Towards Balanced Development in Pakistan*

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1. INTRODUCTION

The United Nations Development Programme has recently launched an annual series of Human Development Reports (HDRs) see UNDP (1990-annual). This event marks a major initiative to broaden the debate over development strategies and, in particular, to secure a greater emphasis within that debate on people and their circumstances. From the outset the Human Development Reports have documented the fact that the correlations between economic growth and improvements in health, education and other social indicators are not necessarily close, although there are obvious causal links which can be traced in both directions. In particular, there are countries for which the economic growth performance has been more impressive than the gains which are suggested by various social indicators. Pakistan is a case in point and this paper reports on an effort to first understand why this might be, and then to develop a framework within which to structure the issues arising as an initial step towards the redesign of policies.¹

The paper is in three parts following this introduction. The order in which the argument is presented is somewhat unusual since the main findings are presented in the next section, Section 2, and therefore precede the diagnosis which underpins them. This arrangement is potentially helpful, however, since it may serve to clarify at an early stage the nature of the enquiry, which is concerned, in the first instance, with an attempt to identify systemic problems which effect all the social

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¹This paper draws on the findings of a team which was assembled under the aegis of the Human Development Initiative and at the invitation of Government. Others who were involved in this effort include Ataollah Amini, Lee Bean, Dieter Berstecher, Peter Bowden, Tanguy de Brialley, Timothy King, David Munroe, Paula Newberg, Omar Noman and Abdelmajid Tibouti. In drawing on their work I am obviously indebted to these colleagues and, in particular, to Tanguy de Brialley with whom I have enjoyed extensive discussions of our draft report since its completion. At the same time, however, the interpretation of the work of others and the opinions expressed must be my personal responsibility.
sectors and therefore have a pervasive influence on the effectiveness in general of development policies. One consequence of this approach is to highlight the problem that there are many competing claims on Pakistan's scarce resources, and that there is a need accordingly for criteria to determine their allocation. A proposal for what is referred to here as 'balanced development' is introduced in Section 4 in response to this need. It rests essentially on an efficiency argument, some implications of which are developed in Section 5 under the broad headings of fiscal, sectoral and institutional reform policies. These proposals are not intended to be exhaustive: the intent is to illustrate the approach and to suggest some directions in which policy could usefully be developed. How far this approach might lead is another matter. In particular, it is not entirely clear whether a balanced development approach might be sufficient for achieving the ultimate development goals. It is appropriate, therefore, to conclude this paper with a final section which reflects on this concern.

2. THE MAIN FINDINGS

The relatively poor performance of Pakistan over many years in raising literacy rates, reducing morbidity and malnutrition, or increasing life expectation is by now generally recognised. This is in part a reflection of the fact that some other poor countries have generally done better, since there have been some evident gains over the years in Pakistan. But it is also, one suspects, a measure of the general disappointment that a country which has generated so much economic growth should not have made greater strides according to the yardstick provided by social statistics. Moreover, it is evident from a series of detailed enquiries into particular sectors and issues, not least, some sector studies which have been undertaken recently by the World Bank, that the concerns which are raised by comparative analysis across countries are reinforced by an examination in depth of the situation within Pakistan itself.²

existing resources more effectively. And, in order to do that, a certain clarity is required as to where the room for improvements might be found. The importance of addressing systemic problems in Pakistan is therefore at a premium. Indeed, it can be suggested that there may be an interesting parallel to be drawn here between projects and policies which contribute to production and those which are directed towards human development. In relation to the former, it is generally accepted that the chances of success for a particular project or policy are strongly conditioned by the overall macro-economic context: in the absence of a sound macro-economic framework, particular initiatives are far less likely to be successful. The parallel suggested by the experience of Pakistan is that, in the absence of an effective social policy framework, particular projects to improve human development are similarly compromised.

Whether or not this generalisation across countries can ultimately be sustained is not a question to be argued here. What is relevant for present purposes is the fact that a coherent and effective social policy framework is ultimately lacking in Pakistan, and this reduces substantially the chances of success for particular initiatives. There is, accordingly, a need to consider a series of systemic reforms to ameliorate the situation. The evidence suggests that these should be of three broad types, namely:

(i) **Economic Reforms**

Affecting the price system and incentives generally;

(ii) **Institutional Reforms**

Which are needed
(a) To support the economic reforms;
(b) To improve public administration; and
(c) To support the expansion of individual opportunities and horizons; and

(iii) **To Re-establish Internal Security, Law and Order**

It would be difficult to exaggerate the importance of the third category. Accordingly, while subsequent discussion is largely confined to reforms of a type which locates them in one or other of the first two categories, it should be kept in mind that their success will be contingent on other reforms which belong in category number three.

3. **DIAGNOSIS**

The rate of growth of the Pakistan economy, as measured by the purchasing power parity of the gross domestic product, has been generally high for a number of
years and the average for the period 1960 to 1988 of over seven percent per annum is clearly impressive. In the light of this and the contention that a similar growth rate is sustainable in the medium term, it is of some interest to explore the nature of this achievement. The result of doing so is to suggest that economic growth in Pakistan has been characterised by three particular features.

First, economic growth has been based largely on natural resources which have been harnessed to provide cheap energy and a very substantial increase in the availability of irrigated land. Cotton in particular has been crucial in the expansion of exports, both in its raw and made-up forms, while cereal production has managed, more or less, to overtake the growth of population. However, the costs of economic growth to the environment have been significant.

Secondly, both in agriculture and manufacturing, Pakistan has relied heavily on an abundant supply of cheap and unskilled labour which remains plentiful. Any threat to the sustainability of growth is therefore more likely to arise from an increasing need for skilled and semi-skilled workers than from a shortage of unskilled labour.

Thirdly, the economic growth of Pakistan and the vitality of the economy depends increasingly on an informal sector which is essentially unregulated; and on illegal activities which generate considerable income while, at the same time, undermining the structure of society.

However, the limitations notwithstanding, the most immediate threat to the sustainability of economic growth in Pakistan does not derive from any of the above features, although they all contribute indirectly. Rather, the main threat comes from a lack of fiscal discipline which has been manifest in a large and continuing budget deficit. In an important sense this problem can be attributed to the fact that military expenditures absorb more than 40 percent of government revenues, while the servicing of domestic debt absorbs over 20 percent more. Hence the government is left with little more than a third of its fiscal resources to meet the costs of the civil service, their ongoing activities, and to provide a development budget. The inevitable consequence is that the country has become increasingly dependent on borrowing and has by now accumulated an unhealthy burden of external debt. It is this external disequilibrium which has prompted the need for some structural adjustment of the economy. Future growth is threatened accordingly by a possible decline in external assistance in the event that the budget deficit is not reduced. Setting aside the possibilities for reducing the military budget, the

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3 The Planning Commissions approach paper for the Eighth Plan posits a growth rate of six percent per annum as being the overall target for the period 1993–98. [Government of Pakistan (1991)].

4 This problem is exacerbated by the running down of aid from the USA, which ranks second only to the World Bank as a donor to Pakistan.
sustainability of economic growth in future is contingent accordingly on considerably improvement in the mobilisation of fiscal resources. The chances for achieving this are reduced by a number of considerations which are reflected in the characteristics of growth which have previously been noted. The costs of supplying both energy and water are not at present recouped in full through user charges, while all the income which is generated in agriculture, although it is far from evenly distributed, remains exempt from income tax. To aggravate this situation, the fact that the large informal sector is essentially unregulated has to imply that this sector also is effectively untaxed, which is only one element in a situation in which not only is the fiscal base too narrow but also the collection of taxes is itself fraught with problems.

Following on from this characterisation of growth and its limitations, a next step in the argument is to note that the benefits of growth have failed to percolate through the economy so that, for many of the people, living standard have shown limited improvement at best. Three aspects of this failure are worth noting here.

First, in the rural sector, the situation is Malthusian in many respects so that the most important consequence of irrigation and the green revolution for most of the people is the fact that there are now more of them. The population of Pakistan has grown steadily over the years at a rate in excess of 3 percent per annum. And, although some net migration to the cities has taken place, the population remains predominantly (seventy percent) rural. Forty years of population programmes have had little or no discernible impact. Meanwhile, the majority of children in rural areas remain malnourished while the various attempts at land reform have been largely unsuccessful. It would seem that the benefits of technical progress have accrued in good measure to traditional land owners.

Secondly, there is a pervasive urban bias in the allocation of resources. In the health sector, the fact that only 20 percent of doctors live in the rural areas is both a cause and a consequence of a misallocation of resources which favours curative medicine at the expense of primary health workers, and hospitals and clinics at the expense of having aspirins and bandages readily available in the rural health clinics. While the coverage of the rural areas by basic health units has progressed, the quality of service they deliver leaves much to be achieved in the future.

Similarly, in education, the budget has been allocated disproportionately to the tertiary stratum, to a lesser extent to the secondary schools, and the primary schools have been relatively neglected. Correlated with this, there has been a bias towards the provision of education in the cities and towns so that, in the rural areas, both the availability of schools and their quality are significantly inferior, with many of them lacking electricity, toilets desks and pencils.

A third characteristic of development to date has been a gender bias which can be seen most easily in the education sector, where the enrolment of girls is less
than half that of boys in many areas. Less obviously, the usual phenomenon whereby women live longer than men in most countries is not evident from the data for Pakistan. This may be because some women go unrecorded in various enumerations. Or it may be that they actually die younger.

These brief comments on the failure of development to reach the mass of the population already hint at some systemic weakness which undermine the development effort. In making them explicit, it is helpful to categorise these weaknesses into three groups, the first of which refers to problems in the planning and budgetary system. Two specific problems within this category can be noted here.

First, prior to the agreement which has now been achieved by the National Finance Commission, there was little incentive for the four Provincial governments to balance their budgets and, therefore, to manage their development responsibilities – which include the provision of the most important social services – in a context of financial rigour. This situation is now changing and the provinces are likely to require substantial assistance in adjusting to their new environment. Secondly, the problems of financial management at the provincial level are exacerbated by a bias in favour of capital projects which leaves the recurrent requirements of the social sectors seriously underfunded. One consequence is that, as more schools are built, so their average product is reduced.

A second category of systemic weakness which is affecting the development effort in Pakistan relates to the conduct and performance of the civil service. There are problems of both organisation and governance to address. The former go beyond the difficulties of co-ordinating and training the different cadres of the civil service, to much larger questions about the need for devolution of responsibility at all levels of the public administration and the development in response of effective local government. The latter contribute a further explanation as to why economic growth has failed to be of any greater benefit to the broad mass of the population.

Finally, the third category of systemic difficulties refers to the problems of law and order, protection of the citizen and the administration of justice which have previously been noted.

4. BALANCED DEVELOPMENT

There is no shortage in the development literature of alternative conceptual frameworks which can be invoked when the need arises to reconcile the competing claims on scarce resources which inevitably follow from the requirements of:

- Economic development;
- Human development; and
- Sustainability.
Optimal growth, basic needs and redistribution with growth are all examples. Indeed, each of three objectives listed above has, at some time, been regarded as being not simply an aspect of the development process emphasising, respectively, production and trade, people and their welfare, or the environment and the need to maintain it. Rather, each of the three can, and has been, invoked as the organising theme for a comprehensive approach to development, the ultimate objective of which is to raise the living standards of people, their options in life and, ultimately, their fulfilments. Economic development is promoted in this spirit as the only foundation on which this broader conception can be built. And it is of little merit in this context if it is not sustainable. Hence the achievement of sustainable economic development can be viewed as a necessary condition for development in its most general and persuasive sense. But, it will be argued, such an achievement cannot, of itself, ensure that the human development goals will also be realised. There is therefore a need for a conceptual framework that goes beyond economic development as conventionally understood but does not supplant it. It is to meet this need that the notion of balanced development can be proposed as an extension of supply-side economics which follows from embracing the concept of human capital and all its implications. As subsequent arguments will demonstrate, this approach proves sufficient to suggest some major changes in policy. Whether these changes might then be sufficient to realise in full the goals of human development is another matter, discussion of which is deferred until the final section of this paper.

The notion of balanced development can be developed in three steps, the first of which is to recognise three types of capital, namely, (i) the natural resources of a society; (ii) the human capital which is embodied in the members of that society; and (iii) the collection of plant, machinery, buildings and infrastructure which together comprise the stock of physical assets. The basic conceptualisation is that these three types of capital contribute to production by providing the factor services of land, labour and capital as normally understood.

The second step is to accept (i) the existing distribution of the ownership of all three types of capital as a datum; and (ii) competitive market equilibrium as characterising a desirable allocation of costs and benefits in society involving, inter alia, an optimal allocation of investment in different types of capital and an optimal use of existing assets, which implies in turn that all existing assets should be appropriately maintained.

This sketch of the balanced development approach can now be completed by recognising, as a third step, that to approximate a competitive market equilibrium requires the creation and/or maintenance of an enabling institutional framework to redress market failures and to promote both individual and collective opportunities for people. It can be noted that this leaves open the important issue of how far the government should be directly responsible for providing this framework as opposed
to promoting such matters by encouraging particular private initiatives.

5. TOWARDS A POLICY AGENDA

The notion of balanced development as outlined in the previous section of this paper can provide a useful perspective on the problems which Pakistan now faces and the policies which would respond to them. The latter are elaborated here under the headings of fiscal policies, sectoral policies, and institutional reforms.

Fiscal Policies

Since balanced development can be seen as an extension of standard supply-side economics it is not surprising that a balanced development approach is generally supportive of the reforms which are now underway as a part of Pakistan’s structural adjustment programme, and not least of the efforts to reduce the budget deficit. These include the need to broaden the tax base and to improve tax collection along lines which have previously been recommended by others.\(^5\) There are, however, some differences to suggest which follow from the recognition of human capital as such and the importance of the environment. In general, however, the main implications of balanced development are to encourage the use of standard cost benefit techniques in evaluating investment alternatives and to extend the same calculus to pricing policy. Hence the standard arguments for eliminating quota restrictions on imports are endorsed; and the adoption of short-run marginal cost as the appropriate criterion for setting public utility prices can be recommended as another important way of raising additional revenue and improving the efficiency with which scarce resources are allocated.\(^6\)

Protecting the environment by no longer regarding it as a free good can provide another important source of revenues through user charges, e.g. for water. Similarly, the principle that ‘the polluter pays’ can be invoked not only to raise revenues which are badly needed but also to reduce the erosion of the environment by selfish behaviour.

Both infrastructure and the environment would be likely beneficiaries if the maintenance policies which are a feature of balanced development were to come into effect. And here it is useful to be precise about the meaning of maintenance and the amount of it which is appropriate.

Maintenance expenditures can be defined for present purposes as expenditures which are necessary to sustain the current performance of an asset in providing factor services. They are justified to the extent that they increase current profits.


\(^6\)The possibility of employing multi-part tariffs for utility pricing provides a means of protecting the basic needs of poor people.
By exclusion, current expenditures which influence the future flow of profits are not maintenance expenditures and should properly be regarded as investments.

When these standard notions of maintenance and investment are applied to human capital some interesting implications emerge. To begin with, they imply that a significant part of the current expenditure of households and government should be regarded as maintenance and investment expenditures and not as consumption. This is illustrated in Figure 1 which shows a graph AB of the expected earnings of an individual over time. The graph converges on zero as age increases on account of diminishing productivity and the diminishing chances of survival. This earnings graph should be interpreted as including the imputed value of time which is devoted to non-market activities. It therefore includes a valuation of the contribution of women in cooking, raising children, etc. A second locus in Figure 1 shows the expenditures over time which are of benefit to the individual. Some of these costs are investment and maintenance costs because they are necessary if the individual is to realise their earnings. Such necessary costs must be less than total expenditures since some expenditures are unnecessary to the generation of earnings. Their motive is pleasure and the difference can be labelled accordingly as consumption expenditure.

Fig. 1. Income, Consumption, Investment and Maintenance over the Life Cycle
To sub-divide the aggregate for maintenance and investment expenditures it can be argued that any necessary expenditures in excess of current earnings can only be justified by the expectation of future earnings. Such expenditure must therefore be an investment.

The policy implications of Figure 1 begin to emerge when it is noted that in more conventional treatments all expenditures by households are treated as consumption expenditures. Under a balanced development approach this is no longer the case: the level of consumption is reduced by the expenditures which are necessary in order to provide labour services. This change in the definition of final consumption has a number of immediate implications, including some implications for tax policy since there is a standard case for exempting maintenance expenditures from consumption taxes.

A further set of policy implications arise from noting that actual maintenance and investment expenditures within a household may fall below the levels which are optimal from a balanced development perspective. The most likely explanations as to how this could happen are that consumption is too high, given income, or that income is too low.

Increasing the consumption possibilities of households is a major objective of development. It is not likely to be a part of an optimal long term strategy, therefore, to squeeze consumption, especially when the possibilities for raising consumption act as an incentive for increasing earnings. The case is limited, therefore, to those affluent households for which consumption adds relatively little to welfare at the margin, and to those situations in which the balance between the different types of expenditure reflects ignorance in such areas as nutrition and family health. In such cases only good can come from a better informed population.

If consumption is not to be squeezed then the remaining option for improving the maintenance of human capital and investment is to raise incomes in one form or another.

One way of increasing income is through higher wages. The argument here is essentially that of efficiency wage theory: by increasing their earnings, employers can induce workers to spend more on maintenance and therefore to be more productive because they are better maintained. And in this context it can be noted that income in kind, e.g. provision of free or subsidised meals, is more likely to be a cost effective approach than increasing wages because, if wages are increased, then some part of the increase will be spent on consumption and not on maintenance.

A second way of increasing income is to raise the effective demand for labour by providing complementary assets, of which land and tools are obvious.

7This is the case of incentive goods.
examples, so as to raise the effective demand of a household for its own labour. An alternative approach is to follow a macro-economic strategy which generates an increased market demand for labour services. This latter approach is, of course, the major thrust of most development strategies which aim at poverty alleviation through employment maintenance.

The remaining option for raising incomes is to develop a system of transfers from government to households. These may be income transfers or transfers in kind, such as food rations, schooling and medical care, which not only add to income, but also to the maintenance of the household or to investment in its younger members.

Some further policy implications of the human capital concept, relating to gendre bias, can also be elucidated with the help of Figure 1. Three points are particularly worth noting.\(^8\)

First, if girls or women are discriminated against in the labour market, then this will tend to depress the investment in their education. Moreover, this bias will be exacerbated if parents, who must finance the opportunity cost of education, see the benefits which follows from it as accruing to a future husband, rather than to themselves.\(^9\)

Secondly, it will be recalled that an important element in total earnings and expenditures is attributable to the time spent, especially by women, in maintaining the household, nurturing children and in undertaking unpaid household work. This time is more valuable and better spent by educated women, so that the return to the education of women is not solely dependent on their market earnings: an important part of the return is that educated women make better wives and mothers.

And, thirdly, it can be emphasised that the health of women is also important. A woman who is herself unfit must be less effective as a result in contributing to the wellbeing of her family. Thus the spacing of children is important not only for reducing infant and maternal morality but also for the development of those children that survive.

The thrust of these arguments is that poverty and a lack of access to social services are the main reason why those basic needs of people which relate to their health, nutrition and education may be inadequately provided, and that there is potentially a greater return to the education of girls, as opposed to boys, both on account of discrimination and because of the 'hidden' benefits of having an educated wife and mother. Thus the implications of balanced development include a general focus on the alleviation of poverty and a particular emphasis both on the

\(^8\)Similar arguments are to be found in Summers (1992).

\(^9\)However, one would expect the value of a girl's education to be reflected in her bride-price in those parts of society which maintain such an institution.
education of girls and on the health and welfare of women and children.

The implications of balanced development for the environment are perhaps no less striking. Nor are they unrelated to the implications for human development, since the exploitation of the environment by the poor makes a significant contribution to its degradation. There is therefore a hidden bonus for the environment which is implicit in policies that alleviate poverty.

A detailed programme for environmental conservation and protection in Pakistan has been set out in a National Conservation Strategy. Both in general and in particular the proposals which are promoted by this strategy are consistent with a balanced development approach. Indeed, they are endorsed by it; and this is no coincidence since the balanced development approach encourages active policy interventions in three particular ways which are highly relevant to the environmental issues.

First, when markets are missing, scarce resources will inevitably be exploited and this is 'the tragedy of the commons'. Efficiency calls for scarce resources to be rationed by price and hence for a contribution to be made to public revenue. Similarly, there is a sound economic argument for 'the polluter pays' principle as a way of restricting pollution which also serves to increase revenues. Thus the balanced development approach supports the use of the fiscal system to protect the environment. Secondly, the balanced development approach argues for the maintenance of the environment so that its contribution to production can be sustainable. This is, of course, a central theme of the National Conservation Strategy. And, thirdly, balanced development argues for the enhancement of environmental assets when this is justified by standard cost-benefit considerations. In this way the arguments for reforestation, for example, can be derived directly from the requirement of balanced development that investment should be directed towards those projects which have the greatest net benefit. If some of these are forestry projects, then, so be it.

Sectoral Policies

The conceptual framework of balanced development does not, of itself, provide a detailed programme for action in each of the social sectors. What it does do, however, is to suggest criteria which are useful in devising such a programme and in evaluating any particular policies which might be proposed in the social sectors. Four such criteria are:

- **Access**: Who gets it and how can it be improved;
- **Delivery**: How efficient is the service and how can efficiency be increased;
- **Financing**: How can additional resources be mobilised and costs reduced;
and

- **Training**: How to improve the supply of skilled manpower that is necessary to service delivery.

These criteria derive from the general principles of balanced development and its implications for the social sectors, when these are viewed as the suppliers of particular social services. Questions of access are therefore to be seen as questions about who is supplied and any prejudice, if not discrimination, in the determination of who is best served. Delivery is then concerned with the efficiency with which services are actually rendered. Both these aspects relate to outputs, while finance and training are concerned with inputs. Thus training is concerned with the supply of technically skilled people who are needed to deliver particular social services, while the importance of finance, defined to cover both recurrent and capital requirements, is obviously pervasive. It is also convenient to include user charges under the heading of finance although it would not be out of place to consider this as an aspect of delivery. Indeed, it will be apparent that, in general, the four aspects of service supply which are highlighted here are not independent. There are, as a result, a number of policies which are attractive from more than one point of view. The approach can be illustrated with reference to some particular policy suggestions for the population and health sector and for education.

Access to advice on family planning and to a supply of contraceptives is very uneven in Pakistan and various authorities have argued that a much closer integration of family planning with basic health care is necessary in order to extend coverage and improve access. However, it is unlikely that such a development would solve all the problems in this sector since supplies of contraceptives are also unreliable, and access to health care in general is biased against the rural areas. There is a need accordingly to complete the network of basic health units as well as extend their remit.

This need for extended coverage is not necessarily a top priority, however, since the delivery of services by existing health units is generally so poor that the case for constructing more of them is weak at best, and resources might well be better used in improving delivery by existing units, i.e. by improving the availability of doctors, nurses, paramedics, basic equipment and medications. This is partly a matter of conduct and performance, since the attendance record of staff can be very poor. But is also a matter of budget priorities, not only to provide the necessary medications but also to fund those critical complementary inputs, such as transport costs and vehicle expenses, without which the system does not function. The implications of balanced development are clear: priority should be given to those uses of resources which are of most value in achieving delivery.

While extra resources for the health services can always be useful, it is
notable that Pakistan already spends heavily in this area when both public and private expenditures are included in the total. Major gains in the services rendered to the public would be achieved if more of these funds could be switched away from curative treatments in order to finance preventive health care. A shift in this direction, which would also be of some direct benefit to the hospitals, could be encouraged by introducing fees for hospital care, which might be met out of Zakat funds for those who are otherwise unable to pay. Similarly, there is apparently a case for rationalising the supply of pharmaceuticals by significantly reducing the approved list and ensuring better quality control. Again, the introduction of prescription charges could play a useful role in reinforcing such changes, provided that those who are unable to pay could in some way be protected.

Finally, the training of skilled and semi-skilled professionals to work in the health sector represents one of the clearest and most expensive distortions in the provision of social services. The chronic excess supply of doctors is a direct consequence of the misallocation of funds to provide virtually free training on an excessive scale. The consequent excess supply, reinforced by restrictive practices, has discouraged the training and support of other, less skilled health workers, such as nurses and paramedics, who are desperately needed if services are ever to reach the mass of the people. The evident solution is to raise training fees for doctors and to reallocate funds and facilities to the training of paramedics, nurses, traditional birth attendants, etc.

In the education sector, the biases in provisions which works against access, especially for girls, to primary education in rural areas have previously been noted. Policies which seek to redress these biases are among the most attractive from the perspective of balanced development because of the high rates of return they offer. However, as in the health sector, the improvement of delivery in those schools which already exist is probably a better use of scarce resources than the construction of more schools. Moreover, where construction work is needed, it is more likely that accommodation for female teachers and toilets for girls are a higher priority than the building of more classrooms without desks or blackboards. At present, the funding of teaching materials of all types is sadly deficient and there is an evident need to revise the curricula in schools to include instruction in the basic life skills.

The provision of basic requirements in the education sector could be significantly improved by a shift of resources from the secondary and tertiary levels. Standards have already fallen significantly in the universities and may be difficult to recover without substantial help from the private sector and some greater reliance on user charges. The government’s own scarce resources might then be better spent

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10 Weighty evidence on this point is provided in Sabot (1992).
at the tertiary level on training for specific skills that contribute directly to development, of which the training of female teachers is a clear example.

The pervasive importance of education in development, starting at the primary level, is difficult to exaggerate. Moreover, there is a strong case for arguing that it should not be restricted to children: a major effort to provide training in literacy and life skills should be directed at adults also. Not only would this be valuable in its own right to individuals but also it would provide a boost in promoting the local school as a catalyst for transformation by bringing people together for a common purpose. In this context, a nominal charge for schooling – one rupee per month has been suggested – could have important consequences in developing schools as instruments of change.

Institutional Policies

The broader role of schools in a community illustrates the integral dependence of development on an evolution of existing institutions and the creation of new institutions to respond to new challenges. These concerns can be addressed, first, in relation to the respective roles of the public and private sectors; secondly, in terms of the need for improvements in public administration; and, thirdly, from the perspective of aid donors and the constructive contributions which they may be able to offer.

First, then, in relation to the interface between the public and private sectors, it is evident that Pakistan is in tune with the times in working towards a substantially reduced role for the state. The vanguard of this policy is an ambitious programme of privatisation which may eventually have an important influence on efficiency and meanwhile can contribute to the improvement of the fiscal position. Less striking perhaps, but potentially of even greater importance, there is a growing tendency in Pakistan for public responsibilities to be contracted out. The collection of local taxes provides some striking examples of this.

Another important trend is the official encouragement of non-governmental organisations to play an increasing role. Pakistan has a few outstanding successes to its credit in the NGO sector and it would be a valuable contribution if these could be replicated. All too often, however, the majority of NGOs are found to be weak vessels for major change. More encouraging, perhaps, is the early response to the Punjab Educational Foundation, which intends to match private money with public funds (realised through privatisation of state enterprises) in setting up new schools within the private sector.

The Punjab Educational Foundation illustrates the potential willingness in Pakistan to adopt new ideas and to innovate. This is clearly a strength for any society which is trying to adjust to a changing world, and to find new ways forward in a context of public and private co-operation. To build on this, there is a need to
develop private research institutions and policy fora in Pakistan so as to engage
with the government in a dialogue over its policy options, new ideas and the lessons
which might be learned from the experience of other countries.

Turning now to the possibilities for improvement in public administration,
attention can focus here on matters of organisation and management, since those
issues which relate to fiscal policies have already been discussed. And to begin this
new discussion, it can be suggested that the redefinition of roles as between the
public and private sectors calls for the development of some new monitoring and
regulatory frameworks by the former which are going to be needed as the latter
moves into new territory. In particular, there will be a need to monitor the activities
of NGOs, which are now in a position to receive funding directly from foreign
donors.

An aspect of such monitoring will most likely be the generation of new data
on the social situation in Pakistan, which is needed more generally as an input into
the design of policy, the monitoring of performance, and as primary resource mate-
rial for research institutions, if they are to be engaged constructively in policy
debate.

Data are also required as a basic input into the system of programming and
budgeting that must now be developed at a provincial level. The provincial govern-
ments of Pakistan have their own reliable fiscal base as a result of the agreement
which has recently been achieved by the National Finance Commission. The control
of these budgets and, in particular, the appropriate balance between recurrent and
capital expenditures is now their clear responsibility and a crucial focal point for
development planning.

Next, it follows from much of the analysis reported here that there is a need
to improve the capacity to formulate and implement policies within government
itself. The training of civil servants can go some way in responding to this need
which additionally requires an improvement in the co-ordination of staff from
different cadres and the re-evaluation of their career opportunities and prospects.

Such a re-evaluation would naturally arise if a start was made now towards
the further devolution of responsibilities from federal to provincial level; from
provincial level to the districts; and so on down the hierarchy of local government
institutions. Such devolution must be an important part of the overall development
strategy in Pakistan, affecting all the important social sectors such as health, educa-
tion, sanitation and the supply of drinking water. Local government reform is a
major undertaking which has to take place over a number of years. But a start
should be made, since reform in this area must be a major element in a strategy to
make people more aware of themselves in shaping the future and of their responsi-
bleilities, both individually and collectively.

The complement to any such efforts to devolve responsibilities down through
the tiers of the system and eventually to village level is for government to give every encouragement to the development of self-reliance and initiative among the people themselves. The potential role of schools in this context has already been noted and represents, perhaps, the main chance. But there are a number of alternative ways in which co-operative associations of people can emerge, from water-users groups, for example, or production co-operatives which may, in the first instance, be stimulated by the activities of an NGO. Pakistan has much to achieve in this area, learning from its own successes and failures as well as the experience of other countries. And it is important for the process to gather momentum, since it is the best hope for change for many of the people.

The Contribution of Donors

There are a number of areas in which foreign donors can make an important contribution at this time to the development effort in Pakistan. Foremost among these is the need for continuing support of the economic adjustment programme at a time when problems of internal law and order are placing an additional strain on the government’s resources. Beyond this, there is a need to support the National Conservation Strategy and the new emphasis in Pakistan on human development and the social sectors. And here there are a range of issues to consider. To set the scene, it would be appropriate or government to lay down the broad outlines of its social policy and thereby define the context in which donors can most usefully respond.

A major area for donor support should be to provide assistance to government across the spectrum of public administration reforms which have been discussed earlier. This includes technical assistance to the provinces in managing their new fiscal environment and in correcting the distorted resource allocations which are currently to be found throughout the social sectors. It also includes the many possibilities for contributing to the training not only of administrators but also of teachers, nurses, etc. and to improving curricula.

There is also an important role for donors in co-ordination, starting with the co-ordination of themselves in two respects. One is their separate dealings with each of the provinces. The other is their dealings with NGOs. In this latter connection it should be noted that a new avenue for official donor assistance provides support of domestic NGOs via international NGOs based in donor countries. There is clearly a need here for a concerted effort to co-ordinate information on the evolution of such arrangements so as to avoid confusion and duplication.

A further development which might have much to contribute would be the creation of Human Development Trusts, endowed with funds from the donor community. Such trusts could harness the local knowledge and professional skills of men and women of good will to the development effort by enabling them,
through the trusts, to finance projects which are too small to attract donor attention directly or otherwise beyond the capacity of external donors to be effective. Such Human Development Trusts could be seen as an analogue for the social sector of the Development Finance Corporations which have been so effective in many countries by providing assistance to small and medium sized firms which could not otherwise be helped.

Another most important way for donors to be helpful is, of course, in funding projects. But here it should be noted that the imbalance which has emerged in Pakistan between the construction of facilities and the capacity to provision them has been driven, to a degree, by the donors themselves. There is something to be said, therefore, for a moratorium on construction activities until such time as the problems of funding recurrent costs have been solved effectively. A suggestion in this context is for the donors themselves to switch their funding to cover the recurrent costs of child nutrition and education. And here the balanced development perspective may be particularly helpful because it recognises that education is an investment and, more generally, that the expenditures which are necessary to sustain life and the ability of people to work are all maintenance and investment expenditures which, as such, may show a higher social rate of return than, say, the corresponding expenditures on rural roads.

Finally, there is the vexed matter of conditionality. The scale of the problems which have now to be faced in the social sectors are such that a co-ordinated programme of social action has been called for within the framework of the Eighth Development Plan. It can be suggested that this might usefully be approached from the perspective of balanced development. It should also be recognised that keen monitoring of such an effort is potentially critical to its success. But monitoring may well not be enough. In the macro-economic context, the reasons for monitoring including the need for feedback to trigger conditionality. There is clearly a case that the cause of human development in Pakistan might best be served by the institution of conditionality on lending because of the commitment it entails. With a view both to the feasibility of monitoring and because it goes to the heart of the matter, conditionality should depend on the improvement of female literacy.

6. WILL BALANCED DEVELOPMENT SUFFICE?

The balanced development approach which has been outlined in this paper calls for the best use to be made of existing resources and, beyond that, for investment to flow wherever its rate of return will be highest. These prescriptions are not evidently controversial and, as the previous discussion has endeavoured to establish, some of their implications for human development and the environment are most attractive. However, the question cannot be avoided as to whether the policies
which emerge from pursuit of the approach can be trusted to secure the improvements in living standards, the expansion of choices, and the realisation of aspirations which are the ultimate objectives of development.

In attempting to respond to this question it can be suggested that, at least, the balanced development approach starts in the right place, which is to say that it starts with a serious concern for greater equality of individual opportunities, which is evident in the support of social transfers to finance the raising of children and their education when parental means are inadequate.

Next, it may be argued that the approach leads from this starting point in the right direction. The concern for policies which correct for market distortions and operate accordingly against discrimination in all its forms is one aspect of this. The proposal under balanced development to make the best use of existing resources can be interpreted in this context as an argument for complete and competitive markets. And to the extent that these are impossible to achieve, it is suggested that personal freedoms and local initiatives should generally be supported by the institutions of society. The balanced development approach is therefore in part an argument for securing basic nutrition and education for everyone, and then for affording them the chance to develop according to their individual talents and proclivities.

This is an attractive scenario as far as it goes. However, its limitations are not difficult to detect. A competitive market equilibrium is not necessarily a friendly place, in part because it is not without risk and in part because the distribution of opportunities will be dictated to a degree by the distribution of wealth. Balanced development accepts the initial distribution of wealth as being given. And, depending on the precise formulation, it makes no necessary provision for social security or any other transfers which cannot be justified by supply-side arguments. These, then, are areas in which a balanced development approach may be thought to be deficient. Various ways of accommodating them can be suggested, however, and it might be tempting to explore these. But there is also something to be said for resisting such temptations since they invite a trespass beyond the limits of supply-side arguments and the calculus of efficiency. It might, therefore, suffice to suggest that until the approach has been tried and found wanting the prescriptions it offers can be defended on the grounds that if they are not sufficient to secure human development, then they are none-the-less most likely to be necessary.

REFERENCES


11This point has recently been emphasised by Sen (1991).


Comments on
"Towards Balanced Development in Pakistan"

I can claim no expertise on the problems of development in Pakistan, and thus my comments on this stimulating paper relate to the wider methodological issues it raises. The approach evolved by the UNDP team working on the Eighth Plan has significant implications for the feasibility of a return to development strategies in a number of poor countries as the limitations of (as well as the necessity for) orthodox macroeconomic stabilisation schemes become evident.

Professor Pyatt’s paper is realistically based on a number of propositions: Pakistan has done much better on its economic growth indicators than on those reflecting human development; the macroeconomic framework of the World Bank and IMF programmes is firmly in place, with specific implications for social budgets; the existing distribution of assets must be taken as given, as must rural backwardness and gender bias; and the enabling institutional framework has patent limitations. In its analysis of these constraints on implementation, the paper draws an interesting parallel between ‘systemic’ problems at the macroeconomic level, which prevent micro-economic reforms from being effective: the equivalent lack of a proper social development strategy severely limits the effectiveness of health, education and environmental projects. The strength of the approach adopted by the UNDP team lies in a systematic supply-side approach. This considers three types of capital – natural, human and physical – the integration of which within a coherent social accounting framework marks a significant methodological advance. Two interesting consequences are that: (a) expenditure on people is considered as an input (i.e. the maintenance of human capital) rather than final consumption; (b) investment should be allocated between the three forms of capital in terms of the highest returns. Thus the team’s idea of ‘balanced development’ is aimed at reconciling efficiency criteria derived from market-clearing prices with long-term objectives of sustainable economic and human development. This is to be done by changing asset distribution through new investment, and to shift the returns on such assets so as to make the desired social outcome also the one desired by households and firms.

The proposed strategy is not one of laissez passer therefore, but rather a systematic attempt to overcome the human development shortfall behind economic development. Human development projects alone are not enough, and the market cannot get things right unless distortions are removed – which is the rationale for a
supply-side strategy. The policy consequences are clearly drawn in the paper and include: tariffisation of quota allocation of goods such as water, with differential pricing to protect the poor; a national conservation strategy financed by polluter penalties; the shift of foreign aid towards human maintenance expenditure; and the reform of fiscal systems on both the income and expenditure functions so as to maximise budgetary support for social objectives. It would thus be unfair to criticise this approach as utopian. It may well be that in Pakistan, as in so many other countries in the real world, there is a notable absence of strong social agents who, in pursuit of their own objectives, support the wider task of poverty elimination. Nonetheless, Pyatt's approach does suggest how the market can be used effectively and how the pattern of property and institutional privilege can be gradually altered. While supporting orthodox virtues such as fiscal balance, for instance he suggests that wage goods might be subsidised in order to increase productivity.

I have two comments to make, both of which are intended to assist in the process of thinking through the logic of the argument underpinning the UNDP study. First, I feel that Pyatt's approach has wider implications for macroeconomic policy than he believes. The standard World Bank model of the macroeconomics of the adjustment process is derived from the theoretical work of Dornbusch,¹ and is based upon the key distinction between traded and non-traded sectors. In the traded sectors, producer prices depend upon world prices (and the exchange rate) and in non-traded sectors on either domestic demand pressure or a markup on domestic costs — according to the supply conditions. The relationship between the nominal wage rate (which determines costs under fixed production coefficients) and the nominal exchange rate becomes crucial in the determination of both macroeconomic stability (inflation and the trade deficit) and international competitiveness. Any expansion of non-traded expenditure tends to raise real wage costs and destabilise the economy. However, a central proposition of what we might call the 'Pyatt model', which runs directly counter to the Dornbusch assumptions, is that non-traded expenditure on health, education and the environment leads to lower unit labour costs. If this proposition is valid (which I think it clearly is) then a radical rethinking of the standard macroeconomic adjustment model is needed.

Second, I have some hesitation about the way in which Professor Pyatt looks at 'efficiency wages' in terms of the inputs (explicitly health and education, implicitly food and housing) required to supply the required labour power. It might be useful also to consider real wages as affecting labour productivity though the incentive effect — which he relegates to a footnote. This is equivalent to improved utilisation of existing human capacity which, as in the case of physical capacity, can be as effective as the formation of new human capital. In the case of the internal terms of

trade (i.e. real farm prices) it is generally agreed that increased food deliveries require an effective exchange mechanism – prices and markets – which deliver to farmers not only fertilizers, seeds, fuel and so on plus essential industrial consumer good (such as salt or textiles) but also ‘luxury’ goods such as bicycles or radios which make such effort worthwhile. Why cannot we take a similar view of wages? To do so in the case of both peasant and worker incomes provides an interesting long-run growth path where labour income depression does not lead to higher growth because although an increased profit share of national income may raise savings rates, the effective utilisation of existing capacity declines and capital flight occurs due to lack of adequate production incentives.\(^2\)

In sum, this paper – and the UNDP study upon which it is based – has a relevance far beyond Pakistan. Development planning may be unfashionable but structural constraints on development remain, and comprehensive strategies will undoubtedly return to centre stage as it becomes apparent that the productive investment required for sustainable growth requires more than monetary stability. As Keynes put it some time ago:

“The outstanding faults of the economic society in which we live are its failure to provide full employment and its arbitrary and inequitable distribution of income and wealth.... It is not the ownership of the instruments of production which it is important for the State to assume. If the State is able to determine the aggregate amount of resources devoted to augmenting the instruments and the basic reward to those that own them, it will have accomplished all that is necessary”\(^3\).

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