PIDE News

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PIDE & PIPS to Facilitate Policy Makers

MOU signed between PIDE & PIPS

A Memorandum of Understanding (MOU) has been signed between Pakistan Institute for Parliamentary Services (PIPS) and Pakistan Institute of Development Economics (PIDE) in a ceremony held on Monday, May 25, 2015 in PIPS office. Through this MoU, PIDE and PIPS have collectively acknowledged the need to cooperate towards achieving mutually beneficial goal of serving key decision and policy makers of the country with credible research-based analysis.

To support and strengthen the bilateral development and to implement the common goals, both institutions, the Pakistan Institute of Development Economics and the Pakistan Institute for Parliamentary Services agree to work together in the following fields of mutual interest;

1. Sharing of research data, articles, publications and information to complement respective needs of their researchers and faculty in assisting the parliamentarians, diplomats and foreign affairs experts in the country.

2. Exchange of trainers, experts and professionals as facilitators in seminars and training programmes hosted by PIPS and PIDE.

3. Organize educational events, i.e. conferences, workshops, and seminars. Topics of interest and details of the programmes shall be mutually agreed upon by both parties.

PIDE IN PRESS

Dr Asad Zaman's articles published in the Express Tribune on May 11, 2015 and May 18, 2015. These articles can be accessed from http://tribune.com.pk/epaper/

THE EXPRESS TRIBUNE
WITH THE International New York Times

DR ASAD ZAMAN

The shifting battleground

The bull charges the red flag being waved by the matador, and is killed because he makes a mistake in recognising the enemy. Samuel Huntington argued that the era of the clash of nations is over. However, he created a red flag when he painted the civilisation of Islam as the new enemy. Trillions of dollars have been spent in fighting this enemy, created to distract attention from the real enemy.

The financial deregulation initiated in the Reagan-Thatcher era in the 1980s was supposed to create prosperity. In fact, it has resulted in a sky-rocketing rise in inequality. The gap between the richest and the poorest has become larger than ever witnessed in history. Countless academic articles and books have been written to document, explain and attempt to provide solutions to the dramatic increase in inequality. The American public does not need these sophisticated data and theories; it experiences the fact, documented in *The Wall Street Journal*, that the quality of jobs and wage earnings are lower today than they were in the 1970s. Growing public awareness is reflected in several movies about inequality. For instance, *Elysium* depicts a world where the super-rich have abandoned the ruined surface of the planet Earth to the proles, and live in luxury on a satellite.

The fundamental cause of growing inequality is financial liberalisation. Just before the Great Depression of 1929, private banks gambled wildly with depositors' money, leading to inflated stocks and real estate prices. Following the collapse of 1929, the government put stringent regulations on banking. In particular, the Glass-Steagall Act prohibited banks from speculating in stocks. As a result, there were few bank failures, and widespread prosperity in Europe and the US in the next 50 years. Statistics show that the wealth shares of the bottom 90 per cent increased, while that of the top 0.1 per cent decreased until 1980. To counteract this decline, the wealthy elite staged a counter-revolution in the 1980s, to remove restrictive banking regulations.

As a first step, Reagan deregulated the Savings and Loan (S&L) industry in the Garn-St Germain Act of 1982. He stated that this was the first step in a comprehensive programme of financial deregulation, which would create more jobs, more housing and new growth in the economy. In fact, what happened was a repeat of the Great Depression. The S&L industry took advantage of the deregulation to gamble wildly with the depositors' money, leading to a crisis which cost $130 billion to the taxpayers. As usual, the bottom 90 per cent paid the costs, while the top 0.1 per cent enjoyed a free ride. What is even more significant is the way this crisis has been written out of the hagiographies of Reagan, and erased from public memory. This forgetfulness was essential to continue the programme of financial deregulation which culminated with the repeal of the Glass-Steagall Act, and the enactment of the Financial Modernization Act in 2000. Very predictably, the financial industry took advantage of the deregulation to create highly complex mortgage-based financial instruments worth trillions, but with hidden risks. A compliant ratings industry gave these instruments fraudulent AAA rating, in order to sell them to unsuspecting investors. It did not take long for the whole system to crash in the Global Financial Crisis (GFC) of 2008.

Unlike the Great Depression of 1929, the wealthy elite were fully prepared for the GFC 2008. The aftermath was carefully managed to ensure that restrictive regulations would not be enacted. As part of the preparation, small media firms were bought out, creating a heavily concentrated media industry, limiting diversity and dissent. Media control permitted shaping of public opinion to prevent the natural solution to the mortgage crisis being implemented, which would have been to bail out the delinquent mortgagors. Princeton economists Atif Mian and Amir Sufi have shown that this would have been a far more effective and cheaper solution. Instead, a no-questions-asked trillion dollar bailout was given to the financial institutions which had deliberately caused the disaster. Similarly, all attempts at regulation and reform were blocked in Congress. As a single example, the 300-page Dodd-Frank Act was enacted as a replacement for the 30-page Glass-Steagall Act. As noted by experts, any competent lawyer can drive a truck through the many loopholes deliberately created in this complex document. This is in perfect conformity with the finding of political scientists Martin Gilens and Benjamin Page that in the past few decades, on any issue where the public interest conflicts with that of the super-rich, Congress acts in favour of the tiny minority, and against public interest. Nobel Laureate Robert Shiller, who was unique in predicting the GFC 2008, has said recently that we have not learnt our lesson from the crisis, and new stock market bubbles are building up. A new crash may be on the horizon.

While billions sink ever deeper into poverty, new billionaires are being created at an astonishing rate, all over the globe — in India, China, Brazil, Russia, Nigeria, etc. Nations have become irrelevant as billionaires have renounced national allegiances and decided to live in small comfortable enclaves, like the Elysium. They are now prepared to colonise the bottom 90 per cent even in their own countries. The tool of enslavement is no longer armies, but debt — both at the individual and national levels. Students in the US have acquired trillion-plus dollars of debt to pay for degrees, and will slave lifetimes away, working for the wealthy who extended this debt. Similarly, indebted nations lose control of their policies to the IMF. For example, ex-Nigerian president Olusegun Obasanjo said that "we had borrowed only about $5 billion up to 1985. Since then we have paid $16 billion, but $28 billion still remains in interest on the original debt."

Like the gigantic and powerful bull, each pass through a financial crisis weakens the bottom 90 per cent by putting them deeper in debt, while strengthening the matador of the top 0.1 per cent. Sometimes, the bull can surprise the matador by a sudden shift at the last moment. On this thrilling possibility hangs the outcome of the next financial crisis: the masses achieve freedom from debt slavery, or the top 0.1 per cent succeeds in its bid to buy the planet, and the rest of us, with its wealth.

The writer is vice-chancellor of the Pakistan Institute of Development Economics

THE EXPRESS TRIBUNE
WITH THE International New York Times

DR ASAD ZAMAN

Changing criteria for development

Growing up in British India, my father learnt that Great Powers had certain special characteristics. For global influence, they had to have sea power which required indented coastlines and natural harbours, coal mines for energy, extensive telegraph cables for communications. Furthermore, they had to have a cold climate to make them hardy, and be isolated from the mainland so as to have natural defences against potential rivals and enemies. In light of these criteria, it would be obvious that the UK was the sole and unrivalled leader of the world.

The 1930s editions of *Encyclopedia Britannica* did not have an entry for the word 'democracy'. However, the emergence of the US as a world power changed everything. World War I ruined European economies, leaving the US as the wealthiest. The winners redefined the criteria for development as being wealth alone. However, when certain oil-based economies with small populations overtook the US in GNP per capita, the criteria was revised to include an equitable income distribution. Later, when Switzerland and certain Scandinavian economies with good income distribution overtook the US, development theorists added the possession of infrastructure and natural resources. The point of this story is that the winners define the criteria for development, and ensure that the ongoing discourse acknowledges their leadership. Leadership and power are built upon structures of knowledge created by the powerful.

How world leaders define development is tremendously influential in setting the goals which everyone strives for. The British aristocrats preferred culture and philosophy, leaving technology to the working classes. Followers like Sir Syed established Aligarh University which emphasised arts; engineering was added only 50 years later. With the rise of the Americans, wealth, which was considered crass by the British, gradually became the sole criterion for development. Countries are now pursuing GNP per capita as the single-most important goal. We need to change this definition of development, which has caused harm to society and environment.

One of the greatest surprises to economists has been the Easterlin paradox — huge amounts of increasing levels of wealth have not led to corresponding increases in happiness. A book by Professor Richard Lane documents the "Loss of Happiness in Market Democracies". Studies of Happiness are rediscovering the ancient truths that money can't buy love and friendship, and that social relationships are key components of happiness. Our development experience reinforces the need to change developmental paradigms. Mahbubul Haq implemented conventional growth policies in Pakistan and learnt that wealth does accumulate, but only in the hands of a select few. He then pioneered the Human Development Index as a superior alternative. Followers like Amartya Sen have pursued the concept to argue that we should concentrate on development of human capabilities. Taking this idea seriously would create radical changes in our approach to development.

Every human life is unique and infinitely precious. All babies are born with amazing potential. Our job as a society is to nurture these capabilities and provide an environment which allows them to come to fruition, instead of crushing them beneath the burden of economic deprivations. All our planning, resources and our institutional structures must be adapted towards the achievement of this goal. We must take collective responsibility to ensure that children have the chance to achieve their potential. This is different from the current view of human beings as a resource to be used for the production of wealth. Education is designed to remove all irregularities and uniqueness, so as to allow the human cogs to fit together well, as interchangeable parts, to be plugged into the capitalist machine for the production of wealth. Shifting the target of our efforts to human development requires building social capital and empowering of communities. The greatest obstacle in our path is a top-down bureaucratic mindset which insists on centralised planning and control. We must learn to 'trust people daringly'. Engaging citizens is a game-changer in the development process.

The writer is vice-chancellor of the Pakistan Institute of Development Economics

Seminars & Workshops

Seminar on "A Practical Guideline to Successful Bottom up Development: Resettling the Indus"

A Seminar on "A Practical Guideline to Successful Bottom up Development: Resettling the Indus" was held on Wednesday, May 20, 2015. The speakers were Mr. Abdus Subhan, Associate Economist, Resettling the Indus Foundation, Lahore and Ms. Sharmeen Khan, Lecturer and Neuropsychologist at the Institute of Physical Medicine and Rehabilitation, Dow University of Health Sciences, Karachi.

Policy Brief

In this paper, the speakers highlighted key aspects for successful relief and rehabilitation in certain flood and war affected regions of Pakistan. The focus was on areas affected by the flood of 2010 in Southern Punjab, a region of Sindh hit by torrential rains of 2011 and areas of South Waziristan where war and insecurity have permanently damaged lifestyles and infrastructure. The study examined how in the long run, the villagers' farm surplus can be connected with the urban markets when relations are established with the local communities while carrying out relief and rehabilitation work. The focus was on Resettling the Indus' grass root development process and explained how such interventions brought villagers' economic life cycles back on track, raise the income levels of the villagers on a sustainable basis and strengthens the entire scaling-up process with reference to the initial goal of rehabilitation. The paper is a practical bottom up development policy note for the management and development of rural regions of Pakistan as all the research was carried out on-ground by the action researchers of various fields e.g. architects, psychologists, economists etc. on the basis of 3 years' experience. On the basis of experience, the authors proposed a definition of the bottom up development approach as "A systematic learning process which develops through establishing a mutual understanding between the community and professionals through dialogue to accommodate the needs of those on ground and focuses developmental efforts according to specific requirements. This process then starts controlling future rehabilitation by paving the way for further work and facilitates expansion on the basis of relationships established at the ground level. Once dialogue has been established, to ensure a holistic approach, the establishment of cottage industries is important as it helps facilitate the further growth of the community through a solution-based approach to their socio-economic problems as well as aids such populations in becoming financially autonomous."

This research work gives a detailed policy note on how to mobilize communities and to make sure that they participate at every stage of the development management process for relief and rehabilitation. This paper further gives the pros and cons of contractor driven reconstruction and owner driven reconstruction, issues regarding material procurement prices, factors which make the scaling up process difficult, of community based organizations and how to tackle such issues. Further the paper gives policy prescription for improving the economic resource base of the poor by connecting their farm output with urban markets under the umbrella of social businesses.

Seminar on "Growth Impact of Privatization at Micro and Macro Level in Developing Countries"

A Seminar was held on "Growth Impact of Privatization at Micro and Macro Level in Developing Countries" on Wednesday, May 27, 2015 at 11:00. The speakers were Ms. Aimen Tayyab, MPhil Scholar, Department of Economics and Finance, Pakistan Institute of Development Economics (PIDE), Islamabad and Dr. Attiya Yasmin Javid, Professor, Department of Economics and Finance, Pakistan Institute of Development Economics (PIDE), Islamabad.

Abstract

This study analyses the impact of privatization on growth in developing countries both at micro and macro level. There are two main essays that are discussed in this study. First essay is privatization and its impact on growth in developing countries at micro level by employing the dynamic panel model, the first essay by considering the 100 privatized banks for a time span of 9 years i.e. from 2004 to 2012 for the case of developing countries tests the Gibrat's law validity and investigates the firm growth determinants. By employing both dynamic and simple panel model regressions the main objective under this empirical study is to extend the literature on privatized firm growth and on privatized firm growth determinants. To control the problem of endogeniety and unobserved individual heterogeniety the system GMM is applied that shows that Gibrat;s law may not be accepted in case of privatized banks whereas the labour quality and size are the main determinant of privatized bank growth.. The second essay examines the impact of privatization on growth in developing countries at macro level. Applying panel data techniques the aim of second essay is to provide an evident based assessment of post privatization performance in developing countries and to examine and evaluate the idea of privatization as being a likely reason for economic growth and to examine whether privatization leads to improvement or reduction in economic growth in the presence of control variables, macro variables and interactive terms for 115 developing countries for the period 1988 to 2008. However the result of this study shows that privatization has a negative impact on economic growth but the interactive terms (i.e.. PRIV*FDI and PRIV*DEBT) positively impact the growth as the theory suggests that these variables could play an important role in determining the impact that privatization has on economic growth. The implication of this analysis is that

privatization does lead to growth both at micro and macro level while following proper policy directions.

Seminar on "New Trick in Econometrics"

A seminar on "New Trick in Econometrics"
A lecture delivered by Dr. Asad Zaman was based on knowledge of logical positivist principles of Econometric Methodology. Since logical positivism has collapsed, it is necessary to re-think these foundations. Positivist methodology has led econometricians to a meaningless search. Data and observations are only partial guides. Striking patterns in the data are clues to real structures. Exploring these clues requires acquiring information about the real world. An alternative methodology which relates observed patterns to real causal structures is proposed. There is a very active debate currently going on about how to deduce causal relations from observational data. Even though these activities are central to a realist methodology, currently these research areas are peripheral and marginalized because of the dominant positivist methodology.

Workshop on Incorporation Procedures and Benefit of Company Registration

Pakistan Institute of Development Economics (PIDE) organized a workshop on **"Incorporation Procedures and Benefit of Company Registration"** on May 19, 2015 in collaboration with Securities and Exchange Commission of Pakistan (SECP), The speakers were:

1. Syed Jamal Ahmed Zaidi, Deputy Registrar, Company Registration Office, Corporatization & Compliance Department, Company Law Division , Securities and Exchange Commission of Pakistan (SECP).
2. Muhammad Akram Qureshi, Deputy Registrar of Companies, Company Registration Office. Securities and Exchange Commission of Pakistan (SECP).

In the presentations, following areas were covered:

1. The role of the company registration offices
2. The improvements in the procedures for incorporation of companies
3. The fully automated database and the reporting system
4. The corporatization statistics and the measures taken by the Commission to enhance corporatization
5. The initiatives ahead

Workshop on World Bank Group Open Data Initiative

A workshop on "World Bank Group Open Data Initiative" held on May 18th, 2015 at 09:00am-2:00pm. The trainers were from the World Bank and it was a half day hands-on training conducted to help raise awareness and ensure that the participants learn to use the World Bank Group's Open Data Access to information policy and open tools to access timely and relevant information and data from around the world.