

PIDE Lectures Series

Understanding Policy

Arshad Zaman



PAKISTAN INSTITUTE OF DEVELOPMENT ECONOMICS

Editor:

Dr Nadeem Ul Haque

Literary Editor:

Professor Aurangzeb A. Hashmi

The Author

ARSHAD ZAMAN is an independent student, who has lived in Karachi for the last 15 years. He resigned from the post of Chief Economist, Planning Commission in 1992, after 10 years of government service. Earlier he had been employed at the World Bank in Washington, D.C. from 1970-1982. He was educated in mathematics and economics.

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Pakistan Institute of Development Economics
Quaid-i-Azam University Campus
P. O. Box 1091, Islamabad 44000, Pakistan

E-mail: publications@pide.org.pk

Website: <http://www.pide.org.pk>

Fax: +92-51-9210886

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ISLAMABAD

Contents

	<i>Page</i>
Introduction	1
1. Meaning of Policy	2
2. States and Policy in ‘The West’	4
3. Social Origins of the State in Pakistan	6
4. State, Markets, and Policy in Pakistan	8
5. Social Policy in Pakistan	10
Conclusion	13
References	16

INTRODUCTION

It is at once a privilege as well as a daunting task to speak to this distinguished audience of academics, advisors, officials, and other guests who have extensive experience in the analysis, formulation, and implementation of policy, not just in Pakistan but in numerous countries abroad. I am also honoured that my host is the distinguished Vice-Chancellor of the Pakistan Institute of Development Economics, a prolific scholar and a practitioner who has written extensively on economics, on policy, and on Pakistan. It is also a pleasure to be among old friends and former colleagues who have taught me so much and from whom I hope again to learn today.

I have been asked to speak on policy. Let me start by reminding ourselves that when we speak of policy, in most cases we are talking about government policy. This raises the question: does the nature of government matter to an understanding of policy? In particular, can we assume that the policy of governments that 'rule by the sword' can be understood in much the same way as the policy of governments that consider themselves to be accountable to those whom they govern, under law? This is especially relevant since policy is implemented through law and regulation, and where governments are not accountable, under law, the significance of government policy is quite different from where they are.

As you can anticipate, I hope to argue that the social and political context of governance is critical to the way we understand policy. In doing so I shall attempt first, to define some of the key words that I shall use: policy, government policy, public policy, government, governance, and the state. Second, since most of our ideas about policy come from Western societies I shall sketch briefly the three patterns in the evolution of the state in Western countries, and how this affects the way policy is viewed mainly in England and America. Third, I shall outline briefly the evolution and nature of what I will call the 'colonial' state in Pakistan. With this rather long introduction, I shall comment on economic policy in Pakistan, in the context of the state versus market debate in policy, and say a few words on why there is no social policy to speak of in Pakistan and the alarming consequences of this conclusion. Finally, I shall conclude by making a few observations on what the pursuit of this colonial policy has meant for Pakistan and what it may hold for the future.

1. MEANING OF POLICY

The word policy can mean different things to different people. So let me start by defining how I intend to use the word today. By ‘policy’ I shall refer to a course of action adopted and pursued as advantageous or expedient by a government. Although I say government, by extension we may also speak of the policy of components of—or factions within—government, or of organs of government, or of organisations controlled by one or more governments. In most cases however policy refers to government policy (or, where the government claims to represent the will of the people, to public policy). There are three important consequences of this definition.

First, in the light of this definition, we can distinguish between *actions* by government, which when pursued with an underlying logic—and not simply as an *ad hoc* act, say of building a road or a port, or allocating expenditure to some budget item—constitute policy, proper, and *statements* about intended or about recommended actions, which can be called policy statements or policy advice, respectively. It can be argued, of course, and rightly so that the promulgation of a statement or the rendering of advice are also actions, but for the purposes of the present argument I have not thought it fit to make finer distinctions between say hard actions (like land reforms, nationalisation, privatisation, etc.) and soft actions (like the issue of a policy statement that the government is committed to alleviate poverty, etc.). It is important to keep in mind then that from this viewpoint, neither advice nor statement is policy, proper, and the policy of an advisor can often be the opposite of the advice she gives; and the policy of the government, the opposite of the policy statement that they announce. We should also note that effective policy action is underpinned by legislative acts that create rights enforceable against the government and this is to be distinguished from discretionary actions that are an act of grace by the government.

Second, we need to distinguish policy advice or statement from other kinds of advice, statement, or propaganda that characterise the ‘white noise’ that the government and its interlocutors generate in and around the conduct of government. To qualify as a policy proposal or pronouncement, I suggest we look for four things: (1) the agent that would carry out the proposed action should be identified; (2) the action proposed should be within the capability of the proposed agent, and (3) that it should be compatible with the nature and interest of the proposed agent; and finally, that (4) the proposal be ‘instrumental’ in the sense that the instrument proposed to achieve the desired result should be independent of the target. Let me explain what these criteria entail and what they rule out.

A good example of an ‘agency-free’ proposal is provided by the Aesop’s fable in which a committee of little mice, threatened by a cat, comes up with the proposal that a bell around the cat’s neck would solve their problem. There is nothing technically wrong with the proposal; once implemented, a bell around the cat’s neck

would reduce the mortality rate of the little mice. The problem is that it fails to meet the first criterion: it does not identify which mouse will bell the cat. Were the proposal to be modified to state that mouse 'X' should bell the cat, it would fail the second criterion: it would be beyond the capability of the identified agent. Third, a policy proposal should not ask the agent who will implement the policy to do what is not in the agent's interest. Thus, to ask a government that consists mainly of landlords to implement land reform would fail to meet the interest compatibility criterion.

The last criterion, of instrumentality, requires explanation. Based on an empirical appreciation of the relationship between instruments and targets, an instrumental proposal should seek to exploit changes in the instrument to affect changes in the target. Thus, to propose that the budget deficit should be reduced by raising revenue and lowering expenditure is to restate the problem as a solution, and is not a policy proposal. By contrast, based on empirical analysis, the proposal to raise revenues by raising the rate of import duty on specific items, for example, can be part of a policy proposal to reduce the budget deficit. (Clearly, to be instrumental, policy must be based on serious disinterested research that helps us better understand both individual and social behaviour, rather than on suggestions by a committee of 'stakeholder' industrialists and bureaucrats, aided by consultants, who often justify their proposals by appeal to inappropriate parameters derived from other countries at other times.) As a moment's reflection would show the bulk of the policy advice that the government receives, and the policy statements it issues, fail to meet one or more of these criteria.

To review the argument so far we have defined policy as a course of action adopted and pursued as advantageous or expedient, by a government. This means first, that policies are actions, an aspect of substantive government behaviour; and second, that genuine policy must not only propose a course of action but also identify specific, capable implementation agencies whose interests are compatible with the outcome of the instrumental goal-directed actions proposed. Finally, as I have said earlier, policy actions, statements, or proposals of government—both successful and unsuccessful—can be better understood by examining the constitution and behavioural foundations of government as well. In other words, an understanding of why, when, and how states rely on markets, for example, can be enriched by looking not just at the so-called 'failure' of states or markets but by a closer look at the structure and conduct of states (and for that matter of markets). While markets are better understood, most writers on the state in Pakistan examine prevailing conditions in relation to idealised conceptions and too few, in relation to the historical (colonial and pre-colonial) state of which it is a successor.

In part this reluctance to use the taboo adjective, colonial, in public discourse is itself a reflection of the sensitivity of erstwhile colonial powers to what until recently they have regarded as an embarrassing period of their history, and of the

influence they have increasingly exercised in former colonies. In part, it is a reaction to a discourse of blame that both socialists and nationalists employed, not very productively, in their ideological battles against former and emergent colonial powers. I hasten to add therefore that in employing the adjective colonial—I wish there was a better substitute—to describe the state and government of Pakistan I do not wish to give offence; my intent merely is to exploit the greater analytical expediency of understanding the policy behaviour of the state by describing the state as it is rather than as a departure from what it ought to be.

2. STATES AND POLICY IN ‘THE WEST’

Most of our ideas about public policy come from the historical and current experiences of what Simon Kuznets, in *Modern Economic Growth*, has called “people of European stock” and of the nation-states they established in Europe and “areas of European settlement” overseas (in North America, Australia and New Zealand, South Africa, and Israel). This experience, as Kuznets puts it, may be encapsulated in the triumph of secularism, egalitarianism, and nationalism; values and practices that provided—and still provide—the social and political context of discussions of policy in these countries, in the countries they later colonised, and in those they continue to influence. These values however are unique to these people and are not shared by the people of the countries that they colonised—‘developing’ countries, being the current euphemism—a fact of some significance to sensible discussions of policy.

What is meant by secularism, egalitarianism, and nationalism? *Secularism*, in terms of the difference in the two contexts, means that in Europe and European settlements it can be assumed that common folk no longer subscribe to traditional religious faith, belief, worldview, and morals, which have been transformed to accommodate the unbridled pursuit of commerce and accumulation of wealth over concerns for charity and co-operation as the ultimate goals of individual and social conduct. *Egalitarianism* means that wealth and not heredity provides the basis of class and power in society; the nobility and the landed aristocracy having been either decimated by bloody revolutions whether led by the middle classes (as in England, America, and France) or carried out in the name of peasants (as in Russia and later in China), or has been diluted both by being forced to align themselves culturally and socially, and by having to share power with, the lower classes (as in Germany, Italy, and Spain, and later in Japan). Finally, *nationalism* means that we can assume in these countries “a community of feeling, grounded in a common historical past and its cultural heritage” based mainly on racial affinity, leading to diminished external affections, resistance to foreign influence, and opposition to internal tyranny.

The evolution of these features of the moral imagination, society, politics, and economy in Europe and areas of European settlement are bound intimately with their conception of the goals and limits of public policy. In these nations economic policy

has been governed for some time now by three goals: (1) maximum output, (2) substantial growth, and much later, (3) minimal inequality of income. Under the pressure of historical events, the first, most ancient, goal of achieving the largest possible output of goods and services has been split into two related goals: (1a) full employment, and (1b) efficient allocation of resources. All policy initiatives have been justified with reference to these three goals. This is not to suggest that there haven't been lesser subsidiary goals, or that policies contrary to these goals have not been adopted, but no one would dispute the primacy of these three goals.

We should not fail to notice that these goals have been common to both protagonists in the noisy quarrel within the European family that was conducted in the previous century under the banners of capitalism and socialism. Nor should we forget that the grand policy debate of our times, on the state versus the market, on which my host, the distinguished Vice-Chancellor of the Pakistan Institute of Development Economics delivered a thought-provoking lecture a year ago, is a debate on means not on ends. While there is much to reflect on in the Vice-Chancellor's lecture,¹ its singular contribution in my view is its concern in the classical (as opposed to the neo-classical) economics tradition for identifying the social classes that may bring about and those that may resist social and economic change.

While the aims of economic policy have been common to all European and European settlement states their differences in cultural aspirations and values have been reflected in social policy. It is social policy embodied in the idea of a 'welfare state' that is the objective of public policy, the means for which are provided by economic policy. We should also remind ourselves that welfare is provided not just by resource transfers—in which both the public and the private sectors can be active; in fact welfare, in its durable substantive form, can only be enhanced by providing protection through law, regulation, and rules, and by the provision of public goods, supplemented in both cases by providing entitlements and capabilities.

Since there has been a massive sustained effort at disinformation to malign welfare aspirations in the eyes of government officials in indebted countries, let us note that social welfare policies are an integral component of public policies not just in socialist countries but also in capitalist ones. The long four hundred year history of social policy in the United Kingdom—covering poor relief, regulation of working conditions and protection of women and children, state education, public health, provision of meals to children, unemployment insurance, health insurance, housing, income support, etc.—and in Scandinavian and other European countries, is well-known. Perhaps less well-known is the fact that although the United States was a latecomer to social policy, the welfare state established with the so-called 'New

¹Nadeem Ul Haque, *Beyond Planning and Mercantilism: An Evaluation of Pakistan's Growth Strategy*. *The Pakistan Development Review* 45:1, 3–23. (Spring 2006).

Deal' in the 1930s, continued to grow with war-time planning measures in the 1940s, and pro-poor public policies of the 1950s and 1960s. In fact modern American scholars like Theda Skocpol maintain that a closer look reveals that even "the early American civic vitality that so entranced Alexis de Tocqueville was closely tied up with the representative institutions and centrally directed activity of a very distinctive national state".

With these observations, let me pose two questions that merit reflection. First, why has full employment and efficient allocation of manpower directed toward maximising output not been a goal of economic policy in Pakistan? Nor, for that matter, has it been advocated by multilateral and bilateral institutions controlled by governments that pursue these policies in their own countries. It is true that on occasion employment creation has been professed as a policy goal by government, but it is always seen as a way of supplementing income to meet basic needs, reduce poverty, or promote better income distribution; never, to maximise output (as has been done, for example, in China, the fastest growing economy in the world for over half a century, which has been studiously ignored by the government's foreign advisors, who have aggressively marketed the example of slower-growing South Korea, Taiwan, and the two city-states of Hong Kong and Singapore). Second, why hasn't there been any serious effort at formulating and implementing a social policy in Pakistan? The answer, in my view, has to do with the social composition of the élite and the pattern of state formation in Pakistan, to which I now turn before taking up the subjects of economic and then social policy in Pakistan.

3. SOCIAL ORIGINS OF THE STATE IN PAKISTAN

As is said about early modern Prussia, Pakistan is not so much a state with an army, as an army with a state. Yet much of the public discussion in Pakistan gives the impression that constitutional government is the normal state of affairs, and military rule a temporary aberration. This is understandable as statecraft but is quite surprising as scholarship, given that in the last sixty years Pakistan has been under direct military rule for over thirty years, and indirectly, for much of the remainder. I propose to you therefore that for analytical purposes it may be much more enlightening to view the situation differently.

The state in Pakistan bears a much closer resemblance to the Mongol state from which it has evolved, than it does to Western state forms. As is well-known Mongol state formations were essentially military constructs. At its core was the ruling family, whose orders and edicts (the *Yasa*) were recognised as supreme—over both local customary law and later Islamic law (the *shari`ah*)—thus providing for rule by decree. Within the family decisions were taken by consensus and the head of the family was a first among equals, rather than the absolute monarch who ruled in both neighbouring *Sasanid* Persia and in more distant Europe. The state was conceived of as a single military force, which encompassed the civilian bureaucracy.

All privilege and responsibility was distributed among members of a military family (the *umara*), served by a class of notables (the *shurafa*) who enjoyed the patronage of the rulers and were almost an extension of the military family; all others were merely *ri`ayah* ('herds'), who were to be protected and taxed ('milked').

It was this Uzbek-Mongol state, informed by Persian ways, that shaped the social and political institutions of the Delhi Sultanate and the Mughal Empire, which were passed down to us through the British. As is well-known until the ill-fated Morley-Minto reforms of the early twentieth century British administration continued to rest on the Moghul system, but without any responsibility to the people of India. In theory, the chain of responsibility passed from the collector, to the provincial governor, the Viceroy, the Secretary of State for India, who was accountable to the British parliament and ultimately to the British electorate. These patterns remain clearly visible even today.

The British made only two significant changes to this system. First, they created rights in land, which both created a market in land (that resulted in three or four famines since 1857 for the first time in the history of India), and in time all but exempted the new landlords from direct or financial support to the military effort (that created a structural disequilibrium in public finances that persists to this day). Second, unlike the Mughals whose representative in the rural communities was a village notable, the British appointed their own officer—the district officer—on the pattern not of the democratic scheme of local government then prevalent in Britain, but on the authoritarian model in France of the Prefect; a choice that continues to bear on schemes of local government and devolution to this day. In this latter innovation, incidentally, lies the origin of the civil service of Pakistan and its successor, the district management group, who were recently identified by General Musharraf as “the people who can ensure good governess [sic., governance] in Pakistan”.²

The principal features of this early system of governance, called the *umara-shurafa* system or the *amir-a`yan* system by some scholars and the military-patronage state by others, are clearly identifiable in current arrangements. In the interests of simplicity allow me to call its modern version the colonial state. What difference does this pattern of social organisation and practice of statecraft make to policy? In a nutshell, the colonial state, in being responsible to the colonisers rather than the natives, visualises the economic problem quite differently from the national state and hence defines the policy space differently, selects different interventions, and meets with different outcomes. For national states, “the economic problem,” as John Maynard Keynes once put it, is “the problem of want and poverty and the economic struggle between classes and nations...” For colonial states, the problem

²<http://www.presidentofpakistan.gov.pk/FilesSpeeches%5CPolicy%5C59200534514AMPresident-staf%20college%2080%20management%20course.pdf>. Accessed on 16 April 2007.

of want and poverty of the natives demand the attention of government not as unfulfilled responsibility, but as a potential source of civil disturbance that can impair the effectiveness of the colonial state in rendering service to the metropolitan state. In addition, policy intervention by the colonial state is restricted mainly to allocation (or re-distribution) of financial resources, since the creation of 'native' rights enforceable against the state is incompatible with its nature.

The purpose of colonial government, besides doing whatever it takes to stay in power, is to enrich those who govern; all else is secondary. It does so by exempting them from taxes, duties, and other levies (at one time the ECC was known to its closer friends as the exemptions and concessions committee, rather than the economic co-ordination committee, of the cabinet), by grant of licenses and permits, by writing off loans, by aiding and abetting in 'sweetheart deals' through privatisation, etc. The state, in other words, is a predatory state; one whose purpose is to provide the minimal amount of social services necessary for the extraction of the maximum profits for the ruling élites (and their local and foreign partners).

Like the metropolitan state the colonial state also pursues high rates of growth with efficient allocation of resources but with an important difference: neither full employment, nor income distribution, nor other social goals feature prominently in its strategic or policy objectives. Despite the superficial similarity in the vocabulary of policy discourse, the context radically alters the meaning of the words used. The intent and purpose of all policy is to maximise the revenue of the ruling élites, irrespective of the impact on growth or efficiency of resource use. In the absence of any pretence to consent, taxation is exclusively an exaction, from which the élite are often exempted; while ease and low cost of collection remains a shared objective, the idea that taxes should be light, fair, or certain is not central to colonial governance. This incidentally is why, unlike in modern states, the budget is so central to the life of subjects and citizens of a colonial state. Much the same is true of all areas of policy.

4. STATE, MARKETS, AND POLICY IN PAKISTAN

With this understanding of the state and government we can turn more meaningfully to the grand debate on economic policy of the previous century, which has been revived in recent years, about the appropriate role of the state and the market. Historically, there were of course two aspects to this debate: as a matter of ideology and polemics during the so-called cold war, and as a matter of practice. The ideological debate was mainly about ownership of means of production—the source of current proposals for privatisation—and not about government regulation of private transactions, nor about government conduct in the marketplace (including the supply of public goods and services), on which there was little disagreement. Also, while the debate on ideology espoused extreme positions that suggested irreconcilable differences, in practice the positions were much closer: no socialist

state failed to rely on markets and no capitalist state abandoned social welfare policies. Finally while as a matter of propaganda policy was defended as ideology, in practice policy was made on pragmatic considerations and not by blind faith in ideological positions. We shall try today to focus on the practical aspect of policy and keep away from the merits or demerits of the ideological issues in this debate.

In the interest of clarity let us start by noting the two different senses in which the word 'market' is used. First, as an observable, empirical phenomenon the market refers to the place or places where goods and services are bought and sold, whether hand-to-hand or as in more modern times by telegraphic or electronic means. This is what anthropologists and historians, among others, and the common man mean when they use the word market. By contrast, when economists speak of 'the market' (or the market 'mechanism' or 'system') they do not have the marketplace in mind. Instead, they are thinking of an unobservable metaphysical construct, to which they ascribe a number of desirable analytical properties. Much confusion can be avoided if we keep this distinction in mind.

As Schumpeter points out, in his magisterial survey of economic thought, nineteenth century theories of the beneficence of the market—which have been resurrected since the late twentieth century—advanced little over the late scholastics, who had identified any 'competitive' market price (*pretium currens*, or *communis estimatio fori*) as the 'just price' (*pretium justum*) of the early scholastics. Subject to the fulfilment of certain conditions in the nature of production and demand, economists view the empirical prices at which goods and services are traded in competitive markets to be possessed of certain desirable normative properties that among other things can be a guide to policy action.

In practice then there are four major difficulties in translating this powerful and seductive result of economic logic into a guide to practical policy. First, there is no empirical evidence that where marketplaces can be seen the market mechanism is also at work. Second, the conditions of supply and demand—the competitiveness of the market—on which this result rests is seldom even remotely fulfilled in practice; perhaps for this reason, economists who advocate relying on the market mechanism seldom advocate testing whether the marketplace on which the government is to rely lives up to their assumptions. Third, as is obvious, markets are created by governments and cannot entirely relieve the government of the burden of governance. Finally, economists have always realised that two markets—the market for labour and the market for 'money'—are special, and the insights developed for product markets need to be applied with great care to these markets (because, as should be obvious, in these markets the adjustment mechanism would be death by starvation and bank failures).

With the election of Ronald Reagan in the United States (1981-89) and Margaret Thatcher in the United Kingdom (1979-90), however, beginning in the 1980s there was both a shift in ideology, and a rise in the respectability of ideology

at the expense of pragmatism in policy conduct, in these countries. We need not detain ourselves to explore the dynamics of this momentous shift in intellectual climate in these countries, which obviously had nothing to do with developments in Pakistan. What is significant, however, is that these distant events and developments have altered radically the analysis of Pakistan's problems, and the policy prescriptions under discussion. This has had important consequences for policy outcomes in Pakistan.

5. SOCIAL POLICY IN PAKISTAN

By far the most important outcome has been the secular rise in poverty and destitution in Pakistan over the last twenty-five years. Before some enthusiastic official rises to defend the performance of the current incumbents in government on the basis of spurious numbers, let me hasten to add that I do not subscribe to what might be called 'the newsmagazine view' of history, in which the history of nations is seen as nothing more than the biography writ large of a few charismatic individuals. On the contrary, I believe it is more often the case that underlying historical structures and forces explain both social outcomes and the rise and fall of individuals. (In other words, I would discount accusations that Hamid Karzai is responsible for the rise in poppy production in Afghanistan, nor give credit to Nuri El-Malki for peaceful conditions in Kurdish controlled Iraq.)

What then are these underlying structures and forces? In my view, the proximate determinants of this rise in poverty are once again (1) the colonial nature of the state in which governments continue to view the people as 'natives', a source of civil disturbance to be placated, and, under the influence of poor advice (2) the abdication by government of even the small policy space available in the mistaken belief that markets—that are known to be imperfect in more ways than one—will take care of things.

To illustrate the extent of the problem let me cite the case of how the government is responding to the emerging market in the sale of kidneys by the poor to repay their debts. There are now apparently entire villages in the Punjab and elsewhere where many people are living on one kidney, having sold the other. The evidence is not just anecdotal. According to an article in the daily *Dawn* of August 27, 2006 by Dr Farhat Moazam, an eminent physician and bio-ethicist, a recent survey, in which 70 people from three villages in the Punjab were interviewed, found that the bulk of the people who had sold their kidneys were illiterate bonded labourers or women employees in the household of the landlord, who earned less than Rs 1,000 per month plus some grain following the harvest. Their net proceeds from the sale of their kidneys were about Rs 80,000, of which 94 percent was spent to pay off their debts to the landlord. "In some families as many as two or more members had sold a kidney—first the parents (25 percent of sellers were women) followed by children once they attained adulthood... in some villages 30 percent of

the villagers have only one kidney. Once a kidney is removed in the hospital and the individual sent home, there is no further contact with the hospital". There is no provision in other words for the medical costs associated with follow-up care required by the removal of a kidney, which can be substantial.

In a two-part nationally televised programme on Geo Television, hospital administration officials on government salaries joined private entrepreneurs in taking the position that this is a voluntary market transaction in which they are merely facilitators. The powerful lobby of medical practitioners reaps enormous profits as brokers not just from domestic recipients but from foreign recipients as well. As Pakistan is the only country in the world that allows a free market in kidneys, hospitals in Lahore advertise on the Internet, giving a whole new meaning to export diversification.

How is the government responding to this situation? Physicians (along with lawyers, accountants, and other less well-organised professionals) are an important component of the state. It is not surprising then that the medical establishment is trying to persuade the government to regulate the market for kidneys rather than ban it outright. Multilateral pharmaceutical firms know which side their bread is buttered and their governments have not been unsupportive. Foreign lenders to Pakistan who operate in the health sector would find it suicidal to oppose their own pharmaceuticals, the happy kidney recipients, and the local medical élite to demand that the market in human organs be banned as it is in all other countries in the world. Since 'natives' are under-represented, if represented at all, in government there is little countervailing pressure. The government therefore has tabled a bill in Parliament, to legalise the market in human organs, subject to conditions to be regulated by government under the proposed Transplantation of Human Organs and Tissue Ordinance 2007.

What is the government policy on poverty? In a few words it is an act of faith in investment and growth that will 'trickle down' to the poor. This should be familiar to many in this room who were witness to, or have read about, the enthusiasts of trickle down in the heady days of the martial law regime of Ayub Khan; from which these enthusiasts recanted with equal fanfare when growing disparity led to the secession of East Pakistan a decade or so later. It is said that history repeats itself; the first time as tragedy, the second time as farce.

The government seems to be in denial about the alarming rise in poverty, especially in rural areas, that has taken place in the last decade or so. In his Preface to the *Medium-Term Development Framework* published in May 2005, General Musharraf writes that: "...GDP growth rates have accelerated,... and there is a visible decline in unemployment and poverty". Fortifying this message, in his last budget speech (2006), the finance minister has assured the nation that: "The undeniable truth is that the rapidity with which the economy is growing, unemployment and poverty is being eliminated at the same pace. [sic.] ...jobs are available but trained people are not available".

Unfortunately, these claims are not supported even by official data. These published data show, first, that for the last 30 years of the last century, average annual economic growth per decade exceeded 4.8 percent and in two of these three decades (1960s and 1980s) it exceeded 6.5 percent; by contrast, in 7 of the 10 years ending on June 30, 2006, economic growth was less than 4.8 percent—the lowest, in other words, in 46 years, on average. Second, despite serious fiddling with population and employment numbers, official statistics show that while on average 400,000 persons in the labour force were unemployed in the 1980s, 2 million persons were unemployed in the 1990s, and over 3.5 million persons have been unemployed in the last five years. These numbers may double if underemployment is also taken into account. In urban areas, close to 10 percent of the labour force has been unemployed during the last six years.

As for poverty, reliable statistics are notoriously difficult to compile, and as all economists know miniscule changes in criterion can shift millions into and out of poverty. Even so, government statistics on a simple headcount of the poor in rural areas shows that their numbers increased from 29 million (24.6 percent) in 1992-1993 to 55 million (39.0 percent) in 2000-2001. In urban areas, by contrast, lower headcounts have been reported; this would explain the growing urban-rural disparity and, incidentally, the rise in kidney sales by the rural poor. There is no reason to believe that these trends would have been reversed. As for jobs being available but no trained people, the State Bank of Pakistan in its last *Annual Report* finds it “disquieting” that unemployment among the literate labour force has risen far more sharply in recent years than among the illiterate. This would call into question the government’s strategy of relying on investment in human capital to create jobs.

Finally, on income distribution, a recent paper by Talat Anwar (Research Report No. 3, UNDP Centre for Research on Poverty Reduction and Income Distribution, 2006) reports that: “...inequality worsened in Pakistan during this period [from 2001-02 to 2004-05]... in both rural and urban areas, [but] the rise in inequality was more pronounced in urban areas than in rural areas”. Viewed together with the data on poverty, official statistics tell us that poverty has increased while a small urban class has enriched itself beyond measure in the last five to ten years. But then any beggar on the streets of Karachi could have told us this.

With apologies for this lapse into statistics let me return to my main theme. As we all know aggregate data on indices of poverty and income distribution are next to useless in shedding any light on specific vulnerable groups. An assessment of the extent of malnutrition, and the risk of starvation, by specific social groups, must be the basic point of departure for any policy that addresses poverty and income distribution. I think we would all agree that the government has yet to design such policies, or do anything else for the poor. But the thrust of my critique in this talk is not a distributional one: that the share of the poor in national income has been low; rather, it is that the government has run a kind of ‘apartheid’ state, in which rights,

entitlements, and capabilities have been denied to the ‘natives’ at large, with the result that they have been impoverished. In other words, what is marketed by government as a ‘safety net’—evoking the image of a society in which all have equal opportunity to risk the hazardous (high wire) act of economic enterprise, from which some might fall—is not a safety net at all; it is a kind of blackmail that a colonial government pays to the most threatening members of a potentially angry mob who perpetually threaten the safety of the state, often through the notables (the *shurafa*) who ‘represent’ the mob.

I find this to be a more revealing way of looking at the problem—the continued, even if increasingly unsuccessful, pursuit of a colonial policy—than the conventional view that seeks to explain the government’s persistent ‘failure’ to allocate adequate resources to social policy. In other words, to say that the lemon tree ‘fails’ to produce oranges is not wrong; it is simply not the most enlightening point of view available, especially if it has to serve as the basis of policy.

6. CONCLUSION

I will not strain your patience by continuing to make this same point in looking at the government’s so-called policy in the social sectors (nutrition, health, population control, water supply and sanitation, education), in the market for labour (protection to women, children, bonded labour in rural areas, and factory workers in urban areas, as well as public sector employment), in financial markets (where in the name of free competition banks are being allowed to fleece the public by unethical and extortionate service charges permitted by the regulator by appeal to the government’s market-oriented policy, with consequently obscene profit margins that are attracting predatory foreign financial conglomerates), in industrial and trade policy (that seems to lack any direction), and finally in public finance (that exhibits all the hallmarks of colonial finance). Instead I shall conclude by re-stressing the point that where the state, viewed as a progressive state, may have failed in its obligations; as a colonial state, it has succeeded remarkably in delivering the goods to its sponsors, while managing—admittedly, with diminishing degree of success—the level of discontent among the disenfranchised.

Over the entire spectrum of the issues addressed by public policy in Pakistan, I invite you to reflect on which of the two points of view offers a more satisfactory explanation of events, even if it may be less ideologically congenial. The conventional, let us call it the government failure view, that for some sixty years successive governments in Pakistan have tried, like sovereign governments abroad, to serve the people but unlike them have met with repeated failure? And from this, proceed to find an ever growing catalogue of why governments have failed. Or, alternatively, can we not understand the situation better if we drop the pretence that the state in Pakistan is a sovereign independent state and instead face up to the fact that after a brief life the democratic aspirations of the people were scuttled and the

military, in cahoots initially with the landed elites and then with the ‘robber barons’ of industry, seized the opportunities created by the cold war and re-established the pre-1947 colonial state, by force and foreign assistance? In this, let us call it the colonial governance view, the government has always sought to serve a narrow local elite and its sponsors abroad—in which expatriates increasingly play a prominent role—and most if not all its popular initiatives have been sponsored by legislative pressure in metropolitan countries exerted through military, diplomatic, and financial institutions under their control.

Now, you may ask, as practical men and women should, what difference does all this make? The difference, I would submit to you, lies in altering our perception of the policy problem and the possibilities for policy intervention. The policy problem, on the government failure view, is how to transfer resources to the people by persuading the government’s three constituencies to part with what is due to them: foreign governments, with debt service payments, access to their markets, and protection of local markets; the civil and military bureaucracy, with perks and privileges (which include petty and grand corruption, profits in real estate); and local and expatriate robber barons (mainly by sweetheart deals in sale of land and other public assets). Given their class origins and the formidable forces arrayed against them governments find it convenient to act when they serve their sponsors; and issue a policy statement, when asked to serve the people. While I have not counted, more policy statements seem to have been issued in the last three years than in the last thirty. In this situation the people would be better served if the issue of policy statements by governments—and, can we imagine it, of policy advice from well-meaning foreigners—be rationed.

By contrast, on the colonial state view, the real policy problem for its beneficiaries is how to run an apartheid state in which rights and privileges are retained by a small (but growing) élite while managing the level of popular discontent by discretionary transfers to the most troublesome groups in society. The colonial state never regarded, and does not regard, the native population as her sovereign; on the contrary “the white man’s burden” was, and the ‘enlightened modern élite’s burden’ is to govern the native into prosperity. For the people, therefore, the task is to persuade the élites to align their moral, cultural, social, and economic affections more closely to their own. Even the British in time realised the futility of this enterprise and left the task to an anglophile élite. It is a testimony to the élite that it has managed the task so far more or less with success (not failure).

The propaganda about state failure is largely an argument for greater imperial control, if not outright re-colonisation. In an influential article (published in the October 2001 issue of *Comparative Studies in Society and History*) Mahmood Mamdani has observed that “It is not just any state that is collapsing; it is specifically what remains of the colonial state in Africa that is collapsing.” This resonates with conditions in Pakistan. It is true that the state in Pakistan has failed to live up to what

can be expected of a sovereign state; but Pakistan is not a failed state, for much of what the state in Pakistan has failed at is not among the objectives of the colonial state, and efforts at reforming the state along non-colonial lines have been stymied by this state with the support of local and expatriate élites, with foreign military and economic assistance. Advocates of the state failure view set hopes by governance reform and energising civil society. In this milieu, however, calls for ‘good governance’ are no more than a nostalgic vision of the imagined strengths of colonial government; this, as a review of the report of the Indian Constitutional Reforms Commission of 1919 would suggest, is both utopian and misplaced. Equally, calls for ‘civil society’ to aid a strategically helpless government are also misplaced for they not only misapply European constructs to wholly different realities in Pakistan, but even if the European experience is any guide, the emergence of a vibrant civil society, as Hegel had emphasised, depends on the prior existence of a strong state and is not, as some seem to believe, a substitute for it.

There is no going around it. Real change will only come when the policy problem is seen as the equal provision of rights, and not of resources alone, and the problem of public finance is seen not as the objective of public policy but as a means to achieving its ends. This, naturally, is anathema to a colonial government, and was anticipated and evaded explicitly in the First Five-Year Plan: “...legislation is useless as an instrument of reform until public opinion is prepared to accept the new law in general and until the Government has the means to enforce observance in particular. [Paragraph 91] We do not therefore propose that there should be any substantial output of new legislation relating to social welfare”. Since then an additional reason that is frequently cited is that debt service, defence, and the establishment costs of government leave very little resources for social welfare; the government, in other words, is too poor to take care of the people. When the pursuit of this policy led to the secession of East Pakistan, informed opinion in Pakistan was convinced of two things: first that the army will never again be allowed to take over in Pakistan; and second, that no economist will ever be allowed to speak of the ‘trickle down’ effects of growth in Pakistan. How wrong we were.

Let me leave it at that and conclude by a last remark. On the Mall in Lahore there is a statue that is familiar to all readers of that great colonial apologist, Rudyard Kipling. Underneath the statue there is a message from the imperial British government to her colonial subjects: “Will you be governed by the pen, or by the sword, choose!” I would advise the next mob that sacks public monuments in Lahore to re-write that inscription: “Will you govern by the pen, or be put down by the sword, choose!” Until then it would behove those who seek to understand policy to remember that even if the words used are the same, policy wielded as a sword is very different from policy implemented through the pen.

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