terms as president, as an old man Jefferson developed a plan for public education and gave the last years of his life to its realisation. He had been reading up on educational methods and techniques in other lands as well as talking to specialists for years. The plan that he developed for the state of Virginia was perhaps one of the most ambitious projects of the time for education in a free republic. He was seventy five years old when he developed this plan.

In this plan, he divided his educational system into three parts – elementary school, high school and university. Elementary schools were to provide instruction in reading, writing, arithmetic and geography. They were to be free to all children, for Jefferson insisted that it was the duty of the government "to provide that every citizen ..... should receive an education proportioned to the condition and pursuits of his life." However, being a strong advocate of liberty, Jefferson hesitated to make attendance in elementary schools compulsory. Coercion of any kind was so distasteful to him that he would not see it applied even in so vital a matter as public education; he was prepared to tolerate the rare instances of a parent refusing to let his child be educated, rather than forcibly educate a child against the will of the parent. High schools were to teach science and languages, and to provide at public expense, preparation for the professions. These were to be established throughout the State, within one day's ride of every inhabitant.

The apex of the whole system was to be the university. It was to be composed of a number of professional schools, giving instruction in what Jefferson called "useful" branches of science. These professional schools were to train architects, musicians, sculptors, gardeners, economists, military and naval scientists, horticulturists, agronomists, physicians, historians, clergymen and lawyers.

Jefferson's plan has several parallels with that of the University of Chicago. Jefferson knew that he wanted a major learning centre and used all his elder statesmanly powers of persuasion to convince the state legislature. To the skepticism of the legislators, Jefferson reacted by saying that they "do not generally possess enough information to perceive the important truths, that knowledge is power, and knowledge is safety, and that knowledge is happiness."

It is interesting to note the kind of support in those days that a venture like the university had from eminent people. Among the twenty-four Commissioners appointed for the organisation and location of the university were former Presidents Jefferson, Madison and Monroe. The three men met often at Jefferson's famous house, Monticello and made plans for the founding of the University at Charlottesville.

For the next six years Jefferson lived only for the University of Virginia. The institution was to be the crowning glory of his life, and upon it he lavished all his energies, his talents, his hopes. Jefferson did everything himself. He raised money and drew up the architectural plans himself. He procured the workmen, including the importation of sculptors from Italy. He prepared all the details of construction.

Jefferson's greatest difficulty in building the university was concerning finances. He had designed his institution on a grand scale. The originally appropriated sum of $ 15,000 was of course inadequate. By patient and persistent political pressure, he obtained $ 300,000 from the legislature for the construction of the buildings --- a tremendous sum for those days. The University which is still considered to be one of the most beautiful campuses of the world, was built according to Jefferson's architectural plans and specifications.

But Jefferson well knew that what makes a university is teachers, and not structures. It was difficult to find a faculty of the requisite quality in the new country. There were few universities and colleges in the United States at that time and the existing ones lacked the trained scholars in sufficient numbers, or of caliber high enough to draw upon for the University of Virginia's needs as envisaged by Jefferson.

Jefferson wanted only the best men in their fields, and the best were available mainly abroad, particularly in England, "the land of our own language, morals, manners and habits." He sent an American scholar, Francis Walker Gilmer to Britain to induce scholars to join from the universities of Oxford, Cambridge and Edinburgh. He also set in motion his powerful connections in England to help him get first rate scholars who would be willing to undertake the arduous journey to the U.S.

To Samuel Parr, the eminent Oxford classicist, he wrote, "We are anxious to place in it none but professors of the first grade of science in their respective lines." And he asked him to assist Gilmer to find the men. To Dugald Stewart, the famous Scottish metaphysician, Jefferson made the same request in almost identical words "anxious to receive none but the highest grade of science in their respective lines." By these means, Jefferson succeeded in assembling an excellent faculty of seven professors, only one of whom was a native American. This was John Taylor Lomax of Virginia, who was given the chair of law. The others included George Tucker, a native of

Bermuda, professor of Moral Philosophy; George Long of Cambridge, England, professor of Ancient Languages; George Blitterman, a German professor of Modern Languages. Apart from the Georges, there were Thomas Hewitt Key, an Englishman, professor of Mathematics; Charles Bonnycastle, also an Englishman, professor of Natural Philosophy; and Robley Dunglison; likewise an Englishman, professor of Anatomy and Medicine. The salary of the professors was $ 1,500 a year, as well as a rent-free house, and a fee of $ 20 from each student.

Conclusion

In both examples, we find that there are several common themes. We could review other examples and in all likelihood find the same commonalties. With the benefit of hindsight, it seems that the key ingredients for the creation of a successful university are as follows:

* the prime mover of the institution was an important, gifted and respected individual with a dream;

* adequate funding; in the one case we saw a generous grant from a non-interfering philanthropist, and in the other funding from a state legislator in awe of a living legend, helped realise his dream;

* a talented visionary --- with an emphasis on vision and innovation --- for nurturing and rearing the institution;

* the assembling of the best available faculty and, more importantly, the ability to induce the required academic talent away from across the seas if necessary:

* a management structure which recognises that talented and inspired people should be allowed the independence to pursue their cherished research and investigative instincts.

The current approach to developing these institutions in the low income countries depends far too heavily on a collaboration of governments and aid-giving agencies, both of whom are plagued by complex bureaucracies. Plans are drawn up by international experts who occasionally fly in to supervise and instruct at a huge cost. Buildings and the international consulting expense is often the biggest cost component of such projects. The hiring of the faculty remains relatively low on the list of priorities if we judge by the salaries offered and the efforts put in to find such faculty. In the opinion of this establishment, domestic talent is considered to be inferior to foreign talent and therefore is offered lower salary incentives as well as lower stature in the hierarchy. Indeed, the highest salaries in any country are those of donor agencies and multinationals and these too place local expertise of all kinds well below expatriate staff. Naturally, the response to this discriminatory arrangement is that the more capable people move into the donor agencies or multinationals. The more capable who can, migrate or leave the country. It is not surprising then to find many talented professors from Africa, Asia and Latin America in major universities in the West. Yet none of them, despite efforts, are able to find any positions at home.

This approach leaves no room for a 'Harper' to take charge of his institution and make it happen as it were. He will be hidebound by plans drawn externally, rules and reporting requirements that will leave him little room for his innovations. Moreover, given the view of inferiority of domestic talent, no effort is made on the part of the sponsors to find that special 'Harper'. Instead, they think that any retired government official and any minor academic from the North can create a 'Chicago of the South.' And the 'Harpers' and 'Jeffersons' of the South are left to seek employment in the aid paraphernalia in the local office at a salary above that of domestic institutions. At an international salary if they migrate to the northern capitals and are employed in international institutions.

Presumably, the experts know better and have achieved an optimal arrangement for the allocation of talent. The results, if judged by the numerous universities that have been created at substantial cost in many poor countries only to languish in decay, would suggest otherwise. Perhaps it is time that we considered the role of domestic talent to be other than troops in the aid infrastructure.

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Pakistan's Experience in Employment Generation at the Micro and Macro Levels, and Future Directions*

Shahid Amjad Chaudhry & Masooma Habib

Abstract

The Pakistan economy is currently going through a period of much needed structural adjustment focusing on: (i) Reducing fiscal deficits from about 6 to 4 per cent of GDP, which should reduce public sector borrowing and bring down interest rates and inflation; (ii) Reducing tariffs from an average of about 80 per cent in 1993 to about 60 per cent currently and about 45 per cent next year – which while requiring painful adjustments particularly in the industrial sectors, should make Pakistan more competitive in the long term and also benefit consumers; (iii) Reducing the size of the public sector in the economy by privatising nationalised banks, nationalised and public sector industry and public utilities including power, gas and telecommunications, which should increase the efficiency of these sectors. All these measures have implications for employment generation. In the short term they are slowing down the economy and therefore employment creation is not taking place at the earlier higher rates. In the long term they should help stabilise the economy and add significantly to economic growth.

Within this context the employment outlook for Pakistan is difficult and challenging at the same time. Difficult because Pakistan's formal employment growth areas which have been geared to absorb substantial additions to the labour force are no longer directly appropriate for this purpose. And challenging because the large and growing informal sector comprising many small entrepreneurs, could be an important potential source of employment creation. The ability of small entrepreneurs to respond to industrial modernisation in the face of structural reforms will depend on their access to credit and modern production techniques, and the upgrading of their skills, given the present low literacy and skill level of the labour force. Let us first look at each of the formal growth areas.

The government has traditionally been the biggest source of organised institutional employment, with an estimated 4 million workers (within a total national employment envelope of 32 million). These workers in the public sector are also spectacularly numerous when we

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compare them to the 1.5 million workers in private large scale enterprises employing ten or more people in all Pakistan. It, therefore, has to be recognised that the numbers of public employees cannot be increased any further and in fact need to be reduced. Major immediate reductions will come with the privatisation of public industrial enterprises and public utilities (which together employ about 0.4 million workers). Similarly, large scale industry is coming under competitive pressure with the reduction of tariffs and will therefore not likely increase its employment levels substantially. Small and medium scale industry (particularly textiles) are also very inefficient compared to international standards and will probably shed labour from its current level of about 2 million workers. The labour force directly employed in agriculture (15 million) may increase marginally although recent employment elasticity estimates are close to zero. Construction, trade, transport, communications, financial and other services are likely to be the growth areas of the future. Yet in terms of employment generation they are unlikely to absorb a significant proportion of the new entrants into the labour force. Recent estimates suggest that civilian non-government persons working for wages will probably increase only at modest rates from their current level of 10 million (Chaudhry, 1995). There would be a substantial addition to the labour force if more women were to enter it. The present female labour force participation rate is only 9 per cent.

The good news is that ordinary Pakistanis are increasingly taking their future in their own hands and creating millions of micro-level enterprises. There were 14 million people counted as self-employed in 1992 and while there are some definitional problems associated with this number, e.g. millions of agricultural *haris* are counted as self-employed, overall they indicate that the bulk of Pakistanis work for themselves. Self-employment numbers become even more staggering when one adds the remaining 7 million unpaid family members who comprise the remaining part of the employed labour force. Thus fully 21 million Pakistanis or 68 per cent of the employed labour force of 31 million in 1992 were working for themselves or their families alone. These 'micro' level enterprises have been and will continue to be the growth areas for employment in the future. Government policy is only slowly beginning to focus on the needs and requirements of the sector. One indicator of both government policy and the situation on the ground is scheduled banks advances by size of advance. At end Dec. 1994, there were 7,16,000 advance holders (70 per cent of the total) of Rs. 50,000 and below involving total lending of Rs. 8.8 billion (2.5 per cent of the total) while only 4,998 advance holders (0.5 per cent of the total) had obtained advances of Rs. 185 billion (55 per cent of the total) (State Bank of Pakistan, *Annual Report 1994-95).*

More recently, starting from the mid 1980s, the government, NGOs and external donor agencies have begun to focus on the micro-enterprise sector. The government's initial emphasis was on the educated unemployed (e.g. The Small Business Finance Corporation's Scheme for professionals, then the Youth Investment Promotion Society Programme and then the Self Employment Programme) although it quickly moved to more general micro-level programmes like the short-lived Yellow Cab Scheme. The NGO efforts were exemplified in the external donor supported Agha Khan Rural Development Support Programme in the Northern Areas, the purely indigenous Orangi Pilot Project of Dr. Akhtar Hamid Khan and the more recent and much simpler Government/ILO/Japan 'Strategic Employment' initiatives. The scheduled banks have also started small business finance schemes recently. This is therefore a good time to take stock of the various major initiatives in this field.

Summary of Major Employment Generation Initiatives

Only five major employment generation initiatives are reviewed in this paper – in large part because they are the major ongoing current initiatives but also because they are sufficiently different in approach that an interesting comparison can be made and lessons drawn. These initiatives, referred to above in paragraph 4, are two NGO initiatives (AKRSP and OPP), two government initiatives (YIPS, SBFC) and the government / ILO / Japan Project.

The Agha Khan Rural Support Programme (AKRSP) is a classic example of a well managed integrated development programme. Initiated in Gilgit in January 1983 and covering Baltistan and Chitral from 1986 it focuses on organising communities, institution building and human resource development, rural development programmes (physical productive infrastructure or PPI) and provision of credit for economic activities and mobilisation of savings. It is a massive programme in both geographical terms and coverage. As of mid-1995, of the total 2,070 villages in the above districts, Village Organisations (VOs) have been created in 1880 and women's organisations (WOs) in 803. There are 77,000 VO members and 27,000 WO members among a total of 103,000 households in these areas. Credit advances amount to Rs. 41 crores and savings mobilised amount to Rs. 23 crores. PPIs amounting to Rs. 29 crores in 1600 projects have been completed or are underway. Eight thousand field specialists in various disciplines have been trained. Overall, the programme has been rated as very successful (World Bank, 1990) and is being replicated by the provincial governments in areas in NWFP and Balochistan, and nationally by the Federal Government through a Rs. 50 crores endowment to the newly created NRSP (National Rural Support Programme). The higher levels of administrative costs associated with this comprehensive integrated rural development programme – about 30 per cent (AKSRP *Twelfth Annual Review 1994)* and possible criticism on focus and capture by elite groups/rich people (Nayab, 1994) together with the 'special case argument' of the Ismaili peoples of the Northern areas complete the summary picture.

The Orangi Pilot Project was started in 1980 with the assistance of the now defunct Bank of Credit and Commerce International (BCCI) which funded the cash component of workers self-help contributions to construct 5000 underground sewage lines (Farooq-i-Azam, 1995). Starting initially with PPI programmes such as the AKSRP, it moved into the provision of credit through the creation of the Orangi Charitable Trust (OCT) in September 1987 to provide loans to small household enterprises. Total lending until December 1994 amounted to Rs. 4.5 crores in its Family Enterprise Programme (there are two other much smaller programmes) to about 3000 individuals. OCT borrows funds from banks and onlends to individuals without service charges, which is financed by donors, and without collateral for business and family enterprise production related activities. There is no savings programme.

The Government/ILO/Japan Project is part of an intercountry project which is testing out 'strategic approaches to employment promotion' in several South Asian countries. The model is simple and somewhat unique in that it does not aim for integrated community development projects of PPI, but focuses simply and clearly on forming Community Based Organisations (CBOs) which mobilise community members to start regular savings, elect credit management committees, frame savings and credit rules and extend credit to members for individually managed micro-enterprises. Additional funding (upto three times savings) is provided by the ILO/Japan project or by arrangement with the Allied Bank which extends the loan to the CBO which, in turn, onlends to the individual for productive employment. The Project (started in January 1994) now covers 81 sites (villages, urban areas) involving 67 CBOs in villages (male, female or both) and 33 other centres (rural, semi-urban or urban). Projects in Khairpur and Rotla have been particularly successful. Funds disbursed until July 1995 amounted to Rs. 2.3 million to 669 individuals. Most of the schemes follow the savings/credit approach but there are also projects focusing entirely on skills training based on fees repayable after the completion of training against perusal guarantees. Skills training was provided to 608 individuals to enable them to be gainfully employed.

The Youth Investment Promotion Society (YIPS) was established by the Federal Government in February 1987 with NDFC, FBC and SBFC as shareholders to offer technical assistance and provide loans on soft terms to the educated unemployed youth (18-35 years). YIPS has recently increased its lending limit from Rs. 1,00,000 to Rs. 2,00,000 for individuals and upto Rs. 20 lakhs for groups upto 10 persons. YIPS processes all loan documentation and approves the loan, but actual disbursements and repayments are handled through the SBFC. Loans sanctioned till June 30, 1995 amounted to Rs. 7 billion for 59,000 projects. In 1994-95 Rs. 2.3 billion was sanctioned for 13,124 projects involving 14,174 youth. All funds are made available to YIPS through a concessionary credit line from the State Bank of Pakistan.

The Small Business Finance Corporation is a development finance institution established by the Federal Government in 1972 to provide financial assistance on soft terms to: (i) Small Business Enterprises (Rs. 20 lakhs limit) and individual businessmen (Rs. 5 lakhs limit) against hypothecation of business assets and mortgage of immovable properties; (ii) Professionals – doctors, engineers, lawyers (upto Rs. 1 lakhs) against personal sureties; and (iii) Individuals and Groups of Individuals under the self employment scheme (up Rs. 3 lakhs for individuals and Rs. 10 lakhs per group of 5) against registered mortgage of immovable property as collateral. The loans schemes for Small Enterprises and professionals have now been almost phased out and the Self-Employment Scheme (SEP) is its major lending activity. The SBFC received a concessionary credit line of Rs. 3.8 billion from the State Bank in 1994-95 for the SEP which was entirely committed. Disbursements in 1994-95 amounted to Rs. 1.3 billion for about 8,963 persons (or groups of persons). Recovery rates are low — 56 per cent in 1992, 63 per cent in 1993 and 73 per cent in 1994 – mainly due to pressure to lend in these years, but SBFC performance is rapidly improving.

Comparison of Schemes

All the five programmes are significant to the Pakistan situation. In order to have a clearer idea about their differences, they are now compared across seven areas (conceptual model, economic model, financial model, credit and savings system, employment creation, focus on women, and physical productive infrastructure and training).

Conceptual Models The conceptual models underlying the five programmes (See Table-1 below) are significantly different and in fact reflect integrated rural development model experimented with world wide and in the united Pakistan of the 1960s in Comilla (and re-invented in Bangladesh as BRAC — see Annexure II). The genius of Dr. Abdul Hamid Khan, the founding spirit of Comilla, resulted in the transformation of the integrated rural development concept into the urban area of Orangi using the power of organised communities to create economic infrastructure through self-help and then moving onto individual economic activities. Interestingly, neither AKRSP nor OPP/OCT have moved into health and education financing, delivery and cost recovery in a significant way (unlike Bangladesh's BRAC) although AKRSP is now (since early 1995) being used as the implementing agency for SAP education (primary school) programmes. The ILO/Japan project uses the community based approach in that communities are organised into CBOs but only to obtain or mobilise credit from banks or donors, secured in part by CBO's own savings contributed by members. This is on lent to members, both rural and urban, for micro level enterprises. The conceptual model here is that of community mobilisation for financial assistance for self-employment purposes only. The YIPS/SBFC model is the final modern extreme of using a financial institution to provide concessional credit for self-employment purposes.

Table-1: Conceptual Models

	Integrated Development	Organising Communities	Economic Activity Based	Infrastructure Based	Health/ Education Based
AKRSP	Yes	Yes	Yes	Yes	No
OPP/OCT	Yes	Yes	Yes	Yes	No
ILO/Japan	No	Yes	Yes	No	No
YIPS	No	No	Yes	No	No
SBFC	No	No	Yes	No	No

Economic Models. These are also significantly different in the programmes under review (Table-2 below). The integrated rural/urban development economic model is distinct in its basis that local government either does not exist or has failed to mobilise community funding. Thus ADRSP and OPP both substitute either NGO own funding (donor financed) or mobilise community funding, both in cash or kind for undertaking community based PPI projects. The other significant part of the economic model is provision of credit for micro-level economic activities and training for productive employment, both individual micro-level and institutional level. Here ADRSP provides credit for economic activities and also provides free-of-cost training. OPP/OCT like YIPS and SBFC provide credit for economic activities but no training, while ILO/Japan is unique in that it provides credit for both economic activities and training. The provision of a credit – based human resource development programme being experimented with by ILO/Japan (at its computer centre in Islamabad with a "pay-as-you-earn after training" component for students not able to afford to pay the fees) is an important step in extending the concept of provision of credit and cost-recovery for human resource development. The logical extension is to first extend micro- and small- and medium-scale credit to create training institutions by private individuals and NGOs and then extend credit for training purposes to be utilised by individuals who train in these institutions.

Table-2: Economic Models

	Provides NGO Own Funds for (Local) Govt. Type Activities	Provides Community Funds in Absence of Local Govt.	Credit for Economic Activities	Training provided	Training Cost Recovery Credit Based
AKRSP	Yes	Yes	Yes	Yes	No
OPP/OCT	Yes	Yes	Yes	No	No
ILO/Japan	No	No	Yes	Yes	Yes
YIPS	No	No	Yes	No	No
SBFC	No	No	Yes	No	No

Financial Models. The financial models underlying the programmes are very distinct (Table-3 below). There is one grouping which is based on the philosophy that the NGO or the Bank is the major decision-making authority for lending and for recovery (OPP/OCT, YIPS, SBFC), while the ILO/Japan project has the borrowing, lending and decision making agency as the CBO. The AKRSP is a mixture in that the NGO role is very strong in community managed lending. Savings schemes (save first – borrow later) are an integral part of both the AKRSP and ILO/Japan projects, while OPP/OCT as well as YIPS and SBFC do not have any savings schemes. These make the latter schemes (OPP/OCT, YIPS and SBFC) vulnerable to the vagaries of outside funding, such as concessional credit lines from the State Bank of Pakistan for YIPS and SBFC. The lower default rates of the NGOs seem strongly linked both to community involvement and savings collateral provided in the case of AKRSP and ILO/Japan. An extremely competent NGO mechanism in the case of OPP/OCT seems to be responsible for the current excellent repayment rates, but OCT did have substantial problems effecting recoveries when it was first established.

Table-3: Financial Models

	Community Managed Disbursement and Recovery of Loans	NGO / Bank Managed Disbursement and Recovery of Loans	Saving Schemes Part of Programme	Default (Rates (%)
AKRSP	Yes	Yes	Yes	3.4%
OPP/OCT	No	Yes	No	4.4%
ILO/Japan	Yes	No	Yes	2.0%
YIPS	No	Yes	No	27 %
SBFC	No	Yes	No	27 %

Credit and savings system. These are summarised in Table-4 below. In terms of volume of lending. YIPS and SBFC are the major institutions having lent about Rs 8 billion through the YIPS and SEP programmes and currently together committing about Rs. 4-5 billion per annum. While these institutions have tried to diversify to smaller communities with more offices/ branches, the bulk of their lending is to the urban areas and to the educated upper/middle classes. This is reflected in their average size of lending and upward moving limits (Rs. 2 lakhs in 1994-95). Sources of funding for YIPS and SEP are concessionary credit lines from the State Bank of Pakistan. As of the time of the writing of this paper, these lines were effectively suspended in that new lines for 1994-95 had not been released to these institutions because of their high default rates and apparent non-submission of audited accounts for the last three years. There has been considerable pressure to lend on these institutions, and coupled with political interference in both appointments/transfer of personnel as well as approval of loans, this has led to poor financial performance.

AKSRP is the most sophisticated of NGOs in terms of both savings, lending and number of operations. Their average size of loan is relatively big (Rs. 34 thousand) and this is owing to lending for both micro- as well as small-scale enterprises (which is demonstrated in the following paragraph). The OPP/OCT average size of lending is probably just right for micro-level enterprises in urban areas in that period (Rs. 15,000) while ILO/Japan shows that self-employment generation in rural areas is not very costly (at Rs. 3400).

Table-4: Credit and Savings System

	Deposits Mobilised (Rs.Million)	Total Lending (Rs.Million)	No. Of Loans (Rs.)	Av. Size of Loan	Default Rate
AKRSP(Dec. 92-June 95)	231	413	12,306	33,560	3.4%
OCT (Sept. 87-Nov.94*	..	45.6	3,013	15,134	4.4%
ILO/Japan (1994-June 95)	0.54	2.3	669	3,438	2.0%
YIPS(1988-June 1995)	..	3,715	36,882	1,00,727	27 %
SBFC (Sept.1992-June 1995)	..	4,392	34,638	1,26,797	27 %

* Family Enterprise Economic Programme

Employment Creation. Table-5 below indicates that both ADRSP and ILO/Japan are effectively creating jobs in the rural areas with very minimal investments (Rs. 3500-4000) while OCT is creating jobs very efficiently at the lower end of the social scale in the urban areas also (at about Rs. 21,000 per family enterprise which may therefore involved more than one person in the family). The YIPS and SEP average cost of employment numbers (Rs. 35,000 – 47,000) indicate that 'self-employed' educated urban youth or adults tend to employ other lower paid individuals in their enterprise and the average cost of job creation reflects the combination of the higher and lower pays from income streams expected from these investments.

Table-5: Employment Creation

	Total Lending (Rs. Mn)	Number of 'Beneficiaries' or Employment Generation	Average Cost of Job Creation (Rs.)
AKRSP (April-June 95)	26.8	6,783	3,951
OPP/OCT (94 – 95) *	7.6	360	20,987
ILO/Japan (1994-95)	2.3	669	3,438
YIPS (1994)	1,211	34,664	34,935
SBFC (1994)	1,261	26,889	46,897

* Per family enterprise

Focus on Women. The NGO programmes (AKRSP, OCT, ILO/Japan) focus heavily on women – Table-6 below. While the concept of separate programmes for women is an excellent idea in societies such as Pakistan (and Bangladesh), their increasing rapid growth within the overall combined programme seems to be a matter of natural evolution. For instance, in the case of the Grameen Bank and BRAC in Bangladesh, poor rural women are the major borrowers. YIPS and SBFC (SEP) have also tried to increase their focus on lending to women but their current lending ratios reflect either than women's access to these credit lines is difficult, or that educated urban women are more likely to seek institutionalised employment rather than seek to create their own micro-enterprises.

Table-6: Focus on Women

	Women Organisations (WO's)	WO/ Total	Credit to Women (CW)	CW/ Total	Savings by Women (SW)	SW/ Total
AKRSP (Dec. 82-June 95)	803	30%	N.A.	N.A.	Rs. 42 million	18%
OCT * (Sept. 87-Nov. 94)	..	..	Rs. 9 million	22 %	..	..
ILO/Japan (March 94-August 95)	13	46 %	238 loans	36 %	N.A.	N.A.
YIPS	..	..	N.A.	10 %	..	..
SBFC	..	..	N.A.	N.A.	..	..

* Women Enterpreneurs Programme. Women may also have benefited from the Family Enterprise Programme.

Physical Productive Infrastructure (PPI) and Training. Table-7 below summarises the fact, mentioned earlier, that both AKRSP and OPP have substantial PPI components reflecting their 'integrated development' approach and seeking to build community structures through this modality. Table-7 also shows that training (human resource development) for job creation (as opposed to in-house training for own staff which is undertaken by all institutions) is an integral part of the AKRSP and ILO/Japan projects.

Table-7: Physical Productive Infrastructure and Training

	PPI Investment (Rs.Million)	Number of Projects	Average Cost of Project (Rs.)	Specialists Trained (Number)	Public Trained (Number)
AKRSP (Dec. 82-June 95)	291.6	1529	1,90,712	8337	7344
OPD (Jan. 80-June. 95)	Self Help	5,000	N.A.	..	..
ILO/Japan (Jan. 94-June 95)	..	..	..	..	608
YIPS	..	..	..	..	..
SBFC	..	..	..	..	..

Impact of Government Policies

While there are several government policies which have both a macro-economic / micro-level impact, this paper will consider seven major areas in this regard; (i) Exchange Rate and Trade Policies; (ii) Credit Policies; (iii) Banking Regulation Policies and Status of Savings and Loans Associations; (iv) Regulatory Structures; (v) Training and Technology; (vi) Social Security Nets; and (vii) Local Government.

Exchange Rate and Trade Policies. A flexible exchange rate policy and an under-valued rather than overvalued exchange rate generally boosts domestic employment creation and the economic viability of micro-level enterprises. The recent 7 per cent devaluation in October 1995 has been justified on account of export competitiveness but rising import duties and increasing costs of raw materials due to inflation are likely to have a dampening effect on investment opportunities in the small scale industrial sector. Increasing interest rates will also dampen investment. More liberal trade policies would be beneficial in that the freer availability of technology (both in 'hard' and 'soft' forms) increase the productivity of self-employed labour (electric hand-tools, simple machinery, manuals, work processes etc. Are particularly relevant in this regard).

Credit Policies. It is very difficult to establish or expand a small business using formal credit. Large firms compete and lobby for the already scarce funds available to the private sector. When small firms do try to borrow from formal lending institutions, they invariably cannot meet the collateral requirements or have to go through cumbersome loan sanctioning procedures. Even special schemes meant for small enterprises tend to get diverted to large firms. For instance, in the State Bank Small Loans Scheme (SLS), the upper limit of loans has been enhanced, qualifying larger enterprises to also receive loans; and information is not available on the proportion of SLSs actually sanctioned to small enterprises. Therefore small and micro enterprises generally conformed to borrowing in the informal sector, at higher than market rates. Credit policies clearly need to be refocused on the micro-level sector. This paper has already mentioned earlier that institutional micro-lending is clearly inadequate in terms of volume (paragraph above). This needs to be increased by market based incentives (e.g. not taxing the income of commercial banks from micro-level lending for investment purposes). Special credit lines from the State Bank as well as concessionary finance should be done away with. Even when the objective of such schemes is to provide credit to small business, large manufacturers usually appropriate the majority of loans. Both YIPS and SBFC should be allowed to float bonds with government security, mobilise deposits and lend at market rates. Since small and self-employed entrepreneurs pay higher than market rates for loans through informal channels, it is access to credit, and not high lending rates, that pose the main restriction.

Banking Supervision Policies and Status of Savings Associations. The success of the NGOs in mobilising savings and lending to individuals raises the issue of creating the institution of 'Savings and Loans Associations' similar to those that exist in the U.S.A. The failure of the Co-operative Banks System needs to be examined and protection of savings assured perhaps by guarantee of deposits by a Federal Deposit Insurance Corporation. At this moment we have NGO type savings efforts which are essentially of an informal nature or at the other extreme big commercial banks or DFIs. Thus the AKRSP is planning to become a 'Development Bank for the Northern Areas'. Intermediate financial mechanisms and institutions have to be created.

Regulatory Structures. The Pakistan employment scene today is virtually crippled by an overwhelming set of regulations which hamper individual private enterprise. The public sector is exempt from these regulations created by bureaucrats. An example is that to set up a school or office in the urban cities requires private individuals to 'commercialise' such property at enormous cost – public offices or schools do not have to undergo this process. This example is particularly relevant since the most effective micro- and small scale enterprises that can be created as schools and training institutions. Currently there are more than 1 million teachers employed in public sector schools. The nation-wide primary school enrollment rates are less than 50 per cent (and even lower for secondary schools and colleges). Thus many million new jobs can be created in this sector alone if private initiative is allowed through de-regulating the education sector. Other issues of over-regulation related to labour laws, social security laws, pension laws, utility laws etc. All these need to be re-examined with regard to their adverse effects on micro and small scale enterprises.

Social Security Nets. As Pakistan de-regulates and moves to more "market-friendly" economic and labour policies, it needs to create more effective social security nets. Thus old age pension schemes need to be made universal – but based on individual, personally maintained pension accounts rather than the government bureaucracy. Similarly health, education and even cash assistance can be made available to the poor and the needy, not by creating more government institutions, but by direct transfer programmes to individuals who can utilise the funds to get appropriate service from private providers of these services.

Absence of Local Government At The village/Local Urban Level. An important issue relates to the absence of local government and tax and expenditure functions at the local level. Thus in Pakistan's local government 'the village' is not the smallest unit, unlike in India. The recent Local Government Ordinance of the Punjab tried to rectify this marginally but is likely to lapse because of opposition from the feudal lobby. Similarly, in the larger gowns and municipalities, the smaller 'wards' are not financially independent and thus there is no local control over finances and expenditures which then gets inefficiently utilised at 'city wide' levels. If the lack of local government institutions continue, then CBOs will spring up and try to replicate the missing local government functions (e.g. as in AKRSP and OPP/OCT). A positive measure would be reinstating Employment Exchanges in the Punjab. If successful local government institutions can be created then CBOs can restrict their activities to provision of credit (e.g. as in the case of ILO/Japan Project). In the Pakistani context where institutional change (particularly regarding local government) is difficult, we are likely to need both types of institutions.

Conclusions

It is fairly clear from the above analysis that the major thrust in employment generation in the short-term will come from self-employment in micro-enterprises and that the investment needs in this regard are modest compared to all other sectors. Annexure I shows that the average cost of creating one job in the manufacturing sector was Rs.1,73,000 in 1988. The ILO/Japan and AKRSP projects indicate that jobs in the rural areas can be provided at a cost of Rs.3500-4000 and that these can provide an income capable of sustaining a livelihood (ILO/Japan Project financed nets for fisherman costing Rs.2000 now provide monthly income ranging between Rs.1500-2500). Similarly OPP/OCT shows that NGOs can serve as effective vehicles for urban self-employment creation at relatively low cost (Rs.21,000). Finally, the YIPS and SBFC-SEP experience is valuable in that it indicates large volumes of funds can be delivered to target groups for self-employment. But to be effective, these institutions need to target schemes to poorer and disadvantaged groups (e.g. women, landless labourers), and also be freed from political interference. Therefore NGOs or government schemes providing small loans are most likely to reach the neediest individuals. In the longer term, employment growth need not be confined to micro-enterprises, as structural reforms create opportunities and to increased economic growth absorbs more labour in larger industries. Financial sector reforms would also make more credit available for the expansion of small and micro enterprises.

A particularly interesting conclusion relates to the ILO/Japan Project in that it suggests that the thousands of individual CBOs functioning in Pakistan can be made more efficient to play a major role in micro-level employment creation. The lessons learnt here related to using the CBO as the financial intermediary to ensure both economic viability, loan security and savings performance. Governance structures in the ILO/Japan Project are simple and modest being based entirely on the self-governance concept and therefore avoiding the much heavier administration cost and perhaps god-father' role played by more monolithic NGOs.

The government needs to become more supportive, not by creating a new law to regulate the NGOs or by giving vast quantities of concessional credit, but by recognizing the usefulness of the CBO approach for micro-employment, de-regulating the legal and bureaucratic structures governing the whole employment sector and by using market mechanisms to promote micro-level lending both by commercial banks as well as smaller financial institutions and intermediaries.

Annexure - 1

LABOUR / CAPITAL RATIO

		(Rs. In 000)
All Industries		***173***
Food, Beverage & Tobacco		***170***
	Food Manufacturing	189
	Beverage Industry	138
Textile, Apparel & Leather 98		
-	Manufacturing of textiles	106
	Weaving apparel	43
	Leather & Leather products	108
	Footwear except Rubber & Plastic	52
	Ginning & baling of Fibers	50
Wood, Wood Prod & Furniture 178		
-	Wood, wood & cork products	194
-	Furniture and Fixture (non metal)	147
Paper, Printing & Publishing 117		
-	Paper and paper products	163
-	Printing & Publishing	80
Chemicals, Rubber & Plastic 221		
-	Industrial Chemicals	424
-	Other Chemicals Prod.	97
Petroleum Refining 858		

Products of Petroleum & Coal 120		
-	Non-Metallic Mineral Products	325
-	Pottery, China & Earthenware	70
-	Glass & Glass Products	167
-	Other non-metallic mineral products	422
Basic Metal Industry 608		
-	Iron & Steel	614
-	Non-Ferrous metal based industry	19
Metal Products, Machinery & Equipment 84		
-	Fabricated Metal Products	65
-	Non-electrical Machinery	106
-	Electrical Machinery & Supplies	83
-	Transport Equipment	80
-	Scientific & Measuring Equipment	62
Handicraft, Shops & Other 43		
-	Handicrafts	80
-	Sports & Athletic goods	49
-	Other manufacturing	38

Source: Census of Manufacturing Industries, 1988.

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An Alternative Paradigm for Urban Development*

Kamil Khan Mumtaz

For an increasing number of people around the world, habitation is not a question of good or bad architecture but of shelter, food, health and economic survival, a question of political empowerment, domination and the control over resources, and ultimately a question of criteria and goals of "development" and "progress".

With their heroic manifestoes, at the beginning of the century the modern movement had set out to transform the world. Architects, the champions of industry and the new mass production technologies were to bring prosperity, happiness and joy to all mankind. With mechanised production of buildings and new modes of transpiration we were to build clean, healthy, well designed, comfortable and aesthetically satisfying new cities. At the center of much of these dreams were the habitation s of the common man. Yet today, at the close of the century after some remarkable "progress" and "development" and despite a profusion of ingenious buildings by a galaxy of brilliant architects, the world, the real world inhabited by a very large section of humanity, has been transformed not into the promised paradise but into a living hell.

"If the future city is simply an extrapolation of current trends, then for much of the world's urban population, their habitat of tomorrow will secure for them nothing more than a shelter within an illegal settlement and an insecure job that provides an inadequate income. These shelters will be made of temporary materials, with whole households cramped into a single small room, often on land sites subject to flooding, with little or no provision of water, sanitation, drainage, garbage removal and health care. This is the reality for some 600 million urban dwellers around the world."[1]

This phenomenon has emerged as the dominant reality in much of the Third World in the twentieth century, and in most cases has become progressively more acute during the last fifty years. Simply stated, it is a combination of rapid population growth; urbanisation; impoverishment; and a failure of the existing state structures to deliver the services needed by these communities. But the collateral damage of "development" has not

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[1] David Satterthwaite, "City Scan" in Down to Earth, February 29, 1996.

been limited to the Third World. The impact of "science run wild" is now being felt even in the most technologically advanced societies.

In the 1995 Reith Lectures, Richard Rogers emphasised that the social problems and ecological crises, generated by contemporary cities and technologies, are closely inter-linked. He argued that "the world's environmental crisis is being driven by our cities" and that "we have to define sustainability in 'social and cultural' terms, as well as in 'environmental and economic' ones."[2]

"We are perhaps the first generation to face the simultaneous impact of expanding populations, depletion of resources and erosion of the environment. All this is common knowledge and yet, incredibly industrial expansion carries on regardless and pollution is set to mushroom."

"The essential problem is that cities have been viewed in instrumental or consumerist terms. Those responsible for them have tended to see it as their role to design cities to meet private material needs, rather than to foster public life. The result is that cities have been polarised into communities of rich and poor and segregated into ghettos of single-minded activity – the Business Park, the Housing Estate, the residential suburb – or worse still, into giant single-function buildings like Shopping Centres with their own private streets (which lead nowhere), built in."

Technology has indeed increased production of commodities and material wealth. It has also provided more and more efficient means for the transfer of this wealth over greater and greater distances. As distances between the consumer and the producer have increased so also have the number of middlemen between them who have expropriated increasingly greater shares of the wealth produced. Thus technological development has also resulted in an increase in the rate of exploitation.

Development in communications and military technologies have enhanced man's ability to dominate his fellow man, to manipulate and control greater and greater numbers of people over vaster and vaster distances and territory. Thus as power structures have expanded in size and complexity, the local ruling elite have realigned their allegiances with increasingly bigger, more powerful and distant overlords. In the process traditional social hierarchies based on personal relationships of family, kinship, clan and community, have been replaced by monstrous state bureaucracies and relations of money.

[2] Sir Richard Rogers, "Cities for a Small Planet", BBC Radio 4: the 1995 Reith Lectures.

With the concentration of more and more wealth in the centers of trade and commerce, and with the development of transportation technologies, the size and scale of cities and buildings have grown to inhuman scales and monstrous proportions. In these monster-cities the majority of the urban poor have managed to house themselves, as they have always done, by evolving appropriate building methods and forms, and relying on indigenous resources within the community for financing technical skills and building materials. But the quality of their habitations has been steadily declining as modernisation has destroyed the existing base of indigenous knowledge systems and building practices, particularly those which catered to the construction of the habitat for the urban poor.

Industrially produced building materials have all but eliminated the use of indigenous materials and modern educational institutions have destroyed the previously existing systems of transmitting knowledge and skills from master to apprentice. Indeed all the systems: local governance, urban management, justice finance, and social infrastructure including education, health etc. Which were until recently based in the community, were small scale, familiar and accessible, have become increasingly remote, alien, impersonal and inaccessible to the majority of the urban poor.

Without access to the banking system, the poor have evolved their own community based systems of savings and finance. Not being able to afford industrially produced materials they have developed their own backyard enterprises which provide low-grade but affordable materials and construction services. Denied access to officially developed urban land, they have illegally occupied the "terrain vague" in and around the cities, under the protective umbrellas of self-appointed networks of agents and operators who are often sufficiently organised to extract public services such as water and electricity from the local authorities. Not having access to the state-owned, public health and education systems they have developed their own neighborhood schools and health services.

While the services provided by these informal networks often cost more than the "official" rates, they are at least accessible, and they do deliver. If the failure of the networks to provide a better quality of life is due to their inability to access the formal sector institutions and structures of the modern state, their successes, however limited, are due to their rootedness in the local culture and community. But the legally recognised professional architect has been isolated from this culture and community by his modern education. He no longer speaks the same language as the building craftsman. He has been marginalised and made irrelevant to the reality that surrounds him.

For a century now architects and planners, along with other professions in medicine, agronomy, education, economics, have promoted the myth of the technological utopia. Making a fetish of the machine, we have planned our cities for the motor car and designed our buildings to accommodate lift shafts and air-conditioning ducts.

Guided by a reductionist logic we have broken down the complexity of the city into neat categories and 'ghettoised' the city into function specific zones – central business districts, dormitory suburbs, industrial parks, shopping malls etc. The result has been a proliferation of high rise, high tech and low density cities which "have become socially divisive, and environmentally hazardous."[3]

Having placed our faith in technology, we continue to believe that the miracle of science will deliver all mankind into the promised land, the material paradise. We have been sailing the ship of prosperity, oblivious to the devastation that has followed in its wake.

Today, faced with global warming, destruction of the Earth's non-renewable resources, the depletion of its rain forests, the degradation of its soil, the pollution of its atmosphere, no less than the burgeoning urban crisis, more and more individuals, non-government organisations, and even "development" and criteria for "progress" measured in terms of material quantities: gross national products, per-capita incomes etc. Sustainability, environmental impact and quality of life, are some of the criteria that have already gained acceptance in development thinking. In the quest for alternative paradigms traditional wisdoms are being seriously studied in many fields.

While "re-interpreting – re-inventing – the dense and diverse urban city, the compact city of overlapping activity," Sir Richard uses the traditional historic city, with its human scale and opportunities for social interaction as a point of reference. Similar approaches have been advocated from as early as the 1940s by Hassan Fathy, and over the last twenty years by others, particularly in the Third World: Kamran Diba (Shushtar New Town, 1975 – 78); Balkrishna V Doshi (Aranya project, Indore, 1983-86; Vidyadharnagar, Jaipur, 1984-86), and Charles Correa (Belapur Housing, New Bombay, 1985 ?); and my own practice (Lahore Urban Development and Traffic Study, 1980).

Despite having been adopted as official policy, our proposals for Lahore have not been implemented by the Development Authority beyond the one pilot project (Gujjarpura, which after more than fifteen years still remains

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3 Sir Richard Rogers, "Cities for a Small Planet", BBC Radio 4: the 1995 Reith Lectures.

only partially completed). This fact is a reminder that it takes more than ingenious urban development models, novel structures and clever building systems to bring about meaningful change on the ground. The task will require a concerted effort on many fronts: economic and political empowerment, the community's control over its own resources; devolution of power and responsive governance; raising consciousness and awareness of issues related to the environment, health, education, human rights; and community participation, but above all, a redefinition of goals and criteria for 'development" and redefining the meaning of "progress."

Stabilisation and Structural Reforms for Sustained Growth*

Rashid Amjad

First, an overview of the world economy to provide us with the stark evidence of the deep economic and social crisis which the world still faces despite the process of far reaching economic reforms and adjustments which many countries have undertaken over the past decade and a half, Global unemployment today, as a proportion of potential employment, is higher than at any time since the Great Depression. Of a world labour force estimated at 2.8 billion people, an estimated 30 per cent are not productively employed. More than 120 million people are registered as unemployed throughout the world, in that they seek and are available for work but cannot find it. An estimated 700 million people are underemployed, the 'working poor', and they form the bulk of the estimated 1.1 billion absolute poor in the world. With new entrants joining the labour force at an increasing rate, the pressures on the employment situation and poverty problem will further intensify in the coming years.

Recent economic trends are not very encouraging. In 1993, for the fourth year in succession, average world per capita income fell. In 1992-93, the employment situation worsened in most countries, whether developed, developing or in transition. Outside East and South-East Asia, even if employment levels were sustained, it was usually at the price of falling wages. Employment conditions have also changed considerably and in many cases deteriorated – the risk of job loss persists, young people especially find it more and more difficult to get employment, and the informalisation of employment in urban areas continues as more people turn towards self-employment.

A closer look at the employment trends in most regions of the world confirms the seriousness of the employment problem. In the industrialised countries unemployment is forecast to reach 8.6 per cent in 1994, or 35 million people. In Western Europe the rate of unemployment will then be almost 12 per cent. In Eastern Europe, unemployment rates of over 15 per cent are now common. In Russia, in early 1992, real household expenditure had fallen to 40 per cent of its 1987 level. In the labour market the deep recession is reflected in the serious increases in poverty rather than in open unemployment. Most of the countries in sub-Saharan Africa reflect the deep economic recession and crisis which they have faced over the last two decades. Urban unemployment is now reported to be about 20 per cent and

* Paper presented to the National Conference of Employers XV, Manila, May 1994, by Dr. Rashid Amjad, ILO, Manila.

is rising. In the rural areas underemployment affects well over 50 per cent of the labour force. In Latin America, although in the 1990s economic growth has picked up, it is still insufficient to bring about a significant improvement in the overall employment situation and open urban unemployment remains at about 7 per cent. The only exception to this rather depressing scenario has been the performance of Asian economies especially the very fast growing economies of East and South-East Asia. But even for most of the Asian countries there is little room for complacency. Asia still contains the greatest concentration of poverty with almost one-half or fifty per cent of the estimated 1.1 billion of the world's poor living in South Asia and fifteen per cent in East Asia.

The root cause of this persisting crisis has been the decline in the rates of economic growth since the early 1970s. It was the first oil shock of 1973 which marked the end of the 'golden age' of high and steady growth which had prevailed in the advanced industrialised countries since the end of the Second World War. It was, however, the second oil shock in 1979, and the economic response of the industrialised countries, in the form of a sharp contraction in demand and increase in interest rates, that precipitated the deep economic recession in both the advanced and developing countries. During the 1970s, a number of countries especially in Latin America and Africa had to recourse to heavy external borrowings to finance the increase in oil prices, mainly from the surpluses of the oil producing countries deposited in the world's big commercial banks. These countries now faced a drastic decrease in demand for their exports owing to the recession in the industrial world, a sharp decline in their terms of trade, a massive increase in the debt burden due to extremely high real interest rates, and a dramatic decrease in availability of external resources. This situation led to most developing countries being faced with mounting public sector deficits and untenable balance of payments situation which needed strong measures to correct. Thus started the painful process of stabilisation and adjustment which has dominated economic policy making ever since.

It is not possible to recount in detail how different countries have tried to cope with this period of adjustment. Clearly for most countries in sub-Saharan Africa and Latin America, the 1980s is rightly referred to as the 'lost decade'. In sub-Saharan Africa, per capita GNP fell by almost a fifth between 1980 and 1989 wiping out most of the economic gains since independence. The debt/GNP ratio rose to 115 per cent. Real world prices for coffee, cocoa, cotton and tea fell by 50 per cent as did levels of investment in real per capita terms between 1980 and 1989. In Latin American countries, GDP per capita was 9.6 per cent lower in 1990 than in 1980. The rate of investment fell from 21.2 per cent during 1975-80 to 17.8 per cent in the 1980s. These developments led to a drastic decrease in employment and increases in poverty levels in most countries of Africa and Latin America.

In sharp contrast the economies of South-East and East Asia continued to grow at very high rates which had not been registered elsewhere – at least not for such sustained periods of time. These economies managed to restructure mainly by taking advantage of a 'virtuous circle' of export-led and investment-led growth. Some Asian economies adopted inherently unsustainable growth strategies in the 1980, notable examples being India and the Philippines which borrowed substantially to sustain consumption-led growth. However, both India and the Philippines have managed to regain macro control and by introducing significant economic reforms, show much greater promise for sustained growth in the 1990s.

In drawing lessons from the adjustment process experience of different countries, it is important to differentiate between stabilisation and structural adjustment. Stabilisation refers to the policy measures adopted to restore macro-economic equilibrium through an orderly reduction in demand to correct the fiscal deficit and the balance of payments to sustainable levels. Structural adjustment, on the other hand, emphasises reforms in microeconomic and macroeconomic policies and institutions of the economy to enhance the efficiency of resource use as a major element of the strategy for dealing with imbalance. Stabilisation measures comprise devaluation and complementary monetary and fiscal policies, while structural adjustment places emphasis on resource mobilisation, resource allocation within the public sector, institutional reforms and the liberalisation of a wide range of markets including the capital and labour markets. It also includes deliberate steps to limit the role of the government and promotion of private sector operations including the privatisation of public owned companies and operations. This elaborate package of policies is also varied in both space and time. No two countries have exactly the same design of structural adjustment. Within any one country, the content of the package also varies over time. The 'big bang' approach to implement all the policies simultaneously is rather rare, although it was used in the Chilean case, and is being used rather unsuccessfully in economies in transition of the former Soviet Union.

The important point to note is that structural adjustment is increasingly viewed as a statement by the government for moving the economy from a less efficient to a more efficient path and from a high cost to a low cost economy. The need to emphasise the efficiency aspect has also become all the more imperative in the new context of globalisation and increasingly competitive world markets. The internalisation of production, economic liberalisation, interconnection of financial markets, freer flow of capital, technology and services across national borders are all evidence of this increasing trend towards closer integration of the world economy. Corporate strategies of multinational enterprises are being increasingly based on the premise of a homogenous world market rather than segmented national markets. Thus multinational enterprises may undertake R & D in one country, product design in another, actual production in yet another, and marketing in a fourth country. Global information networks have made it possible for different processes in the production chain to be linked worldwide and to cut down on transaction costs. Greater globalisation of the world economy has also far-reaching implications not only for the quantum but also the quality and distribution of jobs. With increasing decentralisation of operations and subcontracting across national boundaries, there is considerable dispersion of the production process. This also raises new and complex sets of issues on labour market and industrial relations.

In evaluating the experience of countries undertaking structural adjustment, we may discuss separately three critical problems that countries have had to face, namely, how they have managed demand, the kind of incentive structure that needs to be put in place to ensure efficient and equitable growth and how the social costs of transition are mitigated.

The important conclusion drawn by a recent World Bank study based on the experience of 18 developing countries during the turbulent period 1973 to 1989 is that macroeconomic stability is good for long run growth and therefore macro economic policies should be designed to stabilise real output in the face of exogenous disturbances, and to avoid the creation of unsustainable booms. Of the 18 countries studies, only Brazil and the Republic of Korea systematically followed macroeconomic policies that tended to stabilise output growth around its trend. The important message is that the Ministry of Finance should maintain control: it should know how much the public sector as a whole is borrowing, which some governments in the 1979-82 period for example, Brazil or Mexico, did not know, and what contingent obligations are being incurred through private sector borrowing. The study comes up with five basic conclusions, although it admits that these may be difficult to put into practice.

First, the Finance Ministry should cut back on spending if a crisis develops. Countries should constantly be aware that unexpected and unfavourable events will sometimes happen. Second, <u>policies</u> need to be flexible as governments need to shift gears rapidly when circumstances change. Third, <u>economies</u> need to be flexible and the more flexible they are, the less adverse the impact of the shock will be. Rigid real wages, sectorally immobile labour, and strong dependence on imported intermediate goods for domestic production all make economies less flexible and the more flexible the economy, the greater the recession when a compression of imports is required. Fourth, rapid export growth is crucial to a successful recovery. Countries should follow outward oriented policies and develop a strong and preferably diversified export base. Finally, the ability to obtain foreign aid, concessional loans or debt relief at a time of crisis – provided this is combined with strong adjustment policies, is helpful. This has certainly been true in a number of countries, notably Indonesia 1966-70, and Turkey after 1980. In contrast, the severe decline in Mexico's growth rate after 1982, is at least partly explained by the lack of such relief.

The importance of maintaining macro-economic stability cannot be denied. It is also true that stabilisation and adjustment programmes may entail social costs for the most vulnerable groups, the same costs would be much bigger in the long run if necessary adjustments are not made. The major problem however, with orthodox stabilisation measures undertaken especially in the first half of the 1980s, has been that the time frame adopted for their implementation was far too short and a more gradual approach was possible. It is now generally accepted that the major international financial institutions placed excessive emphasis on short term deflationary measures even in cases where the existing imbalances were not solely the consequences of over-expansionary fiscal and monetary policies or overvalued exchange, but as in the case of many African countries, were the result of a dramatic decline in the terms of trade.

As regards demand management, the critical problem revolves around the balance of payments. In trying to restore equilibrium, the government tries to exercise control on both demand and supply, i.e., through cutting down aggregate demand and introducing measures to make supply more efficient. The real difficulty, as the experience of most developing countries including the Philippines shows, in achieving this is that contraction of demand and increase in supply move at different rates. Sectors which need to contract often do so rapidly, while those stimulated to expand often do so only after a significant time lag. Since expenditure-reducing and expenditure switching policies are usually promoted simultaneously, these tend to reinforce output losses and generate unemployment in the short run. The way to overcome this problem, even if partially is through a balanced combination of short term and long term policies, giving a clear horizon to where policies should lead as well as the possibilities of reform in a balanced way. We have seen that in Asia the successful adjusters have been those which have framed policies in the light of their long term economic transformations.

A study by the ILO of the experience of 55 countries which received structural adjustment loans from the World Bank showed that concerning success criteria in terms of bringing down the level of external balance to more sustainable levels, restoring growth and avoiding increases in the incidence of absolute poverty, only seven countries fulfilled the absolute standard of successful adjustment. Of these seven countries, the Republic of Korea is the only unambiguous case of successful adjustment, successful management of external imbalance with continued high growth and improved social indicators. Indonesia too has achieved successful adjustment in terms of restoring growth and reduction in poverty, but real wages have stagnated at very low levels throughout the 1980s. Thailand maintained high growth and avoided increase in the incidence of poverty, but the task was made much easier in Thailand's case by a large inflow of foreign resources. China and Pakistan adjusted with undiminished growth but only with increasing inequality. Turkey and Tunisia are the only other countries which combined significant adjustment with growth, but too little is known about the effect of adjustment on the incidence of poverty and income distribution in these two countries.

An important conclusion that emerges from the ILO study is that initial conditions have important implications for the composition of the instruments in the adjustment package. Combining structural reforms with too high a level of stabilisation will not only make the task of preserving growth and protecting the poor very difficult, but also damage the prospects of structural reforms by making it hard to create public support for the reform programme.

While growth with macroeconomic stability is a necessary condition for solving the problem of high unemployment and poverty, it may not be sufficient in ensuring optimal labour absorption. To ensure that this does take place, the system of incentives must be right to uphold employment-intensive growth in the economy. Overpricing of labour relative to competing factors of production, or subsidising the use of capital through tax incentives, or overvalued exchange rates and trade policies that discriminate against labour intensive exports, must be avoided. In many developing countries, these principles have been routinely and extensively violated. The result is inadequate labour absorbing growth of the economy.

The successful experience of East and South-East Asia confirms that it is possible to undertake economic reforms in microeconomic and macroeconomic policies and put in place an incentive structure that is conducive to employment growth and poverty alleviation. A remarkable feature of the experience of the Republic of Korea was that it was able to generate significant employment growth in the manufacturing sector, an increase in real wages before agriculture shed its vast share of the labour force, and a continued improvement in the distribution of income during the period of dramatic stabilisation of macroeconomic imbalance in the 1980s.

An appropriate system of economic incentives and relative factor prices can only have the desired impact if the labour market is able to effectively respond to incentives and prices. Rigidities in the labour market can also aggravate macroeconomic imbalances and be a serious obstacle to successful adjustment. It is important therefore that interventions in the labour market be designed with care and that the structure of labour remuneration not be in gross violation of market forces. Thus, the proper role of minimum wages should be to protect the weak and vulnerable workers who are without bargaining power and this should not be used to raise the price of labour far above its social cost or to distort the structure of wages. At the same time, given the many obstacles that exist in the structure of a developing economy, systematic public intervention is required, especially investment in human capital formation, promotion of equal access to human capital and productive resources and improvements in labour market information to overcome these obstacles so that there an take place a rapid expansion of productive and remunerative employment.

For an economic incentive structure to work and lead to optimal labour utilisation in the economy it is equally important to emphasise the need for a more equitable distribution of assets. In the case of the Republic of Korea (and earlier Japan), the importance of effective land reforms clearly played an important part in increasing labour absorption in agriculture in the earlier stages of economic development. Indeed, the quest for economic efficiency and to be able to successfully compete in global markets can only be fulfilled if steps are initiated to reduce and gradually remove distortions which result in 'economic rents' above their true opportunity costs to certain sectors or certain sections of the community, whether they be in the form of monopolies or bureaucratic control, or excessively big agricultural holdings.

The East Asia experience has underscored the importance of good quality general education, availability of skilled labour and entrepreneurial talent to efficiently organise and market products. The importance of high quality education is being increasingly realised and it is felt that the problem of the educated and graduate unemployed is not only a problem of mismatch in the labour market, but the fact that they do not possess basic problem-solving skills which are an essential ingredient of good, sound education. As regards vocational training, the experience of most developing countries is not very encouraging as is seen by the high levels of unemployment amongst vocational school graduates and the low esteem which they enjoy amongst private employers. Developing countries are fast realising that for investment in vocational training to be effective it must be closely linked with real demand and in order to ensure this the private sector, the users of these skills must be closely associated with the skill training process. New strategies therefore are based on increasing industry involvement in training, through apprenticeship models, training partnership (dual schemes) with industry, levy/grant schemes, industry determination of skills standards and private sector based training.

The process of stabilisation and structural reform by its very nature entails economic and social costs. It is essential for credible structural adjustment to design a policy which will have the least harmful impact on employment, on income distribution and on the well-being of the poorest sections of society and provide 'safety nets' for those who are most adversely affected by the reform process. In Latin America, Africa and Asia, a number of social fund programmes were introduced to ease the costs of adjustment. In part, the intention was to secure political support for the adjustment programme, in part to provide direct compensation to those who had lost their jobs through retrenchment, and in part to reach the poor more generally both by creating employment and by contributing to the development of social and economic infrastructure. These interventions took a variety of forms and have been referred to as 'emergency social funds' or 'social investment funds' in Bolivia and Honduras, as a 'social recovery fund' in Zambia and elsewhere, as 'special employment schemes' for example in Chile or South Asia. A recent study carried out by the ILO to analyse the experience and effectiveness of these schemes across developing countries in Latin America, sub-Saharan Africa and rural South Asia concludes that the 'new' social funds programmes (namely Bolivia's ESF, Honduras's FHIS, Madagascar's FID, Senegals' DIRE and AGETIP, Zimbabwe's SDF and Zambia's SRP), which were largely foreign driven and financed, have in general reached only a small fraction of the poor, partly because their total size is limited and partly because of poor targeting. The study is of the view that quick disbursing, poorly targeted, add-on temporary institutions are unlikely to be able to provide effective poverty reduction in the face of structural poverty. The need to design cost-effective and well targeted 'safety nets' is therefore an important challenge in minimising the social costs of adjustment.

The ILO supports in principle structural adjustment linked to the promotion of dynamic and sustainable growth, but has consistently taken the view that whenever structural adjustment programmes are implemented, they should be approached from a broad perspective that fully incorporates the social dimension and employment promotion and lays the basis for sustainable and equitable growth and development.

From the ILO standpoint, this implies that structural adjustment efforts must emphasise the following elements:

1. Incorporating social dimensions, including social protection and strengthened institutional capacity, in the design stages of structural adjustment programmes with a view to ensuring that structural adjustment is socially, as well as economically sound.

2. Mitigating the social costs of adjustment through poverty reduction measures, most notably by designing and broadening the coverage of social safety nets, while ensuring that such measures are consistent with long term development objectives.

3. Encouraging the creation of the highest possible level of productive and freely-chosen employment in conformity with the objectives of Convention No. 122, through enterprise development, improved labour market functioning and skill development.

4. Ensuring that structural adjustment programmes are consistent with the provisions of basic ILO standards, particularly the Human Rights Conventions.

Note

Calculation of the Real Exchange Rate

Hamza Ali Malik

Trade Weighted Real Exchange Rate --- Methodology

For the purpose of calculating the trade weighted real exchange rate series for the years 1982 to 1995 the following definition of PER is used:

$$PER = \frac{\text{price of tradeables}}{\text{Price of non-tradeables}}$$

or

$$PER = \frac{E \times P_t}{P_n}$$

Instead of simply taking the WPI as a measure of the price of tradeable goods and CPI as a measure of nontraded goods, the whole system to calculate their appropriate proxies is worked through.

Price of nontradeables --- domestic price level (P_n)

The definition of expenditure on GDP, used in the Economic Survey of Pakistan includes private consumption (C), general government current consumption expenditure (G), gross domestic fixed capital formation and changes in stock (I), export of goods and non-factor services (X), less imports of goods and non-factor services (M). In symbols this can be written as:

$$GDP = C + I + G + X - M$$

To find the domestic expenditure on non-traded goods, exports (X) from the above equation are subtracted, which becomes domestic expenditure on non-traded goods:

$$GDP - X = C + I + G + X - M - X$$

$$\text{or} \qquad Y_n = GDP - X$$

The ratio of domestic expenditure on non-traded goods (Y_n) at current prices to the domestic expenditure on non-traded goods at constant prices can be used as a proxy to measure the domestic price level (P_n) or the price of non-tradeables.

$$P_n = \frac{Y_n \text{ at current prices}}{Y_n \text{ at constant prices}}$$

where;

Y_n = expenditure on GDP – exports

P_n = domestic price level

The index of P_n as calculated above is given in Table-1 below:

Table-1: Domestic Price Level (P_n)

	P_n		P_n
1982	110.77	1989	170.08
1983	116.51	1990	178.59
1984	127.29	1991	205.64
1985	132.95	1992	228.12
1986	139.22	1993	250.77
1987	144.31	1994	282.12
1988	155.02	1995	314.09

Price of tradeables --- foreign prices in terms of domestic prices ($E^* P_t$)

To find the prices of tradeables, the weighted Harmonic Mean of the price of exports and imports is calculated, where weights are respectively exports and imports.

In symbols;

$$E^* P_t = \frac{X^i + M^i}{X^i / P_x + M^i / P_m}$$

where;

X = total exports with the ith country at current prices.

M = total imports with the ith country at current prices.

P_x = unit value of exports

P_m = unit value of imports

Instead of considering only one large country, the exports and imports of Pakistan's ten major trade partners will be used. The countries chosen are : U.S.A., U.K., Germany, Japan, Italy, South Korea, Saudi Arabia, U.A.E., China and Malaysia. The trade with these countries constitute approximately 60 per cent of the total trade of Pakistan. The major source of the data is the Economic Survey of Pakistan.

Table-2: Foreign prices in terms of Domestic prices ($E^* P_t$)

	$E^*P_{tUS.}$ U.S.A.	E^*P_t U.K.	E^*P_t GERMANY	E^*P_t JAPAN	E^*P_t ITALY	E^*P_t S.KOREA	E^*P_t U.A.E.	E^*P_t CHINA	E^*P_t MALAYSIA
1982	107.2	107.2	107.7	107.6	106.0	110.0	107.1	104.8	110.5
1983	115.9	115.4	115.3	116.0	114.8	117.5	113.3	112.6	118.2
1984	123.4	123.6	123.4	123.7	122.7	123.7	122.6	123.3	124.7
1985	130.6	130.1	130.3	130.5	129.2	130.5	130.3	130.3	132.8
1986	127.5	127.7	128.2	128.4	126.7	126.0	125.5	130.4	131.4
1987	134.9	134.8	135.0	135.3	134.0	134.4	134.4	136.5	136.7
1988	167.5	167.5	167.7	167.9	166.2	167.8	166.8	169.0	169.8
1989	180.7	178.9	179.9	180.0	177.0	179.1	174.1	179.6	186.5
1990	205.4	203.8	205.0	206.9	200.1	205.1	202.3	210.0	213.1
1991	225.7	219.1	221.6	230.6	223.3	219.8	224.0	243.4	246.3
1992	230.4	230.4	233.8	238.3	235.4	233.9	230.1	247.1	246.2
1993	238.0	238.8	242.4	252.9	246.4	250.4	234.3	261.1	260.7
1994	266.8	264.7	270.4	275.9	269.3	275.1	262.4	290.2	291.2
1995	324.3	326.4	329.3	333.2	335.1	329.2	329.5	341.1	346.0

After calculating E^*P_t, the real exchange rate for each country separately by taking the ratio of E^*P_t and P_n is calculated i.e.;

$$PER = \frac{E^*P_t}{P_n}$$

The formula used to calculate the trade shares is as follows:

$$TS_i = \frac{\text{total trade of ith country } (X_i + M_t)}{\text{total trade of the ten chosen countries}}$$

where, TS_i denotes the trade share of the ith country

The formula used to calculate the growth rate of real exchange rate (PERgr) is as follows:

$$PERgr^i_t = \frac{PER^i_t - PER^i_{t-1}}{PER^i_{t-1}}$$

where 'i' denotes the ith country.

In order to find the final and weighted PER series, the PERgr of the ten countries by taking the respective trade shares as weights is aggregated. The formula used for this purpose is as follows:

$$WRERgr^i_t = \sum_{i=1}^{10} \frac{(PER^i_t - PER^i_{t-1}) * TS^i_t}{PER^i_{t-1}}$$

or;

$$WRERgr = \Sigma\ (RERgr^i_t) * TS^i_t$$

Where $WRERgt^i_t$ is the weighted real exchange rate series.

Finally, the index of this PER series by taking 1982 as the base year is calculated applying the following formula;

$$PER_t = WRERgr_{t-1} (1 + WRERgr_t)$$

The final result is given in Table-3 below:

Table-3: Index of Real Exchange Rate Series

	PER Series		Per Series
1982	100.00	1989	108.86
1983	102.01	1990	118.55
1984	99.79	1991	113.68
1985	101.09	1992	105.95
1986	94.54	1993	100.72
1987	96.32	1994	99.47
1988	111.36	1995	108.61

Empirical analysis

By inspecting the index of real exchange rate calculated in Table-3, it is clear that the real exchange rate of Pakistan has remained relatively stable for the period 1982 to 1995. It depreciated by only 8.6 per cent for the entire period. From 1982 till 1987, it showed a mixed pattern, depreciating and appreciating continuously. A very striking and interesting result can be observed, that is, the PERs of Pakistan with major trade partners tend to hold Purchasing Power Parity (PPP) for this particular period. In 1988, the RER depreciated suddenly by 15 per cent, then appreciating in 1989 it again depreciated by 10 per cent in 1990. During most of the 1990s (excluding 1995 in which the RER depreciated by 9 per cent) it has shown a tendency to hold PPP. The reason for this phenomenon may be attributable to the high inflation rates in Pakistan (as reflected in Table-1). Also, it can be deduced that the trade shares and exports and imports of major trade partners does not significantly effect RER.

Conclusions and Policy Implications

RER misalignment results in severe welfare and efficiency costs, greatly hurts exports and generates massive capital flight. In the most common case, the RER misalignment takes the form of overvaluation and loss of international competitiveness. The purpose of this paper has been to analyse RER behaviour in Pakistan for the year 1982 to 1995 with the aim of exploring factors that determine the competitiveness of Pakistan in the world trade market. For this purpose a time series of trade weighted index of real exchange rates for Pakistan is calculated. An interesting conclusion is that Pakistan has been rather well served by the managed rate system it adopted in 1982. The RER has been relatively stable with only 8.6 per cent real depreciation for the entire period 1982 to 1995, although it fluctuated continuously between 6.65 per cent real appreciation in 1986 and 18.5 per cent depreciation in 1990. In other words, it can be concluded that the RERs of Pakistan tend to hold Purchasing Power Parity.

The persistent devaluation of the rupee since January 1982 has been necessitated on account of weak macroeconomic management reflected in large fiscal deficits, strained external account, low rate of national savings, disproportionate increase in money supply as compared to growth in output and frightening inflationary pressures. In my opinion, the ineffectiveness of exchange rate depreciation in securing improvements in the current account stems from the fact that changes in the costs arising from exchange rate movements feed quickly and extensively in to the economy and contribute to the aggravation of inflationary pressures. This phenomenon is strongly supported by this paper which shows that owing to high inflation rates the rate of real depreciation has been very low as compared to the nominal exchange rate depreciation. The result is that the international competitiveness of our exports has been nullified and we have been trapped in a vicious devaluation-inflation cycle.

The importance of the time factor is also highlighted while studying the RER behaviour. The time factor is important since any external imbalance to which the disequilibrium RER gives rise will have to be financed. The size of such imbalance may be greater under the current regime of enhanced capital mobility than in the past, and financing it would have the potential of representing a significant drain on Pakistan's foreign currency reserves.

Based on the findings of the paper some policy suggestions to correct for the RER overvaluation could be:

1. Devaluation ---- Unfortunately, hopes associated with this policy measure have not been fulfilled in the case of Pakistan. So controlling domestic prices instead of repeated devaluation of currency may be another way to correct the overvaluation and maintain a stable RER.

2. Import tariffs and export subsidies. This combination will replicate only some of the negative effects of devaluation and can play an important role in improving the international competitiveness of Pakistan's trade.

3. The change in the non-traded goods sectors also exerts an influence on the RER. Therefore, policies geared for efficient and optimal use or resources in this sector can also play an important role in maintaining a competitive and stable RER.

4. Adequate attention to the efficiency dimension of our economic system can also play an important role in achieving desired levels of the RER. Economic efficiency at micro and macro levels requires productive growth, high rates of savings and investments, an income policy that does not lead to cost-push inflation and prudent management through appropriate fiscal and monetary policies. It has become obvious now that we must bring about structural changes in our economy to institutionalise a process of export-led growth by increasing our share in traditional markets as well as discovering new markets.

By using the trade-weighted RER series, one can develop a complete model determining the equilibrium path of the RER. This proposed model can help to determine the real effectiveness of the exchange rate as a policy tool to solve a number of problems, particularly in export expansion and in improving the current account deficit.

Book Review

Tasneem Ahmed Siddiqui. *Developmental Issues: Innovations and Successes,* Lahore, Fiction House, 1996. pp. 214.

The fifties and the sixties were the years when a suitable development strategy was keenly debated and many good ideas and fresh thoughts were generated both in terms of abstract models and derivations from country experiences. The world seems to have grown tired of this subject now. Where have all the ideas gone?

Enthusiasm about finding the magic route to development and economic emancipation of the deprived masses of the Third World seems to have yielded place to cynicism, inertia and an air of resignation. No wonder, the world has gone back to the two hundred years old Adam Smithian philosophy of market mechanism, and unbridled capitalism ------ a "systemless system". The present "back-to-the-market" wave, of course, has been expertly marketed by donor agencies and governments. But the meek way in which the developing countries have accepted it is also the product of frustrations resulting from assorted strategies and programmes implemented in the last few decades. Rural development, basic needs, population planning, import substitution, export-led growth, nationalisation, public sector corporations, agricultural extension, heavy industry ---- the list of half-baked policies is long. These were supposed to have been delivered by bureaucracies which lacked imagination, energy and empathy for the poor. But their appetite for corruption and capacity for inaction and lethargy were enormous.

The inevitable result is economic distortions, agricultural stagnation, massive rural-to-urban migration, slums, crime and social tensions in cities, and poverty and inequity allover the developing world.

The book under review, though modest .in size and get-up, is a breather for a gloomy, crisis-ridden Pakistan. It presents innovations and success cases in meeting challenges of such problem areas as urban poverty, education, healthcare, family planning and corruption. It seeks to highlight the role of such social instruments as community participation, urban-rural interaction, people-oriented programme formulation, communication with the masses (through, among other means, theater "as a means for mobilisation and social change").

It stresses the role of NGOs and grassroot groups in carrying out innovative programmes at the micro-level in meeting some of the obstacles in the path of the betterment of the masses. A strong case is built for assigning an active role for women in development as workers, income earners and entrepreneurs, but not by rejecting the traditional household functions. The book contains case studies of women taking over their new vocations essentially as an extension of their traditional responsibilities.

But the role of government and the bureaucracy is not rejected. In fact, the editor of the book is a senior bureaucrat himself who is well known for his innovative thinking, hard work, integrity, commitment to social causes, and understanding and empathy for the poor. He was able to articulate and design a programme of incremental housing for the poor' in Hyderabad while heading the local development authority. He was able to proceed with this idea which was at variance with the conventional 'sites and services' approach governing housing policies at that time (and even now, except for *Khuda Ki Bast).* Tasneem Ahmed Siddiqui is now associated with the development of ***katchi abadies*** in Sindh. He has contributed an article presenting a perceptive analysis of the phenomenon of urban slums, in addition to another on incremental housing in Hyderabad.

The book has also been enriched by the contribution of three, articles by Dr. Akhtar Hameed Khan, a man whose field work in rural development and urban renewal has made him a legend in his life time. Khan, director of the world famous Orangi Pilot Project, writes on the capacity of the people of Orangi, especially the women, to solve their own problems by dint of hard work and ability to "blend the past with the present and foreign culture with their traditional life style". He also mentions the case of two small and poor villages with little more by way of resources than their labour and arid lands. With small loans and good advice from OPP, the people of these villages turned themselves into successful entrepreneurs selling fodder, fruit, vegetables and milk to Karachi within a period of three years.

Other contributors include such familiar names as Javed Jabbar, Shahid Kardar, Dr. Anis Dani, Farrukh Nigar Aziz, Ayub Qutab, Ghulam Kibria, Shahid Nadeem and M. Allauddin, known widely as competent professionals in their own right, and also some relatively lesser known people outside the social activist and NGO circles such as Sara Siddiqui, Dr. Asif Aslam Farrukhi, Dr. Badar Siddiqui, Sami Mustafa, Navaid Hussain, Iqbal Jatio, Shamshad Khan Khattak, Najma Siddiqui and Muhammad Fazal Noor.

The write-ups are mercifully short and crisp, though in many places, the reader feels the need for more data. Nevertheless, the message of this book is that even in this age of massive corruption, there are people selflessly serving society and, what is more heartening, producing results.

Lahore School of Economics **Viqar Ahmed**
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Book Review

The Report of the South Commission. *The Challenge to the South.* New York: Oxford University Press, First Published 1990, Reprinted 1990, 1991.

This Report ought to be made essential reading not just for all governments of the countries of the South, but for each and every conscientious citizen of this part of the globe. The reason for this somewhat categorical statement will be made apparent as one reads on. For the time being it can be said without a shadow of a doubt that it gives a fresh, enlightening perspective on each and every aspect of world affairs and the world order, touching not merely the macro canvas but the individual, day to day existence of our citizens. To the extent that even a cursory scanning of the contents of the book transforms the reader's entire perspective and ***weltenschauung*** of life

A few words about the South Commission itself. At the time of writing of this Report, the Chairman was the then President of Tanzania, Julius K. Nyerere, a rare leader indeed, epitomising and perseveringly striving for the interests and well-being of the Third World. The Secretary-General was the former Finance Minister of India, Manmohan Singh, the whiz behind the structural adjustment programme and opening up of the Indian economy. The Commission was a veritable galaxy of stars such as Celso Furtado of Brazil, Devaki Jain from India, Carlos Andres Perez from Venezuela, not to forget Abdus Salam from Pakistan, each acting in their personal capacity.

The South Commission was formally established in 1987 for the member countries to together look at the South, its problems and solutions and the lessons to be gained from past experience. The intent in essence, was to improve the lives and living conditions of the people of the south, based on the ingredients of hard work, willingness to sacrifice and dedication and commitment both by the peoples and governments of the South.

Emphasis was given to augmenting South-South cooperation and the fact that the South itself would have to bear the ultimate respo0nsibility for its own development.

The Report is divided into six chapters, beginning with an overview of the South and its tasks. To be labour the somewhat obvious, the South comprises the developing or Third World countries as they term it in common parlance. They are peripheral to the North, in the sense that thus far they have been bypassed in terms of prosperity and progress. They are in their entirety not homogenous, but all share the common denominator of wanting to escape the clutches of poverty and underdevelopment. And with the increasing trend of globalisation in recent times, the result has been the further marginalisation and greater powerlessness of the South.

The South is dependent in the extreme on the North and hence subordinate to it. In growing, it is imperative for the South to have a vision which embraces the whole world, rather than isolating itself in an uncomfortable niche. What is the need of the hour is interdependence, each country on a par with the other. The implication of genuine development is therefore increasing self-reliance, both at the individual level and collective. This in turn calls for participation of the people acting in their own interests and under their own control.

The Report points out that the task of reversing the current trends is gargantuan to say the least, but possible nevertheless.

It next iterates the challenges to the south. To name but a few, the challenge to the South is to realise that the purpose of development is the well being of its people, to strengthen democratic institutions and enable people to realise the full potential of their talents and creativity.

In the following chapter, the authors discuss the state of the South in terms of its development record, flaws in the development experience, and the neglect of cultural dimensions. The Report revealingly tells how capital formation and technical progress may be essential elements of development, but that the broad environment of their effectiveness is a society's culture.

To quote: 'It is only by the affirmation and enrichment of cultural identities that development can be given strong roots and made a sustained process'. Further, that the South did not keep people as the focus of development efforts while instead attention was centred solely on increasing physical investment and production. Unfortunately, there has been a stereotypical imitation of the Western models, leading to social tensions and frustration amongst the peoples of the South.

According to the dictates of multilateral financial institutions, many countries had 'adjusted' or were in the process of doing so. The end result however, being a development decade in reverse, *sans* either redistribution or growth and bleak prospects ahead.

The next chapter talks at length about self-reliant and people-centred development from a national perspective and the need for a complete about face of development strategies. A strategy which conspicuously imitates the life styles and consumption patterns of affluent industrial societies is clearly out, while the need for social justice, people-centred policies and democratisation of political structures are the essential components of today's development in the true sense of the word. The Report then touches upon almost all aspects of development including the appropriate type of trade strategies, health services, educational opportunities and population policies.

How exactly to mobilise the South is the subject of the following chapter. The answer according to the Report, lies essentially in greater cooperation among developing countries. Interdependence and an appropriate form of North-South relations conducive to development of the South, forms the bulk of the next chapter.

And then follows rather 'philosophic' reading, a section on the South on the threshold of the twenty first century.

'The future is not foreordained. It will evolve from the interplay of many forces......... The South must not remain a passive bystander in this process of change. It must seek to exercise the maximum influence on the course of events.....'

In sum, the Report suggests the reform of national policies, the revitalisation of cooperation among developing countries, and the restructuring of the global economic system. The implementation of these proposals will enable the South to meet the challenges ahead, challenges which have to be met if the people are to have even the slightest chance to live a life of dignity, self-respect and freedom from want and exploitation. In rather poetic phraseology, the Report concludes with — the Northern locomotive economies will not for whatever reason pull the 'train' of Southern economies at an anywhere near adequate pace. The dynamic force for change has to spring from the Southern economies themselves. In other words, they are the builders of their own destinies.

What literature could be more pertinent for anybody in today's world, whether hailing from the North or South? Not meant merely for the academician or economist, it is comprehensive in its simplicity, and yet in its own subtle way has a certain sophistication about it. So flawless is it, that it is next-to-impossible to find fault with it, either in terms of contents or stylistically.

There is, however, a touch of the unrealistic about the ideals underpinning the entire philosophy of South-South co-operation and development, making it appear utopian, never to be arrived at. Sadly, historical developments have led to the virtual demise and gradual petering out of this ideal amongst the originators of the concept, on lines similar to the unfortunate fall of communism in most parts of the world. To my mind, the need of the hour is to resurrect the ideology spelt out in the Report, no mean task indeed, so that there is at least a slim chance that we, the nations of the South will one day have a better and brighter future. Perhaps that is hoping against hope, but then what is life without hope?

As a practical suggestion, perhaps it could be translated into the languages of the peoples of the south for it to be truly effective. I, for one, am a different person I think, having scrutinised it fairly meticulously.

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Nina Gera

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