

History of PIDE Series-3

PIDE's Contribution to Policy-making

A. R. Kemal





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**PAKISTAN INSTITUTE OF DEVELOPMENT ECONOMICS,
ISLAMABAD**

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I. INTRODUCTION

Pakistan Institute of Development Economics was established 50 years ago with the broad objectives of acquisition and propagation of knowledge about Development Economics with a special focus on Pakistan. Over these years it has carried out theoretical and empirical research with a focus on understanding the structure of Pakistan's economy; framework for policy making and programmes and for monitoring the implementation of policies and programmes; ascertaining the impact of various economic policies on strategic economic variables; generating various scenarios and suggesting future challenges in the economy; predicting the future growth path of the economy; and analysing the complex relationship between the population, culture, and the environment. So far roughly 2000 articles have been published in *The Pakistan Development Review* and there have been a large number of research reports, discussion papers, monographs, special publications and books on various facets of the economy of Pakistan.

Whereas PIDE has been carrying out policy relevant research and has directly or indirectly influenced policy formulation, the impact has been somewhat limited. It would have been far greater but for the two main factors. Firstly, lack of tradition in the government of research-based policy formulation which partly reflects limited capacity to comprehend research carried out at PIDE and translating it into the summaries which enable the cabinet and its sub-committees such as ECC, NEC and ECNEC to take decisions and partly the ad-hoc nature of the policy formulation. Second, there has been little interaction between the policy-makers and the PIDE to identify research needs of

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the government for better policy formulation. Resultantly the research carried out at PIDE has been supply driven rather than demand driven though efforts have been made to ensure that the research agenda of PIDE is in line with the national priorities. Researchers and the Director of PIDE and the Council of Senior Fellows have been making an earnest effort to ensure that the research carried out PIDE accords with the major issues faced by the nation. However, contribution of the Board of Directors which also included secretaries of various ministries, Governor State Bank and representative of Higher Education has been quite limited towards formulation of research agenda. A proper interaction between policy-makers and PIDE would have gone a long way in research based policy formulation.

Though the PIDE research seems to have limited impact on the policy formulation it did have direct and indirect impact on economic policy making though in some cases the impact had been with considerable lag. Research and training of the public officials in project evaluation and other disciplines have enabled the public officials to carry out proper analysis of the projects and policies. Moreover, by enhancing supplies of the economists and demographers in the country and secondment of PIDE staff to the government has also helped in better policy formulation.

In the present study we assess the contribution made by the PIDE directly and indirectly to policy making since its inception. It also analyses the benefits that could have accrued to the nation had the government accepted recommendations of PIDE research studies and implemented it without delays. Plan of the paper is as follows. After this introductory section, various channels through which PIDE research may have impacted the policy making is examined in Section II. The PIDE research studies are analysed in greater detail with a view to assessing its impact on policy-making in Section III. The other channels through which the policy might have impacted are analysed in Section IV. Dissemination of knowledge and efforts to interact with the policy-makers is examined in Section V. The suggestions to improve the interaction between the research at PIDE and policy-makers and major conclusions are summarised in Section VI.

II. THE PIDE ACTIVITIES INFLUENCING POLICY-MAKING

PIDE research activities over time have undergone profound changes due to various extraneous factors. Therefore, we have distinguished four distinct phases of its activities:

- **The 1958–71 Period:** In the initial stage of its establishment it was called Institute of Development Economics (in 1965 it became Pakistan Institute of Development Economics) and was funded by the Ford Foundation with an endowment from Aga Khan. When it became PIDE the government of Pakistan was the major funding agency. During this period the role of foreign advisers in the conduct of research was crucial. They not only carried out research themselves but trained the Pakistani staff and there have been quite a few joint studies jointly done by the foreign advisers and the Pakistani researchers. The research carried out had significant impact on the development thinking, evaluating the impact of industrialisation strategies and the policy formulation in Pakistan. Since Professor A. R. Khan has very thoroughly analysed the research activities during this period, in the present study we shall not go in greater details about the research activities and its impact on policy making and development thinking during this period.
- **The 1972 to 1990 Period:** During this period the PIDE started virtually from scratch as it had lost all the researchers after East Pakistan became Bangladesh. Initially Ford Foundation provided funds for fellowships, foreign advisers and inviting distinguished professors for lectures and later on USAID and UN also provided some funds for these activities. USAID also provided an endowment to PIDE. However, by the mid-1980s these funds dried up. Nevertheless throughout the period government provided sufficient funding. The institute carried out policy relevant research some of which was used in the policy-making especially in tariff rationalisation efforts.
- **The 1991 to 2007 Period:** During this period the government asked the institute to raise about 25 percent of the expenses from the studies to be taken from the national and international organisations and limited its funding to 75 percent of her expenses. The PIDE had to go for contract studies to finance its expenditure. Nevertheless the PIDE has been preparing Research Agenda without any reference to the contractual research and it accepted studies which accorded with the national priorities. It needs to be underscored that the

national and international agencies approached the institute rather than institute bidding for studies. Some of the studies conducted for national and international institutes included effective protection rates and efficiency and the industrial structure for the Resource Mobilisation Commission, Nutrition Survey for Planning Commission and UNICEF, the Panel Data Sets in collaboration with IDRC and the elimination of child labour with ILO.

- **2007 and Onwards:** Even though PIDE had started a PhD programme in 2000 it has been accorded degree awarding status in 2007. PIDE is no longer just a research institution but is a research-cum-teaching institution as it has gained status of a University. One hopes that the tradition of research would continue under the able leadership of Dr Rashid Amjad.

Despite changes in administrative ministries from Education to Planning and limitations imposed by the availability of funds, PIDE has been able to carry out theoretical and empirical research on the various development issues. It has been preparing and implementing research programmes in accordance with national priorities and carrying out demand driven research for the various ministries and departments and the UN and other agencies. Besides, participation of the PIDE staff in various conferences and seminars within the country and outside, the conference of Pakistan Society of Development Economists provides an excellent opportunity of interaction between the PIDE and other economists with the policy-makers. It also instituted special lecture series on policy issues. Representations of PIDE staff on various government groups, task forces and the panels have also been instrumental in impacting the policy formulation. The PIDE staff members have also been deputed to the government where they have been involved in direct policy-making. Moreover, training on project appraisals has also contributed to better project preparation and the policy formulation. In the following we discuss in greater detail the various ways through which it has impacted the policy-making.

Research Programme of PIDE

The PIDE researchers keeping in view their own expertise and interests and national priorities suggested the studies that they were to take up over the next three years. The researchers for each of the study

provided specific target dates for completion, methodologies to be employed in the conduct of studies and the possible areas in which the policy suggestions could be made. These research projects were debated within PIDE and Preliminary Research Programme was formulated and was placed before the Council of Senior Fellows. The council examined the research programmes and suggested the areas that might have been over looked and the priority that may be accorded to different projects. The revised programme in light of comments of senior fellows was placed before the Board of Directors of PIDE for approval. The Board comprised besides the representatives of the senior fellows the secretaries of Finance, Planning, Economic Affairs and Education; Governor, State Bank; and a representative of Higher Education Commission. It was headed by the Deputy Chairman of Planning Commission. The Board could have suggested the policy relevant areas for research if the programme proposed by PIDE was not policy oriented. While the Board took little interest in the evaluation of the programme it continued to suggest that PIDE does not carry out policy relevant research.

The research carried out has been disseminated through its journal *The Pakistan Development Review*, Research Report Series, Discussion Papers, Monographs, Publications for the common man such as PIDE Tidings or newsletter, special publications and Books.

Research Studies for the Government. Such studies are demand driven and PIDE has been carrying out on the request of various ministries, departments and agencies. Sometimes PIDE charged for such studies and sometimes they were done without any additional cost to the government agencies. The results of such studies are expected to be reflected in the policy formulation. However, as is quite well known that the government may decide not to use the results of the research even if they have paid for it.

Research Studies for UN Agencies. PIDE has been carrying out various studies for the International Organisations which in turn have been instrumental in influencing the policy-making. Such studies include among others industrial sector performance, poverty and employment, poverty generators, nutrition survey, water and sanitation, child and bonded labour.

Participation in Various Forums of the Government. PIDE staff members have been participating in various working groups

formed by the Planning Commission for various development plans and the Vision 2030; task forces on revival of the economy, poverty alleviation, improvements in National Accounts and welfare of the workers appointed by the President, Prime Minister or various ministries; and panels of the statistics division to improve the data and member of the National Accounts Committee.

Participation in Seminars. The interaction between the researchers and the government through various seminars and conferences especially the annual conferences of the Pakistan Society of Development Economists where the relevant staff of various ministries are invited. PIDE had initiated a lecture series for the policy-makers and with a view to ensuring larger government participation the seminars were held in the secretariat.

Training Programmes. PIDE has been training the government officials to carry out project appraisal so that the optimal use is made of the public resources. PIDE has also been providing training for better policy formulation.

Enhanced Supplies of Economists and Secondment of PIDE Staff to the Government. It is important to note that most of the economists were at sometimes trained at PIDE and some of the PIDE staff was sent on secondment to the government where they had positive influence on the policy-making

III. POLICY RELEVANCE OF RESEARCH AT PIDE

PIDE has carried out research in various aspects of the economy including growth, income distribution and poverty, structural adjustment and stabilisation programme, monetary and fiscal policies, agricultural transformation, industrial growth and international trade, human resource development, the labour issues and population dynamics. Some of the research has been used by the government and the international institution in the formulation of policies while a significant amount of policy relevant research that could have positively impacted the decision making was either completely ignored by the government or implemented the policies suggested by PIDE after a considerable lag sometimes on the insistence of donors. In the following we discuss in greater detail the studies carried out in various areas and its implications for the policy formulation. Since Professor A.

R. Khan has examined in detail the research activities of PIDE for the 1960s we will not analyse the research activities of that period in detail.

Economic Growth

PIDE over the years has examined the growth process from various aspects which include among others the following:

- **The Growth Models.** The Lewis model of economic development which had a great influence on development thinking was extended by Fei and Ranis. They relaxed various assumptions in the Lewis model in the early 1960s and since then the model has been used extensively in the economic literature and formulation of development of policies. The project appraisals and the various public works programmes have been designed by taking into consideration the conclusions and policy implications of the model. During this period linear programming models were very common and the researchers at PIDE used these models for the determination of optimal activities and such models came quite handy in the formulation of 3rd and 4th Five Year Development Plans.
- **The Role of Accumulation of Inputs and Productivity in Economic Development.** Pakistan has experienced sharp fluctuation in growth rates over time. While the saving rates have been quite low throughout the investment has fluctuated depending on the availability of foreign capital in the form of loans and grants. Various studies examined the behaviour of savings and investment over time and have suggested the factors behind the low rates of savings and investment. These studies have suggested the negative influence of the foreign capital on domestic savings and thus a decline in the long run growth rates of the economy. However, most important findings of the studies have been that the improvement in total factor productivity has contributed significantly towards the growth; the economy has registered high growth rates only during the period when productivity growth was higher. The studies also highlighted the role of capacity utilisation, learning by doing and the investment in improving the productivity levels. The studies have impacted the growth strategy of Pakistan though belatedly and the plans explicitly suggest expected improvements in productivity levels and the

measures that may result in higher growth rates. For example the MTDF calls for the growth through knowledge inputs.

- **The Development of Macro, Econometric, and CGE Models.** In the 1980s PIDE started developing macro econometric models to examine structure of the economy and to carry out policy simulations. Even though data used in the model suffered from various problems as the data for various variables before 1971 were available only for combined East and West Pakistan and on various assumptions it was estimated for West Pakistan, these models provided the basis for the formulation of models at the Planning Commission. At present the Planning Commission is developing a model which is expected to help them in simulating various policy options. Over the last 10 years PIDE has also ventured into the Computable General Equilibrium (CGE) models which have been used to simulate the impact of various elements of structural adjustment programme on growth, balance of payments, revenues, poverty and employment. The policy simulation models are also now being developed by the Planning Commission and various other agencies and ministries.
- **Sustainable Development.** PIDE has carried out various studies on the environmental issues. The fiscal measures for sustaining environment and the issues relating to property rights especially relating to the forests have been analysed in various studies. The PIDE also came out with the classification of environment protection: cases where protection of environment even in the short run would promote growth while in other cases the short term losses would be more than compensated by the long run gains. These studies have been completed in close association with the environment ministry. The conclusions would come quite handy when the government would be more serious about the environment issues.
- **Nationalisation and Privatisation.** Evaluation of the performance of public enterprises and the conditions under which privatisation may help in improving efficiency levels and reduction in the fiscal deficit were subject matter of various studies carried out in the early 1990s. On the basis of

the performance of firms in the industries in which both public and private sector participated and the changes in the efficiency levels through the analysis of total factor productivity and changes in the relative prices it was suggested to the government that privatisation would help improvement in efficiency levels only if there is competitive market structure. The government instead of creating a competitive market structure allowed the cartels resulting in lower efficiency levels and higher real prices with significant implications for employment. Similarly it had pointed out that privatisation may not result in reduction in fiscal deficit unless the units are sold at the prices higher than the reserve prices which in turn should be properly calculated. However, the government continued with privatisation without ensuring the competitive markets and the right prices for the sale of asset and finally the Supreme Court had to intervene.

- **Foreign Aid and Debt Overhang.** A number of studies on the foreign aid issues pointed out that foreign aid may not help the developing economies both because of the aid conditionalities which reduce the grant elements substantially and because the aid has adverse implications for the savings rate. Pakistan had accumulated large amount of debt and was the verge of default but due to debt rescheduling it was able to avoid the debt default. PIDE had warned the government that debt rescheduling is not a resolution of the debt problem unless in subsequent years the investments rise, growth rates of GDP increase, and a larger part of the increased output is saved and finds its way into higher exports. Unfortunately the government did not pay heed to the advice of PIDE and felt that debt rescheduling and continued inflows had resolved the problem. Unfortunately the rising fiscal and balance of payments is once again is increasing the debt and with higher invisible balance of payments would call for even higher capital inflows with its implications for the debt and the interest rates on the external debt.
- **Analysis of Stock Markets.** Analyses of the weaknesses and strengths of the stock markets in Pakistan and empirical investigation of capital asset pricing models have been examined in a number of studies. The analysis has helped in

assessing the extent of diversification potential of investor portfolios and suggesting portfolio management strategies that utilise controlled risk exposure and efficient diversification. However, with the growth of stock prices with fluctuations in the share prices this is an area where more research is required to avoid the scams that have been witnessed in recent years.

Poverty and Income Distribution

Whether the growth trickles down or not has been subject to controversies. Pakistan has witnessed that in some decades the growth has trickled down while higher growth has been accompanied with the increased income inequalities and an increase in poverty in other time periods. For example during the 1960s the planners and policy-makers believed that income distribution considerations can wait until the per capita incomes grow to a substantially higher level but the common man and the general public had different expectations from growth and this was reflected in widespread demonstrations against growthmanship by the end of the 1960s. Similarly, over the last few years the government believed in the same philosophy and it has been voted out.

PIDE has carried out a number of studies relating to estimation of income distribution and poverty; the conditions under which the growth may trickle down; the factors that tend to generate poverty; employment generation and poverty; characteristics of households that turned poor and those who have been able to escape poverty; and whether the poverty in Pakistan is a transitional or structural problem. In the following we discuss the studies relating to poverty and income distribution and their impact on policy formulation in Pakistan.

- **Estimates of Income Distribution.** PIDE started estimating the income distribution coefficients in 1960s and examined trends in income distribution over time on the basis of various income inequality coefficients including gini coefficient. The data problems for estimation of income inequalities have been examined and it was suggested that not only the income inequalities are grossly underestimated it also affected the comparison of income inequalities over time. There have been some studies to explore the factors giving rise to higher income inequality. The estimates of functional income distribution were also provided. The

impact of green revolution and other structural transformations on the income distribution has also been examined. The impact of structural adjustment and stabilisation programmes on the income distribution was also explored much earlier to suggest that the government may take some corrective action. The research on income distribution has led the government, though belatedly, to introduce economic policies to counter functional, size and spatial income distribution. This has now been on the agenda of the government as a part of PRSP-2.

- **Poverty Estimates.** Poverty is a complex and multidimensional phenomenon. PIDE started estimating trends in poverty levels for the 1960s during the early 1970s. These estimates were prepared on the grouped data and based on the interpolation methods the different researchers came out with different conclusions. Moreover, these estimates have been prepared on the basis of different poverty lines; different researchers used different poverty lines and the trends over time were not comparable. In 1997 a consistent time series of poverty was prepared but that goes up to only 1992-93. The poverty estimates prepared by the PIDE, Federal Bureau of Statistics and World Bank are not comparable to the earlier estimates due to different data sets, the definition of poverty, and the use of preferred micro data set compared to the grouped data sets used in the earlier studies. PIDE has been warning against using these estimates over time. Notwithstanding that the government has been reporting the estimates over long run without informing the uses and thus drawing erroneous conclusions.
- **Determinants of Poverty.** Research in Pakistan mainly focused on the examining the poverty trends over time with little focus on ascertaining why poverty increases over time and who are poor. In the 1990s PIDE filled that vacuum and showed that why the growth did not trickle down in the 1960s and why it did in the two subsequent decades and why did it not happen in 1990s. It turned out that if unemployment rises then despite an increase in per capita incomes poverty may increase. The role of remittance in reduction of poverty was also highlighted. Various studies at

PIDE also pointed out the characteristics of the households that are poor which included the larger family size, illiteracy, lack of agricultural land, unemployment, litigation and lack of health facilities. These results have been used in the formulation of Poverty Reduction Strategy Paper-1. These results together with the results from panel data set and the factors that help in escaping the poverty along with the factors that would result in reduction in poverty are being used in the PRSP-2. PIDE research has also highlighted the effects of macro factors, such as structural adjustment programme, stabilisation and governance, on poverty and income distribution. These studies have helped in government putting up a pro-poor growth agenda and would help in examining the poverty and labour market linkages.

Agriculture Transformation

The various aspects included in the agriculture research included trends in agricultural output and productivity levels; regional output and productivity trends; analysis of agricultural price policy; analysis of input markets, especially fertiliser and irrigation water; optimal tax structure for Pakistan's agriculture; taxes and subsidies in agriculture; land reforms; marketing of agricultural commodities; the ration shop system; structural transformation of the rural economy including rural industrialisation; livestock production, potential and growth; effects of trade liberalisation on Pakistan's agriculture; rural financial markets and impact of credit on efficiency; rural poverty, and implication of trade liberalisation for food security and sustainable development in Pakistan (with a focus on the conservation and pollution issues). These issues and impact on policy making is examined in the following.

- **Trends in Agricultural Growth and Determinants.** The growth rates of agriculture show wide variations within each decade and across different decades. While fluctuations from year to year in agricultural growth is due to weather, fluctuations over longer run are mainly due to factors such as terms of trade for agriculture, availability of agricultural inputs, availability of water and the improvements in productivity. The government over time has reduced the bias against agriculture by removing the constraints, both quantitative and export duties, on exports and by setting up of

Agricultural Prices Commission to provide for the competitive prices to the agriculturists. These policy conclusions have been in line with the conclusions of various PIDE studies. However, with the wounding up of the Commission and failing to purchase the agricultural produce whenever there was bumper crop terms of trade may be moving once again against agriculture.

Research at PIDE was able to break the myth that the farmers in Pakistan do not respond to the incentives. Various studies show the movements in areas and productivity following the changes in prices of the output. Similarly, various studies pointed out that the farmer's response to increase in prices of inputs especially the fertiliser has been quite high. However, very little efforts were made to ensure that the prices of inputs and outputs should be so chosen that the supply does not fluctuate that much.

- **Water Development.** Whereas nature has bestowed Pakistan with ample water, Pakistan has neither been able to harness the water resources properly nor the use has been optimal. PIDE carried out research on water and came to the conclusion that water pricing formula tends to waste the resource but so far no successful attempts have been made to cost the water properly. At the same time due to the poor water rates the excessive usage of water has led to the problems of water logging and salinity. When the problem surfaced in the 1960s there had been wide debate if the tube wells were the best strategy to combat the twin menaces as recommended by the US advisors or it has to be supplemented with the drains as proposed by PIDE. The conclusions reached by PIDE had a positive impact on the policy as the tube wells in areas with underground water could have been catastrophic.
- **Productivity Levels in Agriculture Sector.** Various studies carried out on the productivity levels in agriculture sector suggest that the country could realise 4-5 percent growth of agriculture sector only in those periods when the productivity levels have been high. These studies also point out that the basic factor behind the productivity growth has been the improved seed varieties which allowed the use of chemical agricultural inputs. The other factor contributing to the growth

has been the water availability. The studies also show wide variations in the productivity levels across districts of each province and within each district across small farmers and the big landlords and progressive farmers. Despite these conclusions neither water reservoirs were created nor adequate resources were provided to the agriculture research. Recently, in a study for the Higher Education Commission, PIDE has provided various alternatives through which the productivity levels can be enhanced significantly. It calls for an increase in the public sector development expenditure. For agriculture from the existing 1 percent resources should be enhanced to around 9 percent which has been incidentally the expenditure on agriculture in the 1960s. The agricultural vision, a part of the Industrial Vision, exercise has been approved by the cabinet but so far there has been little implementation.

- **Land Reforms.** Whereas a land reforms commission was appointed soon after the independence the land reforms were introduced in the 1960s and 1970s. They were too late and too little. PIDE published a book that examined the impact of land reforms critically. While PIDE recommended land reforms both on efficiency and equity considerations government has chosen not to take the issue seriously.
- **Fertiliser Demand.** The various studies carried out at PIDE suggest that there are strong negative implications for demand of fertiliser if the prices were increased. However, the government under the Structural Adjustment Programmes withdrew subsidies resulting in an increase in the prices of fertiliser with serious implications for growth. It had serious implications for equity as well. The studies also suggested that due to sharp increase in the prices of potash fertiliser compared to nitrogenous fertilisers the N:P:K blend has been altered with implications for the growth.
- **System of Ration Cards.** Since independence Pakistan had ration card scheme to provide the wheat flour and sugar at government controlled prices through rations shops. PIDE analysed the system and pointed out the various problems in implementing the ration card scheme including the back marketing and poor quality wheat flour. The ration cards scheme was abandoned in 1980s but surprisingly in the recent months government seems to revert back to the same ration card scheme.

- **Impact of the Trade Liberalisation on the Growth of Agriculture and Income Distribution.** Pakistan started implementing IMF Structural Adjustment and Stabilisation programme in 1988 and as a part of that programme government removed the subsidies to the agriculture sector which included subsidy on fertiliser, tube wells and pesticides. The farmers were compensated through increase in the prices of output. While during this period the agricultural output did increase at the rate of 4-5 percent but the poverty increased substantially due to differential impact on small and larger farmers. Research studies at PIDE showed that whereas the poor has to pay for the entire increase in the prices of inputs the benefit to them of the increase in output prices was minimal as they had low marketed surplus. Moreover, they did not have sufficient resources to purchase the agricultural inputs.
- **Rural Employment and Wage Rates.** The rural economy is not just agriculture and the wage rates in non-agriculture though are influenced by the growth in the agriculture sector. The non-agriculture labour is almost 40 percent of the rural labour force. Therefore unless the non-agriculture employment opportunities are created in rural areas the workers would move towards the urban towns. PIDE carried out studies which showed the impediments in the way of rural industrialisation and the one-village-one-product scheme could have overcome most of the impediments but the scheme has not been implemented with any degree of seriousness
- **The Rural Financial Markets.** PIDE has carried out various studies on the rural financial markets and come out with the conclusions that the poor farmers do not have access to the formal financial market and perforce has to rely on the informal credit markets. The studies relating to the microfinance for agriculture indicates that the small farmers have limited access and the rates of interests are quite high.

Trade and Industry

Pakistan's industrial sector and the tariffs and non-tariff barriers on imports have been very widely studied at PIDE. Effective protection and the efficiency levels of the manufacturing sector, capacity

utilisation, industrial concentration, industrial restructuring, role of small-scale enterprises in the manufacturing growth, determinants of investment in the manufacturing sector, openness of economy etc have been the major areas in the manufacturing sector. In the trade PIDE has carried out the studies on the tariffs and non-tariff barriers, the exchange rate, determinants of exports and imports and the possibility of successful devaluation, and the regional cooperation. Some of these studies are examined in detail in the following.

- **Trade Liberalisation.** Trade liberalisation has been the theme of various studies carried out in the PIDE over the entire period. Much of the current deregulation of economic activities particularly that affecting the trade policies and foreign exchange market has been based on PIDE research. While all over the world countries deregulated the trade policies Pakistan failed to take action in time. However, since 1980s Pakistan has made substantial changes in the trade and foreign exchange regimes.
- **Effective Protection and Efficiency of the Manufacturing Sector.** During the mid 1960s the first effective protection study was published in *The Pakistan Development Review*. Even though some of the assumptions made in the study were not all that accurate it did point out possibility of negative value added in some of the industries. Even though the number of industries with negatively value added reduced significantly the conclusion reached earlier that the industrial sector was heavily protected remained valid. PIDE has been carrying out the effective protection studies up to the 1990-91 period and have been suggesting to the government to reduce the effective protection in order to improve the efficiency levels. While during the 1960s and 1970s government did not pay much attention towards reducing the protection level the government had started reforming the incentive structure to the manufacturing industries well before it had signed the structural adjustment and stabilisation programmes. On the basis of PIDE's work on the structure of protection and domestic resource cost for the year 1980-81 government created an Industrial Incentives Reforms Cell which provided protection to the manufacturing activities on rational basis rather than on the basis of just cost disadvantages. The

government also used the cost of smuggling as a basis to reduce the import duties on smuggling prone products. PIDE has also been involved directly in the rationalising of the tariff structure. The PIDE has been suggesting that the anti-export bias should be removed to ensure the export oriented industrialisation strategy. While the anti-export bias has declined it still exists. PIDE has also prepared an Industrial Vision strategy for HEC and the government has accorded approval of the Vision but so far not much effort has gone towards implementation of the strategy contained in the Vision.

- **The Industrial Concentration.** While Pakistan has been protecting its industrial structure there has been little competition within the manufacturing sector of Pakistan. The PIDE research studies have shown that in almost three-quarters of the industries, four firms had accounted for at least 80 percent of the output. Notwithstanding the fact that an oligopolistic market structure prevails in the manufacturing sector the government privatised a large number of public enterprises in the manufacturing sector without ensuring that the competitive markets would exist. Neither the tariff rates were lowered substantially that could provide competition to the domestic industries nor the Monopoly Control could take any action if the firms had colluded to exploit the consumer and in the process output and employment was lost. In recent months a Competition Commission has been established which may investigate the cases where the consumers are being exploited through the cartels and take suitable actions.
- **Regional Cooperation.** PIDE started investigating the possibilities of growth through regional cooperation as Pakistan in 1960s as it was a member of the RCD with Turkey and Iran being the other members. RCD made a little headway. At present Pakistan is member of SAARC and ECO. While the summit meetings have created euphoria of close cooperation but on ground there has been little progress. PIDE has been warning against such euphoria as no suitable measures to promote trade and investment were being taken. It has been generally believed that because the SAARC and ECO countries have competitive economies the regional

cooperation may not be of great significance. While the trade complementarities studies and revealed comparative advantage studies carried out at PIDE did indicate that they have comparative advantage in similar goods, they also suggest that the intra industry trade could be the basis of trade between them. These studies have outlined the necessary factors that would help them to realise the maximum advantage form regional cooperation.

PIDE has also been the focal point for two major regional bodies, viz. ECO and SAARC and regularly contributes to the economic research activities with particular reference to regional economic co-operation, prepares background papers for regional meetings of experts, and organises regional events including conferences and seminars.

- **Balance of Payments Studies.** PIDE has carried out studies on trends in balance of payments with a focus on assessing the determinants of exports and import demand; remittances; and the exchange rates determination. The exchange rate and the availability of export surplus turns out to be the major determinants of exports and the investment, industrial output and exchange rates come out to be the major determinants of the demand for imports. The studies relating to the exchange rates show that Pakistan has failed to sufficiently devalue; the devaluation did not even compensate for the higher relative inflation rate. Since the elasticity conditions for successful devaluation are met in case of Pakistan, devaluation coupled with generation of exportable surpluses would have resulted in sharp growth of exports and thus resolved the balance of trade and balance of payments problems.
- **Certification and Compliance Issues.** PIDE in collaboration with UNIDO has examined the compliance issues without which the exports are expected to suffer badly. Even though Pakistani entrepreneurs are aware of WTO issues and the compliance issues and its fisheries exports have suffered badly the efforts to comply with the certification has been slow. UNIDO and the government of Pakistan on the basis of the conclusions of this study have formulated a certification strategy in which UNIDO is helping the government of

Pakistan to set up labs and government is providing subsidies to exporters for improving their compliance.

- **Globalisation.** The research at PIDE on WTO issues such as the impact of trade liberalisation of goods and services on growth, employment and income distribution and poverty; foreign private investment, and trade-related intellectual property rights have helped government in taking the position on WTO related issues. PIDE drafted the report of Senate on WTO issues that had direct bearing on the policy formulation in Pakistan. PIDE has also been involved in writing Pakistan trade review reports for the government that were presented in the WTO.

Fiscal Policy

PIDE has carried out various studies to determine adequacy of the fiscal policies of Pakistan to ensure efficiency and equity. Various areas of the research carried out include incidence of the tax structure and public expenditure; budget deficit and its implications for growth, income distribution and poverty; various options to finance the deficit and their implications for the economy in particular the impact of national saving scheme rates on the bank deposits, interest rates and investible resource; and fiscal federalism with implications for inter-governmental fiscal relations in Pakistan. These studies are examined in the following:

- **Tax Elasticity and Buoyancy.** Invariably in each of the budget the government of Pakistan had to take various measures to increase the revenue but the tax/GDP ratio fails to rise. PIDE carried out various studies which indicate very low tax elasticities and distorted bases. The studies also pointed out that the targets fixed by the CBR (now FBR) have not been in line with the growth of GDP. It has been suggested that the government shall have to take suitable measures to ensure that the tax elasticity exceeds unity and the new measures enhance the higher buoyancy coefficient.
- **Analysis of the Tax Structure.** PIDE carried out a thorough review of the tax structure and suggested that the tax structure needs to be overhauled. The tax assignment to various tax heads at present is in line with the suggestions made by the

PIDE research studies. In recent years PIDE also carried out the exercises on tariff structure for the CBR that has helped the government in rationalising the tariff structure.

- **The Progressivity of Taxes.** One of the good characteristics of the tax structure is that it should be fair and PIDE carried out studies to determine the incidence of the tax structure in Pakistan. The studies have indicated that the tax structure that used to be somewhat progressive prior to the implementation of Structural Adjustment and Stabilisation programmes have turned regressive. While Pakistan's tax structure may have become more efficient it is no longer fair.
- **Public Expenditures.** PIDE have also analysed the public expenditure and its impact on the growth and income distribution and concluded that the expenditure that could help the poor is minimal and as such the fiscal system has failed to make any dent on the poverty and income inequalities in Pakistan.
- **Fiscal Deficit.** The impact of fiscal deficit on growth has been assessed and the main conclusions drawn from various studies is that Pakistan fits well the neo-classical model and that probably stems from the fact that in most of the years Pakistan had high fiscal deficit. The other studies indicate that if the fiscal deficit is a result of development expenditure relating to the physical and social infrastructure it does not crowd out the private sector investment. Instead it encourages the private sector investment. It is ironic when the research studies showed that public sector development programme would crowd in the private sector investment the government reduced fiscal deficit by cutting the development expenditure on the advice of IMF.
- **Financing Fiscal Deficit.** The government of Pakistan with a view to containing the inflation has been relying on non-banking financing. However various research studies concluded that that such financing has resulted in an increase in the long run deficit, adverse impact on the banking industry and led to sharp increase in the interest rate resulting in lower investment. This did result in change in the policy towards financing deficit through bank borrowing but that has created inflation. The prudent policy to keep down the fiscal deficit to

manageable limit over long run has not been possible for the government.

- **Fiscal Federalism.** Pakistan is a federation and the distribution of resources between the federal government and provincial governments and the distribution of revenues amongst the federating units have been quite controversial. No doubt the constitution of Pakistan calls for the appointment of the National Finance Commission every five years but there have been only 2 awards so far. The issues have been discussed in various papers and it is suggested that the local, national and international public goods should be the basis of such allocations.

Monetary Policy and Inflation

The financial sector has undergone important changes over time and SBP no longer operates through the administrative measures to control money supply. Whereas State Bank has strong research department and carries out research that are required to formulate monetary policies PIDE has also carried out monetary studies relating to demand for money, interest rate structure, analysis of the inflation and micro credit. Developments in the financial markets of Pakistan and the analysis of inflation are briefly discussed in the following.

- **Money Demand Functions.** This has been the main areas of research in the monetary field at PIDE. The results indicate that the real demand for money is almost entirely explained by the changes in interest rates and income levels and that the money function is stable. This important conclusion lends support to the control of money supply through the market based instruments.
- **Interest Rate Structure.** Trends in interest rate structure over short and long run, between the deposits and advances and the relationship of the interest rates on the National Savings Schemes and the banks have been analysed in various studies. These studies report various types of distortions in the interest rate structure which continues to date.
- **Determinants of Inflation.** Most of the studies carried out at PIDE points out that the inflation is not just a monetary phenomenon in Pakistan and the structural factors are equally

if not more important than the monetary expansion. It has also been noted that money supply impacts inflation with a considerable time lag and there is close association between money supply and inflation rate. It seems that the government did not take up the results seriously and they continued increase in money supply as in the short run it did not generate inflation but the economy had to pay high cost as at a later stage the interest rates had to be increased with adverse implications for growth.

Human Resource Development and Labour Market Analysis

The studies in this area included the estimation of returns to the HRD; demand for different skills; imbalances in the labour market; labour segmentation, employment elasticities and changes in productivity and employment growth; trends in wage rates and wage differential in public and private sector; education and earnings the cost-and-benefit analysis of elimination of child labour issues of bonded labour; industrial relations etc.

- **Employment Elasticities.** Employment elasticities have been traditionally used to project the demand for labour. It was argued in PIDE that the low employment elasticities are reflection of the improved labour productivity and as such higher employment elasticity is not necessarily good unless it implies loss of employment resulting from higher capital intensities PIDE has been estimating employment elasticities for different time periods and for projection has been suggesting the use of labour productivity analysis.
- **Trends in Wage Rates.** The analysis of wage rates in Pakistan has been carried out in Pakistan since 1960s and indicates that the nominal wage rates have failed to rise consistently with the increase in per capita incomes in Pakistan. In particular the salaries of the government employees indicate a long run downward trend as the increase in salaries could not compensate for the increase in prices. PIDE has carried out few studies for the Pay and Pension committees which were part of the report of the committees but the government never implemented the recommendations of these committees.

- **Education and Earnings.** Various studies carried out in this area indicate very high financial and economic rates of return to education especially the primary education. One only hopes that the government of Pakistan allocates more resources to the human resource activities.
- **Elimination of Child Labour and Bonded Labour.** PIDE has carried out studies relating to the determinants of child labour and concludes that poverty of the households and irrelevance of education are the main factors. The rates of return if the education and health services are provided for the child have been estimated in a study sponsored by the ILO. Similarly, the PIDE researchers were part of the study on bonded labour. The results of such studies would be quite helpful in alleviating the problems of child and bonded labour.
- **Human Resource Development.** A number of studies carried out by PIDE have highlighted the issues and education, health and nutrition. In particular PIDE carried out with the help of Planning Commission and the UNICEF a Nutrition Survey that helped in assessing the gravity situation as it pointed out a large proportion of children that are under weight, stunted and wasted. The study also helped in determining the micronutrient deficiencies and can be quite helpful in devising the health and nutrition strategy.

Socio-cultural and Gender Empowerment

The complex relationship between population, culture, and the environment is a key element of concern. The empowerment of women has been examined both in the anthropological tradition as well as through the quantitative methods by employing the CGE modelling techniques.

- **Micro Finance Institutions.** In an anthropological study and the quantitative study the role of micro finance in reduction in poverty was examined. These studies came to the conclusion that the beneficiaries are limited and generally the same people; interest rates have been too high for the poor people and therefore the poverty can hardly be eradicated. The study also concluded that the cost of

reaching the poor through various schemes has been quite high. The studies also point out the high spread between the funds received by the micro finance organisations and the interest charged to the poor indicating high transaction cost and inefficiency.

- **Women's Wage Work and Employment.** The study suggests that just giving women access to income opportunities may not be sufficient for the empowerment. It notes that the women should be taken as economic agent for change and not merely recipient of support and strategic potential of the women needs to be recognised.
- **CGE Modelling on Women Empowerment.** The studies carried out at PIDE show very interesting result that unless the women have the control over the use of money they earn their participation in the market will only result in higher burden on the women. The government should take that into consideration while formulating the empowerment policy.
- **Manual for Training in the Gender Issues.** PIDE researchers developed two manuals for training and then imparted the training to the government employees as to how the gender issues may be incorporated in the project formulation.

Population Studies

Demographic research has been an integral part of PIDE's research activities. During the 1960s, research studies focused on pure demographic analysis, with a specialisation in analysing fertility, population planning programmes, mortality, and migration. The Division made a mark with its early comprehensive study *The People of Karachi*, and the Population Growth Experiment 1962-65 (PGE) Project, which established benchmark figures of fertility and mortality of Pakistan, including the then East Pakistan (now Bangladesh). In the decades of the 1970s and 1980s extensive research was done on the determinants of fertility, mortality, and migration and their policy implications based on data generated from various national level demographic surveys. The Population, Labour Force, and Migration Survey was carried out in 1979-80 by PIDE. It was one of the first nationally representative integrated household surveys carried out to establish the inter-linkages between fertility, labour force, and

migration issues of Pakistan's population. The diversity of topics in the social sectors ranges from population and development to fertility, family planning, and health (including reproductive health) poverty and aging, nutrition and gender issues.

- **Inter-linkages between Population and Development.** Such linkages have been explored at both macro and micro levels. The studies have pointed out that the population-growth-poverty nexus is so important that without population control the growth efforts will be seriously compromised. The studies on determinants of fertility, mortality and nuptiality at PIDE could have helped in the population policy formulation but population policy tends to ignore the factors other than those coming under the direct purview of the ministry of Population Planning. PIDE has been member of the group of demographers who examine the population data and the results of the study which help in assessing the population growth rate in the country.
- **Demographic Dividend.** The declining rate of population in Pakistan has created an impression as if the declining dependency ratios always result in dividend to the economy. PIDE studies have indicated that the demographic dividends can turn out to be demographic frustrations if the human resource development activities are not pursued and the employment opportunities are not created.
- **Evaluation of the 1998 Census.** In collaboration with UNFPA, PIDE has carried out an in- depth analysis of the 1998 census data. The aspect covered include: age and sex distribution of population and quality of age reporting; census data based estimation of fertility and mortality levels, migration and urbanisation, economically active population and employment status, literacy and education, housing and environment, disabilities, and population projections. These studies have revealed the changing social and economic characteristics of population as well as the utility of census data in the development planning of the country. It has provided useful insights for carrying out the new census as in most of the areas except for the total count the census data leaves much to be desired.

IV. IMPACT ON POLICY-MAKING THROUGH OTHER CHANNELS

1. Studies Carried Out for Various Government Agencies

Whereas the studies included and completed in the research programme of PIDE indirectly help the government and the government may choose to ignore the recommendations, the government have been asking PIDE to carry certain studies which they required for policy making and planning. Whereas PIDE has been carrying out such studies for a long time we focus on the studies carried out for the government in recent years which had direct policy relevance.

- **Interim Poverty Reduction Strategy Paper.** In 1999 and early 2000 when the government started preparing the PRSP, PIDE and Planning Commissions jointly prepared the draft of the poverty strategy. It was based on the poverty studies undertaken at PIDE that provided not only the estimates of poverty but the characteristics of the poor households and determinants of poverty over time. These studies helped government to formulate the PRSP-1 and PRSP-2. The government also used the studies relating to the poor in various categories and in particular if the poverty is a transitional phenomenon or it is structural.
- **The Restructuring of Officers vs. Supporting Staff.** Since over the 1970s and 1980s the government had employed labour in excess of demand, in 1990s it tried to shed labour and for formulation of the recommendations various commissions and committees were set up but no decision was taken. In the current decade a committee was appointed under the Deputy Chairman of the Planning Commission and on the request of the committee PIDE carried out a small survey with a view to ascertaining the supporting staff required for each of the officers. The study was completed and was an essential part of the report but due to political difficulties the government could not implement the report of the committee.
- **The Medium-term Development Framework and Vision 2030.** PIDE provided inputs into various chapters of the MTDf and it would not be an exaggeration to suggest that the

presentation to NEC of MTFD was a result of work done mostly at the PIDE. Similarly, PIDE also contributed to the vision 2030 especially in the macroeconomic framework

- **Pakistan Policy Paper for WTO.** The government of Pakistan after every five years have to report to the WTO secretariat about the development in trade policy. The ministry of commerce requested PIDE to prepare a comprehensive trade review of Pakistan which was presented at the WTO.
- **Report of the Task Force on Labour Welfare.** Pakistan has tried to protect the workers through various legislation but it is alleged by the entrepreneurs that it has been responsible for erosion of their competitiveness while the workers felt that the money in these funds have never been properly utilised. Government of Pakistan appointed a committee under the chairmanship of Director PIDE and it submitted its report to the government of Pakistan. Unfortunately it met the same fate as the reports done earlier on the issue.
- **Macro-economic Policies and Poverty in Pakistan.** This report was prepared for the government of Pakistan to suggest as to how the employment based strategy can help in poverty reduction in Pakistan. It highlighted the areas that would generate more productive employment and also pointed out that just creation of employment may not be sufficient. Employment must be productive and remunerative.
- **Agenda for Income Distribution.** The government wants to focus on the income distribution as just reduction in poverty is not sufficient for a meaningful trickle-down of growth. PIDE prepared a study for the government which not only reviewed the income distribution trends and the growth-income distribution nexus over time but also came out with an agenda on research in income distribution.
- **Studies for the 8th Plan.** The government approached PIDE to carry out studies on various aspects of Pakistan's economy for the formulation of 8th plan. Based on 22 studies on various aspects of the economy it provided inputs in the overall and sectoral growth rates, the productivity growth rates, the possibilities of growth with equity and in the human resource development.

2. Training and Project Evaluation

The Training and Project Evaluation Division conducts specialised in-service training courses in project planning, preparation, appraisal, implementation, and evaluation techniques for development practitioners working in government, semi-government departments, autonomous development organisations and private sector. The main objective of the training programme is to develop the operational skills of the participants so that they can successfully plan and assess all aspects of development projects. It covers all sectors of the economy such as agriculture, industry, livestock, water, power, transport, education and health.

Since 1998 PIDE has added policy analysis courses in its programme. As PIDE is one of the institutes entrusted by the Government of Pakistan with the task of imparting training for promotion-related capacity building of civil servants of various occupational groups (BPS-17 to BPS-19), the number of courses to be administered has been increasing. Besides training on project appraisal it has also been involved in training the State Bank employees on macro issues. It has also imparted training to the government employees on poverty issues and Millennium Development Goals in collaboration with World Bank Institute.

3. South Asia Network of Economic Institutes (SANEI)

SANEI is a regional initiative to foster networking among economic research institutes in South Asia. Initiated in June 1998, SANEI seeks to establish strong research interlinkages among diverse economic research institutes in the region, with a view to making policy more informed. It organises regional research competitions within the South Asian region annually, and funds select research projects. While attempting to foster high-quality research, SANEI lends special emphasis on capacity building and formation of a South Asia wide professional network of researchers engaged in policy oriented studies. Collaborative research has received a major thrust under the aegis of SANEI. Studies carried out under the auspices of SANEI, are academics of high quality but have direct relevance to the policy making for the SAARC region.

4. PIDE and Supplies of Economists

PIDE also provides Economists to government to strengthen its policies on secondment to the government of West Pakistan in 1970

and to the federal government since 1980s. They have made a direct contribution to the policy making. Besides that, a large number of international agencies and various universities have absorbed economists who were associated with PIDE and now are mostly working on issues relating to Pakistan.

5. Foreign Training of Economists and Their Retention

Since its establishment, PIDE has been taking the young talented economists and after preliminary training at PIDE, these were sent to overseas universities for the PhD. Both because the PIDE for over ten years did not hire the new staff and that there were not fellowships available for the overseas higher studies, the supplies of economists/demographers has reduced considerably. However with the PhD. Programme at PIDE supplies of PhD. in economics would increase sharply. Similarly with the demographic programme at PIDE supplies of demographers would also increase.

V. DISSEMINATION OF THE RESEACH AT PIDE

The research done at PIDE is widely disseminated to the national and international community through its publication, the papers read at the Pakistan Society of Development Economist, and other national and international conferences, special seminar series including the recent seminar series on public policy issues, and through its website. Its publications include:

- *The Pakistan Development Review*
- Research Report Series
- Discussion Papers
- Monographs
- Publications for the common man
- Special publications
- Books

The Pakistan Development Review, quarterly review of PIDE, is a technical journal and in general difficult for the policy-makers to comprehend though each of the articles provides the policy implications of the study. Similarly the other publications are technical in nature though some of them may be less rigorous than the articles published in *PDR*. PIDE has been publishing the main conclusions and

policy implications in PIDE Tidings and its newsletter for the benefit of the policy makers and the common man.

Pakistan Society of Development Economists, a sister organisation of PIDE, which holds regularly its annual meetings provides an institutional framework for the dissemination of the fruit of research among scholars, public officials and policy-makers dealing with economic matters. Not only PIDE's own research but research done elsewhere is also presented in this forum.

PIDE has a regular Seminar Series where the draft reports of the studies are presented for comments. These seminars are open to everyone including the researchers, policy makers, journalists and the general public. Basic idea of such seminars is to have comments on the methodologies, results, conclusions and policy implications before the study is finalised and to disseminate the results of the study at the earliest.

One of the major criticisms of the PIDE research has been that it has not been able to come up with the studies that could be used for the policy formulation. Accordingly a lecture series has been initiated on the public policy issues where the issues that are current for policy makers are debated. These seminars are held at the auditorium of the Planning Commission to ensure that there is wider participation of policy-makers.

PIDE has its own website where the abstracts of all the papers are available. Moreover, except for the studies that are published in *PDR* all other studies are also available at PIDE website.

VI. CONCLUSIONS

PIDE has been carrying out policy relevant research but its impact on policy making has been somewhat limited. Since the basic factor behind the limited use of research has been inability of the government officials to use the studies carried out at PIDE in policy formulation it is high time that there may be interaction and training of the government officials as to how the research may be used for policy purposes. Moreover, the impact can be enhanced by close interaction between the government and the PIDE researchers and the Board now Senate should focus on the evaluation of programme from the policy perspective and give suggestions. Now that the PIDE Director is also a member of the Planning Commission it is ex-officio capacity the interaction can be more orderly. There is a need to strengthen the

research staff in different ministries as over time the positions of the economists have been surrendered.

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Government may encourage its staff to fully participate in the deliberations of the conferences of the Pakistan Society of Development Economists. Similarly, participation in the policy seminars arranged by PIDE can also be helpful. It needs to be underscored that only the policy-based research can result in better policy choices.