

## **Growth and Human Development: Pakistan in Comparative Perspective**

GUSTAV RANIS and FRANCES STEWART

### **I. INTRODUCTION**

This paper will, at the outset, present a conceptual framework which constitutes an extension of the *Human Development Report* of 1996. Then in Section III, it will offer some cross-country as well as country-specific, particularly Pakistan-specific, evidence. In Section IV it will examine some possible reasons thrown up by the conceptual framework as to why Pakistan's performance has indeed been "mixed". Finally, in Section V, it suggests a few actions Pakistani policy-makers might consider if the past unsatisfactory situation is to be repaired.

### **II. CONCEPTUAL FRAMEWORK**

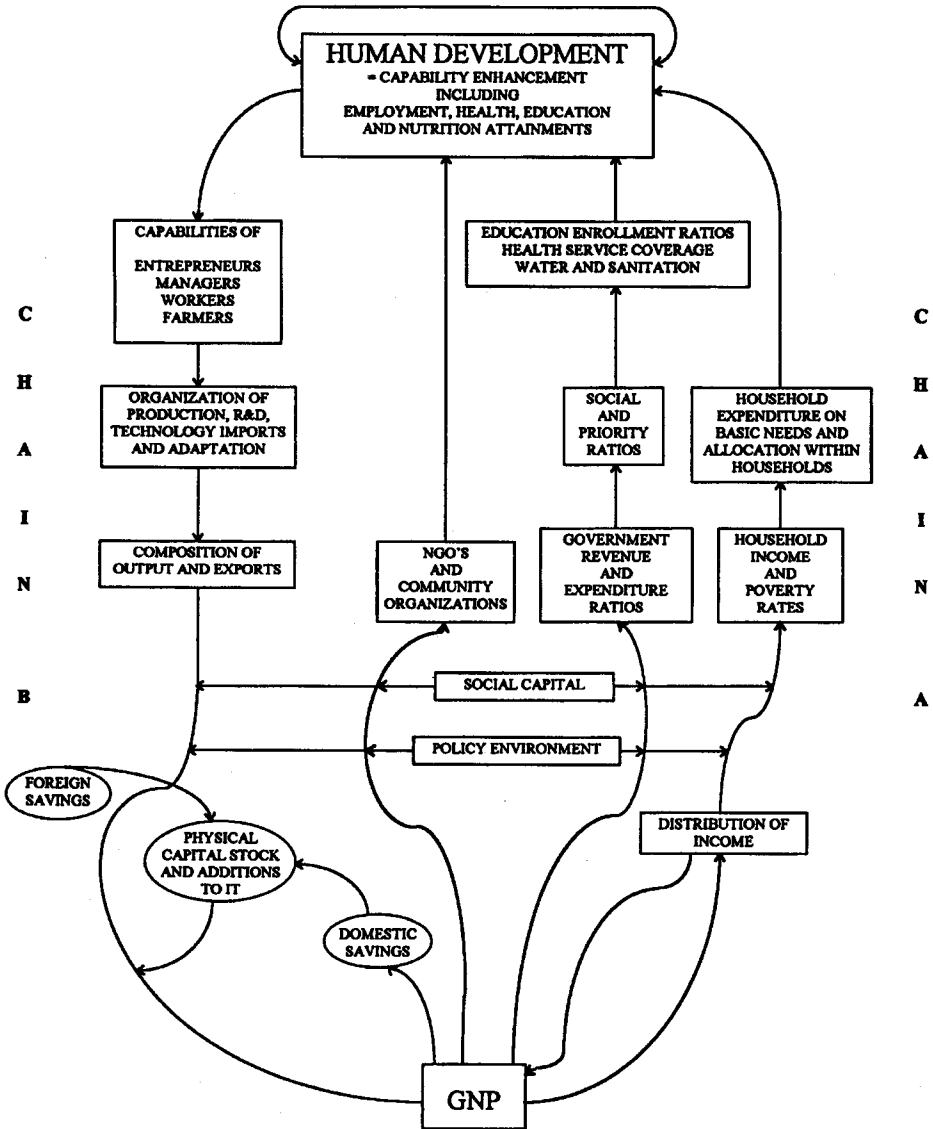
There is no need to dwell at this stage at great length on the basic idea that human development is the objective of all human activity and that economic growth is a necessary but not sufficient means for achieving progress in human development. The state of human development can be defined through the human development index, or preferably, as we do in this paper, by focussing only on some combination of life expectancy and educational attainment.

In Diagram I we present two causal chains linking economic growth with human development, recognising human development (HD) as the basic objective. With respect to Chain A, running from economic growth to human development, we see that, for a given level of income, generated by past economic growth, we can trace the expenditure patterns of households, governments, and of civil society, including NGOs, in terms of their expenditure on inputs which serve to enhance human development as defined above. The impact of household incomes on human

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Diagram 1



THE HD-GNP CYCLE

development, of course, not only depends on the level but also on the distribution of income and on the extent of poverty. Thus, how growth is generated, i.e. how employment sensitive and how income-distribution friendly it is, as well as how well a given growth rate reduces poverty will have an effect on how households spend their income.

One could go into great detail about the employment sensitivity of different growth paths, the attention paid to rural versus urban and agricultural vs. non-agricultural activities, small-scale vs. large establishments, the kind of technology and product mix which is chosen, all of which affect how income is generated, how well it is distributed, and thus how, for a given level of income and income growth, families allocate expenditures when consuming and/or investing. In general, the greater the reduction in poverty accompanying overall growth, the more such growth will lead to human development-related expenditures. Expenditure decisions also depend on who inside the household controls these decisions; if we open up the household and do not assume a homogeneous decision-making process the extent to which a given income is spent on human development-oriented inputs, as compared to luxury consumer goods, has empirically been shown to be related to who controls the basic as well as the supplemental income of the household.

Turning to government, both central and local, we can build on the three ratios first presented in the *Human Development Report* of 1991:

$\frac{\text{total expenditures}}{\text{GNP}}$ , i.e. the government expenditure ratio;  
 $\frac{\text{human development expenditures}}{\text{total expenditures}}$ , i.e. the social expenditure ratio; and  
 $\frac{\text{priority human development expenditures}}{\text{total human development expenditures}}$ , i.e. the HD priority ratio. When we

multiply them by each other we obtain  $\frac{\text{priority human development expenditures}}{\text{GNP}}$  as

the criterion of how HD-oriented a government's expenditures are. It should be noted that the types of expenditure encompassed in the priority ratio will change over time, depending on the stage of development a country has reached. Finally, we need to include NGOs or civil society generally as other instrumentalities which, although normally of lesser quantitative importance, can qualitatively make quite a difference. As examples we may cite the Grameen Bank and BRAC in Bangladesh, neighbourhood associations in Chile, and the Orangi Project here in Pakistan.

It should be noted that the expenditures on human development-related activities do not represent an end in themselves. They need, instead, to be efficiently combined to yield the maximum increase in the bottom line, HD, however measured. Underlying this idea resides a complicated production function which we may call the "human development improvement function". It is not at all clear, for example,

precisely what combination of education, safe water and health will yield the largest increment in life expectancy, or what combination of nutrition and preventive health will reduce infant mortality most effectively. While we have a good deal of partial information on some of these relationships, taking one or two inputs at a time, the development of an integrated human development improvement function requires a good deal more research. To understand it is as much of a challenge as the agricultural production function once was whose arguments we at one time thought were simply labour, land and water, but which we now know to be a much more complex subject.

The strength of the links in causal Chain A, is, of course, critical. It depends on initial conditions, such as the structure of the initial asset distribution, on the nature and extent of so-called “social capital” as defined in recent academic discourse, on the policy environment, even on the level of public morality. It is clear that in some countries some of these links are quite strong; in others they are weak, depending on the relative importance as well as the direction of private family expenditure patterns; ditto for government expenditure patterns and NGO and civil society activity, as well as the effectiveness of converting HD-related inputs into HD output.

Turning to Chain B, running from human development back to economic growth, we may view this production function as somewhat more conventional, even though it is also not quite as simple as it would appear. Clearly, if people have reached a higher level of human development, i.e. they are better nourished, better educated, and healthier, they can, in turn, contribute more to economic growth. The simplest relationship is that an increase in human development means that you have a better labour force across the board; specifically, more primary and secondary education improves the capabilities of farmers and unskilled workers; at the secondary level of education you create more skilled workers and better managers; and at the tertiary level the impact of higher level manpower on science and technology as inputs into production will be enhanced. Better choices can consequently be made with respect to the importation and adaptation of technology; better governance can be achieved, via institutional development, while human capital at all levels is required to provide the kind of financial intermediation essential for growth. We have lots of micro-studies relating to the medium as well as the long-run, dealing with the linkages between improvements in various dimensions of human development—including health and nutrition as well as education—and economic growth.

At the macro level, we can also obtain support from the so-called “new growth theories” in elucidating and estimating the impact of educational improvements, R&D, etc., on growth. Capital accumulation is made more productive throughout the economy when individual actors think it is in their interest to acquire more education or to do more research and development. Skill and

learning, in turn, affect an economy's ability to attract foreign investment and to acquire new areas of comparative advantage in the open economy. All this has been incorporated into conventional thinking to a greater extent than the links in Chain A but nevertheless their importance must not be understated. The strength of the many links in Chain B will vary across countries and critically affect a system's overall growth performance.

It should be noted that income distribution again plays an important role in Chain B. It is relevant because it affects growth just as it is affected by the nature of the growth path in Chain A. Indeed, the idea that income distribution may affect growth has been the subject of some recent work by such political economy theorists as Alesina, Tabellini *et al.*, working through an analysis of the median voter's satisfaction or dissatisfaction. Needless to add, improvements in human development also affect population growth, i.e. the denominator in per capita income, especially since female education has an important impact on fertility decisions.

Once again, with respect to Chain B, the strengths of these links is not automatic. For example, in order to have an impact, higher levels of human development, signifying more educated people, still require that there exist opportunities for employing such people. Moreover, savings and investment rates and the availability of the binding agent termed "social capital" provide part of the enabling environment which determines the impact of an educated labour force on the generation of income.

### III. SOME EMPIRICAL FINDINGS

We have run cross-country regressions, including 35 to 76 developing countries, for the years 1960 to 1992, the results of which we present here. Using life expectancy shortfall reduction between 1970 and 1992<sup>1</sup> as the indicator of human development improvement, the intent was to identify the more significant variables in Chain A affecting that dependent variable.

We do not reproduce the regression equations here but simply summarise our results:

1. GDP growth per capita was significant in all cases. Our results indicate that a 1 percent increase in the growth rate would lead to a reduction in the life expectancy shortfall of 3 percent.
2. The social expenditure ratio, i.e. the percentage of government expenditure devoted to human development-related activities, was significant in all equations; a 1 percent increase in this ratio resulted in a 1.7 percent reduction in the life expectancy shortfall.
3. Even more interesting was the finding that the social expenditure ratio's impact on the level of human development seems to work through the

<sup>1</sup>Specifically, the reduction of the gap relative to the maximum of 85 years achieved in the most advanced country.

female primary educational enrolment ratio, i.e. when the female primary enrolment ratio is added in our equations the social expenditure ratio coefficient, while still of the right sign, ceases to be significant.

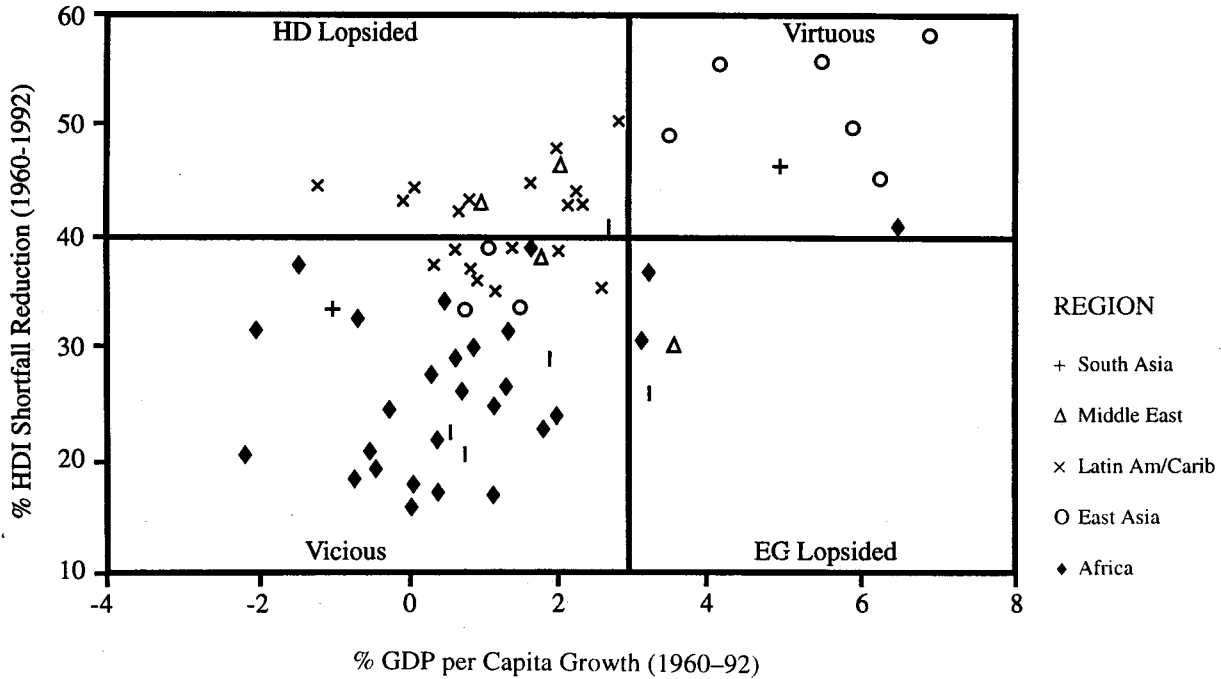
Turning to our empirical findings on Chain B, where GDP per capita income growth between 1970 and 1992 was the dependent variable, we found:

1. The initial level of human development as summarised by life expectancy was consistently highly significant.
2. Adult literacy, life expectancy, as well as a more comprehensive definition of human development (i.e. including education), were significant in several equations.
3. The investment rate was consistently significant.
4. A better distribution of income was associated with a higher rate of growth except in the case where regional dummies were introduced. This seems to be in support of the Alesina/Perotti findings.
5. The initial level of GDP per capita was significant, carrying a negative sign, thus indicating the existence of some convergence among developing countries, i.e. the lower the initial level, the more catch-up can be expected, presumably through technology borrowing by latecomers.

We may thus note that an individual country may find itself in a virtuous cycle, with vigorous growth leading to improved human development and improved levels of human development in turn leading to vigorous growth, i.e., if the links in these two chains are strong. But it is also true that if these links are strong weak growth will lead to weak human development and weak human development in turn will lead to weak growth which would be tantamount to a vicious cycle. On the other hand, we may also note that there may exist two types of "lopsidedness" if the linkages between HD and EG happen to be weak. One could encounter good growth but poor human development (EG-lopsidedness), e.g., because there is a low expenditure ratio, or one could encounter good human development and poor growth (HD-lopsidedness), e.g., because the investment rate is low. We may also hypothesise that such lopsided cases are unlikely to persist for very long, but turn into either vicious or virtuous cycles over time.

Putting these categories to the test, we can compare the performance of all developing countries for which we have data between 1960 and 1992 in Diagram II, with each country compared to the average, weighted by population, with respect to their human development and economic growth performance. We may note the existence of four quadrants: virtuous and vicious cycles in the northeast and southwest quadrants, respectively, and the two different types of lopsidedness in the northwest and southeast quadrants. We may also note that seven out of the eight virtuous quadrant countries are in East Asia, while 21 out of 37 in the vicious cycle

**Diagram II**  
**Classification of Country Performance (1960–1992)**



*Note:* The horizontal and vertical lines defining the four quadrants represent developing country averages weighted by population.

category are in sub-Saharan Africa, nine in Latin America. Moreover, there are a substantial number of HD-lopsided countries but very few EG-lopsided cases. Ten of the 13 HD-lopsided countries are in Latin America, while the four EG-lopsided are Egypt, Pakistan, Mauritius and Lesotho.

Important from the point of view of policy is, of course, the question of how a country may move over time, presumably with the objective of ending up in a virtuous cycle at the end of the road. By examining the location of our countries in each of the three decades between 1960 and 1992, we may make the following observations:

1. Eighteen of the countries which were in a vicious cycle in the decade 1960 to 1970 stayed there. Six moved from vicious to EG-lopsided in the 1970s, but four had a relapse back into vicious. Only Sri Lanka and Botswana moved directly from vicious to virtuous over time.
2. Of the eight EG-lopsided countries in the decade of the 1960s, all moved to vicious in the 1970s. Only Pakistan went back to EG-lopsidedness in the 1980s and again back to vicious in the 1990s.
3. Of the 13 HD-lopsided, four moved into virtuous, four into vicious and later back into HD-lopsidedness.

The significance of all this may now be summarised. It seems clear that lopsidedness, as mentioned earlier, was a temporary condition for all but one country, i.e., Costa Rica. One-third of the HD-lopsided became virtuous; all the EG-lopsided became vicious. An important conclusion flowing from this is that the best road from initially vicious to finally virtuous as a goal is to attempt to move through HD-lopsidedness. In common sense terms this means a system should first strengthen the links in its Chain A by shifting resources to education and health in order to improve its human development; only then will it be able to move from HD-lopsided, through its strengthened links in Chain B, to further improve its growth. While all this is basically an iterative process, the phasing of policy change does appear to be critical. Thus the often held position that we should first "get the fundamentals right" to ensure good economic growth, while human development has to wait, is in error. Human development improvement must precede or at least accompany the improvement in growth. What was intuitively seen as correct by only a few observers holds up very well empirically.

Let us now turn to the particular case of Pakistan, which is of special interest here.

1. Pakistan was EG-lopsided in the 1960s, vicious in the 1970s, EG-lopsided in the 1980s and is once again vicious in the 1990s. Human development has clearly remained weak throughout. Life expectancy in the 1950s was 39, 54 in the 1980s, and is estimated at only 62 even in 1993. If we use the



UNDP's overall HDI, Pakistan ranks 139th out of 175 countries in human development. On the other hand, growth rates, while low in the 1970s, were respectable in the 1960s and again in the 1980s, in the neighbourhood of more than 5 percent. We obviously need to ask ourselves why. Clearly Pakistan shows substantial weaknesses in Chain A. Among others, we may note that the tax/GDP ratio is abysmally low (at 12 percent), without any ability or willingness to tax agriculture; with few people paying income tax, indirect consumption taxes and import duties must carry the entire burden.

2. The low tax take is compounded by the fact that the social expenditure ratio is squeezed down by extremely high military expenditures and the interest on the domestic debt. The former is caused by the continuing tension with India, the latter by the policy device used over many years of the government borrowing at high interest rates from the non-bank public. Defense expenditures have run at 6 to 7 percent of GNP, debt service at 8 percent of GNP; together they amount to almost 80 percent of current expenditures.
3. The social expenditure allocation ratio, especially with respect to education and female enrolment, has been extremely low by any international standard. Public expenditures on education have been at 2 percent of GNP in 1980 and at 2.7 percent in 1993. Female primary enrolment rates were running at 25 percent in 1975 and still only 30 percent as late as 1991. With respect to health, 45 percent of the population still has no access to health services, and the public expenditure on health is less than 2 percent of GDP. Adult literacy which was at 21 percent in 1970 was still only 38 percent in 1995. Female literacy remained at an abysmally low level of 21 percent in 1995.
4. Family expenditure decisions seem to be very largely dominated by men, which means that, given a certain family income level, expenditures are more directed towards smoking, liquor and other non-essential goods rather than human development-oriented inputs into better nutrition, health, education, etc. This fact should be combined with the evidence that, while growth has been reasonably good, income distribution has worsened, as has the ability to reduce poverty, especially in the urban areas, if we take the period as a whole.

It is a big mystery why Pakistan's good performance of the early 1960s, under Muhammed Ayub Khan, was not maintained. In those days Pakistan was doing better than India; today there can be no doubt that India is doing substantially better than Pakistan. Since the two countries watch each other closely with respect to their military expenditures and much else, it is interesting to at least speculate as to why

this reversal in performance has occurred over time. Here we admittedly enter an area of speculation but would suggest some reasons as to why the Pakistan links have been sufficiently weak to create this imbalance between fairly reasonable growth and poor performance in human development.

1. Shahid Javed Burki who discussed the Pakistan situation at a recent conference at Yale<sup>2</sup> raised the issue of what he called the “old culture” of Pakistan which has permitted the retention of adverse feudal habits and what could only be called poor governance over the five decades since independence, with high levels of corruption, defined in whatever way one chooses to. Transparency International, he noted, placed Pakistan as the second worst performer in the world, right after Nigeria. It is certainly true that there has been a marked instability in government and, even when the military has not been in charge, Pakistan can at best only be called a “delegative democracy”. But it is still not very clear just what is meant by the “old culture” of Pakistan. It seems evident that the initial conditions for a homogeneous society holding together, i.e., “organic nationalism” *à la* Kuznets, were not in evidence in 1948. Nevertheless, one is still entitled to ask why other developing countries which also started out with similar handicaps were able to overcome them over time while Pakistan could not.
2. One of the causal agents which clearly emerged from our empirical work is the absence of the participation of women. This was not only inequitable, but also important instrumentally in terms of the loss of women’s contribution to output growth, the failure of families sufficiently to select human development-oriented expenditures and, last but by no means least, its impact on fertility, leaving Pakistan with much higher population growth rates than any other South Asian country. While the secularism of the state was officially reaffirmed after 1985, one is entitled to continue to wonder about the impact of the fundamentalist wing of Islam on the maintenance of what Burki called the “old culture”, perhaps not as much directly as by influencing the more secular political actors fearing a religious backlash.
3. One may also hypothesise that there is a political economy story attached to the absence of reforms in Pakistan. First of all, Pakistan has always been the recipient of generous foreign assistance, especially from the United States, and, for some time, received large private remittances from the Middle East, four times as large as foreign aid. Both flows had to have the effect of taking the pressure off the need to improve public policy decision-making and thus undoubtedly contributed to the weakness of efforts to strengthen the links in both chains.

<sup>2</sup>“Governance, Corruption, and Development: The Case of Pakistan”, presented at the Conference on Governance: Bangladesh, India, and Pakistan, November 19, 1997.

4. There can also be little doubt that the Cold War and the war with Afghanistan led not only to the aforementioned relatively large volumes of foreign assistance and the resulting reduction of pressure for reform but also promoted rent-seeking in the arena of drugs, arms, and other types of illegal activities. All this has undoubtedly exercised a serious negative influence on Pakistan's ability and/or willingness to move towards a virtuous cycle over time. The exogenous windfalls referred to have led to consumption binges, real estate and land speculation, and a continuously very low savings rate, i.e. at the 5 to 6 percent level—half of India's. The continuing practice of borrowing from the non-bank public, moreover, may have served to crowd out private investment.
5. The overall policy setting, of course, is of critical importance and has been a particular weakness in the case of Pakistan. Policies have been obstructing or at least not accommodating the achievement of growth, given the weakness of links in Chain B. One example: there has been a tendency to raise labour costs in urban industry via increases in the minimum wage and public sector pay, thus slowing down the ability to become a competitive, labour intensive exporter in the East Asian style. One hears many laments to the effect that Pakistan has not yet moved sufficiently out of its labour intensive export orientation; it would, to the contrary, seem to be the height of folly to try to enter into high-tech activities at this stage of the game, as long as unemployment and underemployment are still substantial and human resources as well as physical, scientific and technological resources are not available to permit such leap-frogging. This argument is clearly related to the easy availability of foreign capital, including remittances, which made it possible to maintain inefficient activities, especially in the industrial sector. In the agricultural sector, 66 percent of agricultural credits have been allocated to tractor purchases at subsidised rates of interest, leading to undue capital intensity and the retention of a labour surplus far longer than was necessary. Pakistan's farm gate food prices are 50 percent below international prices; moreover, the continued substantial subsidisation of urban consumption has contributed to budgetary imbalance and inflationary pressures.
6. Financial sector and state-owned bank transparency, bad debt reserves, and overall regulatory dimensions represent another particularly weak link in Chain B. One would hope, especially given current South-East Asian experience, that Pakistan, which is still much more of a closed economy, would pay more attention to the development and regulation of its financial sector in order to avoid a similar situation arising if and when external liberalisation proceeds.

7. Finally, it would seem that there has been very little decentralisation, either of the horizontal or vertical variety, attempted in Pakistan over the years. It is well known that several provinces are restive, especially in terms of the relative power of the Punjab; but, more to the point, local governments everywhere have relatively little autonomy, either of the fiscal or allocative variety. With respect to the horizontal type of decentralisation, it is abundantly clear that the executive branch is overwhelmingly strong, with the legislature, dominated by landlords, virtually a rubberstamp and, as recent evidence has certainly underlined, the judiciary far from independent. Both types of decentralisation can have an important impact on the strength of the linkages in both Chains A and B.

In summary, one certainly comes away with the distinct impression that the technocratic knowledge of what needs to be done in Pakistan exists in many quarters; it is clearly not a lack of understanding that prevents a change in policies which would permit Pakistan to move towards a virtuous cycle. Indeed, reflecting on many of the comments made by Pakistani participants at the PSDE Conference, one can only conclude that there exists a deep layer of cynicism concerning the chances for meaningful change in the near future. Perhaps, using the "extended Dutch Disease" hypothesis referred to above, Pakistan has as yet not been sufficiently "up against it". But at the same time it is perhaps wise to recall that a somewhat similar situation of poor governance, crony capitalism, and corruption existed for decades in the Philippines, until, at some point, with neighbouring countries moving ahead and U.S. aid moving out, changes were indeed forthcoming. Perhaps, in addition, the closer-to-home examples of India and even of Bangladesh will ultimately have the effect of stirring Pakistan into action, i.e. strengthening the links in Chain A to achieve a virtuous cycle.

Turning to the future, while Javed Burki expressed himself as "soberly optimistic" at the same Yale Conference, the above leads one to prefer a "soberly agnostic" stance. Nevertheless, on an occasion like this, the 50th anniversary of a country which started out with such promise, an effort to declare the glass half-full as one peers into the misty future seems warranted. What then are the basic reasons one can still be soberly optimistic or at least soberly agnostic about Pakistan's chances to break out from decades of vicious cycles interspersed with EG-lopsidedness?

1. In spite of all the problems of wars with India, poor governance, political instability etc. that we have referred to, a reasonably good growth rate of 5 percent has been maintained over the long 1960-1992 period. Thus, even as human development has been clearly and markedly neglected, overall growth performance has remained good by international standards. This means that we have a situation where the resources for strengthening Chain A links are at hand.

2. One can not help but notice that Pakistan's younger generation represents a strong potential in terms of the human capital embodied. Most seem to understand the problems facing the society but find themselves unable to put their ideas into practice, given the current system of governance. They do, however, represent a rich potential resource for meaningful future reform.
3. Given the large military expenditures already referred to, much can be done by negotiation with India to generate substantial additional resources for social expenditures, i.e. raising the social expenditure ratio without sacrificing national security.
4. It should be relatively easy to change the priorities within the social sectors, paying much more attention to female education. When women receive only 24 percent of men's years of schooling and only participate at the level of 16 percent of men's economic activity, the upside potential is truly remarkable.
5. With respect to the overall economic policy setting, Pakistan could, given the necessary political will, undertake the so-called "first generation" reforms, focussed on the taxation of land, female education, etc., and, at the same time, reflecting on recent South East Asian experience, undertake second generation governance reforms, including paying much more attention to its financial sector. There may, in other words, be some benefits to being a late starter on the road, avoiding the experience of other countries with "soft" responses to the appearance of windfalls as they liberalise their capital accounts. Currently there is less foreign capital available and remittances are in decline. This may provide a healthy environment for better decision-making down the road.
6. In very recent times Pakistan's military expenditures have actually declined to 5.7 percent of GNP, still very high, but at least the decline is an encouraging sign. At the same time, expenditures on health and education as a percentage of GNP, which, at one point, in 1960, were 4 percent, are now at 4.5 percent, still very low, but here again the trend is positive.

Burki suggested that *ehatesab* should precede *intikhab*, i.e., accountability before elections, or that economic democracy might come before a Westminster type of political democracy. The issue of the definition of democracy and its relation to development is of course too complicated to go into in any detail here, but it is our view that the active participation of a larger percentage of the population in the development process (i.e., economic democracy) is an important ingredient of shifting Pakistan towards a virtuous cycle.

Pakistanis have indeed been a long-suffering people and there is a good deal of resignation in the air, palpable for anyone who visits the country. But one is

nevertheless entitled to hope that Islamabad will eventually realise that it has been left behind by its South Asian neighbours. Major policy reforms, enlisting civil society along with local government, are possible, in the same way as happened in Bangladesh, once internationally viewed as a "basket case"; and certainly a discriminated backwater within undivided Pakistan.

# Comments

## I.

Professor Ranis begins his Quaid-i-Azam Memorial Lecture by stating at the very outset that “there is no need to dwell at this stage at great length on the basic idea that human development is the objective of all human activity and that economic growth is a necessary but not a sufficient means for achieving progress in human development.” With this starting-point, he does three things. First, he identifies two causal chains: Chain A running from economic growth to human development, and Chain B running from human development to economic growth. Second, using particular measures of economic growth and human development, he classifies the performance of several countries in the period 1960–992, arranging them under four taxonomic criteria: *vicious*, *virtuous*, *human development lopsided*, and *economic growth lopsided*. Third, he turns to Pakistan, and asks why “the Pakistan links have been sufficiently weak to create this imbalance between fairly reasonable growth and poor performance in human development”.

What drives the entire exercise is the conceptual framework, and I read it as questioning the extent to which one can focus solely on economic variables, be it theory or policy. Chain B represents the more conventional mode of analysis, though it needs to be borne in mind that the earlier articulations ignored education, health, and infrastructural investment, and treated population growth, technology, and savings behaviour as highly aggregated exogenous variables. However, it is the supplementation of Chain B by Chain A that constitutes the principal thrust of the lecture. In his discussion of the relevant initial conditions for the causal relationships embodied in Chain A, Professor Ranis identifies “the structure of the initial asset distribution, on the nature and extent of so-called “social capital” as defined in recent academic discourse, on the policy environment, [and] even on the level of public morality.” Once social capital, institutions for conducting policy, and morality are brought into the picture, it is clear that the so-called non-economic variables can no longer be bracketed, and the vernacular of economics can no longer furnish the only language of analysis. One inevitably shifts to the more general question of the relationship between commerce and institutional development, and the two institutions of family and the state—the private and the political—can no longer be considered peripheral to the argumentation. More sharply, one can ask whether economic development leads to good governance, as currently conceived, or is it the case that only when good governance is in place that a society can develop

*Author's Note:* This is a write-up of the remarks prepared as a discussion of the Quaid-i-Azam Memorial Lecture titled “Growth and Human Development” and delivered in Islamabad by Professor Gustav Ranis on December 17, 1997.

economically?<sup>1</sup> But once the question is cast in this general light, one is led directly to question which animated the eighteenth century discourse of the Scottish Enlightenment with its technical keywords *commerce*, *virtue*, *corruption* and *passion*.

Of course, I do not have the time to make a detailed case for the relevance of the economics of the eighteenth century to the concerns that occupy Professor Ranis in a lecture delivered at the end of the twentieth century, but a few selected quotations from the writings of John Pocock may give enough of the tone and sense of the meaning of these words. In his essay, "Virtues, right, and manners", he writes as follows:

From 1688 to 1776 (and after), the central question in Anglophone political theory was not whether a ruler might be resisted for misconduct, but whether a regime founded on patronage, public debt, and professionalisation of the armed forces did not corrupt both governors and governed, and corruption was problem in virtue, not in right, which could never be solved by asserting a right of resistance. Political thought therefore moves decisively, though never irrevocably, out of the law centred paradigm and into the paradigm of virtue and corruption.<sup>2</sup>

And I would like to remind you that the date of publication of Adam Smith's *The Wealth of Nations* was 1776, and that he held the position of Professor of Moral Philosophy—the bracketing of the disciplines of economics, sociology, and political science had only just begun. Indeed, in his essay on "The mobility of property and the rise of eighteenth-century sociology", Pocock writes:

I suggest that we cannot understand the vindication of commercial society unless we understand the grounds on which it was assailed and acknowledge the attack's continuous vitality. This obliges us to take a route which leads through Mandeville and Hume to Ferguson and Smith, and to encounter classical economics at the end of it, after long debate between virtue and commerce, virtue and corruption, virtue and passion.<sup>3</sup>

My final quotation leads us to reflect on the word "science" as it is typically appended to economics (as well as to politics). In his essay, "Cambridge paradigms and Scotch philosophers: a study of the relations between the civic humanist and the civil jurisprudential interpretation of eighteenth-century social thought," Pocock writes:

<sup>1</sup>For a discussion of a similar problematics concerning population and economic development, see Khan (1997).

<sup>2</sup>[See Pocock (1985), p. 48].

<sup>3</sup>[See Pocock (1985), p. 123].



The effect of approaching the birth of political economy through the alternative paradigms of civic humanism, Addisonian morality and natural jurisprudence is that it appears to have far more to do with morality than with science.<sup>4</sup>

Moving on from these conceptual generalities to the particular, the relevance of these considerations is reinforced in Professor Ranis's discussion of the weakness of Pakistan's performance since the sixties. He lists seven factors: in addition to an absence of the participation of women, six other factors which can be broadly whittled down to the twin, and interrelated, problems of (i) "poor governance with high levels of corruption defined in whatever way one choose to," and (ii) inefficient utilisation of large amounts of capital available from abroad in terms of aid and/or remittances. The overall conclusion is a sobering one.

In summary, one certainly comes away with the distinct impression that the technocratic knowledge of what needs to be done in Pakistan exists in many quarters; it is clearly not a lack of understanding that prevents a change in policies which would permit Pakistan to move towards a virtuous cycle.... there exists a deep layer of cynicism concerning the chances for meaningful change in the near future.... But at the same time it is perhaps wise to recall that a somewhat similar situation of poor governance, corny capitalism, and corruption existed for decades in the Philippines, until, at some point, with neighbouring countries moving ahead and U.S. aid moving out, changes were indeed forthcoming.

This fascinating statement raises the question of the inadequacy of technocratic solutions, and more generally of a liberal approach to policy. If it is not a lack of understanding, then it is a lack of will; but whose will? How is such a will to be articulated? It is a rare policy prescription that has only gainers and no losers, and given this, how is a particular consensus to be established and forged even in the context of a single and specific policy proposal? Are there inherent contradictions and conflicts which can not be papered over? Where are the answers to such questions to be found? Does economic or political science give universal answers to these questions which can simply be applied and put in place, or must we go to local traditions and utilise local vocabularies? There are of course no easy answers, but it is clear that the earlier presumption of "growth first and human development later" cannot be coherently maintained.

In conclusion, Professor Ranis shows in his wide-ranging and insightful lecture that we can no longer evade the problem of the relationship between human

<sup>4</sup>[See Hong-Ignatieff (1983), p. 251].

and economic development, both broadly conceived, and that serious thinking on this problem will have important implications both for the direction of economic policy in Pakistan as well as for research in development economics.

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## 2.

At the Thirteenth Annual Conference of the PSDE, the written version of the Ranis/Stewart paper was not available. Professor Ranis made an oral presentation based on a draft in progress. The present commentator would like to begin by admitting that he was unable to fully grasp the scope and power of the paper from the oral presentation. The written version of the paper is not only a brilliant piece of analysis of the mutual linkage between economic growth (EG), as measured by the growth in GDP, and human development (HD), but also an incisive look at Pakistan's current economic predicament.

The analytical framework of the paper consists of the postulation of two causal linkages: from EG to HD and from HD to EG. The paper identifies the factors whose presence (absence) makes these linkages strong (weak). Strong linkage can lead to either a virtuous cycle, where high EG and high HD reinforce each other, or to a vicious cycle, where weak EG and low HD reinforce each other. Weak linkage, on the other hand, leads to lopsidedness: high growth can fail to improve the level of HD ("EG lopsidedness") and high HD can fail to induce high growth ("HD lopsidedness"). Lopsidedness is difficult to sustain; often a lopsided country graduates to virtuous cycle or sinks into vicious cycle. Ranis and Stewart identify Pakistan as one of the few EG-lopsided countries and one which has been in and out of vicious cycles in recent decades. From EG lopsidedness during the 1960s, it sank into vicious cycle during the 1970s, emerged back to EG lopsidedness during the 1980s and sank back into vicious cycle during the 1990s. In short, Pakistan has gone through periodic growth cycles but never emerged from its very low level of HD.

The truly remarkable contribution of the Ranis/Stewart paper is its refreshing and bold analysis of the causes behind Pakistan's unstable growth and chronically low human development. There is little in their analysis that one can disagree with or add to. This commentator is happy to endorse almost everything that they have to say on this subject. The remainder of these comments will point to one specific aspect of the analysis of the factors responsible for the current predicament of not only Pakistan but the entire South Asian Subcontinent. Changes that have taken place on this aspect since Ranis and Stewart wrote their paper might have altered the note of "sober agnosticism" on which they conclude their paper to one of profound pessimism.

One way to interpret Pakistan's periodic move from lopsidedness to vicious cycle and back is that its growth performance has been cyclical while its HD performance has been consistently poor. The failure to translate high growth into high HD during the decades of rapid growth was clearly the critical factor that

explains the inability of Pakistan to graduate to virtuous cycle. The question, however, is why growth itself could not be sustained more consistently without periodic lapses into relative stagnation during the 1970s and 1990s? Ranis and Stewart have analysed the numerous obstacles to sustained growth. One factor that might be added to their perceptive and long list—a factor that is inextricably linked with some of the factors identified by them—is the virtual autarky of the South Asian countries in relation to one another. Whatever reform of the trade regime Pakistan and other South Asian countries implement, they will suffer from the foregone opportunity of trade and economic exchange with the neighbouring markets of one another. This is a serious obstacle to the achievement of both allocative efficiency and the classical efficiency deriving from economies of scale, permitted by a large market. At the root of regional autarky is unresolved political conflict among South Asian countries, dominated by the conflict between Pakistan and India. Besides depriving the countries of the region of the great potential benefit of trade and economic exchange, this also imposes the heavy cost of a defence burden which is particularly crippling for Pakistan. Since Ranis and Stewart wrote their paper, the lingering hope of a resolution of this issue was dashed to pieces by the move towards competitive nuclearisation of defence of India and Pakistan. Quite apart from its direct economic burden, this has eliminated all hope of a gradual transition towards peaceful economic interaction among South Asian countries in the foreseeable future. It is hard to see how any country could come close to realising its growth potential with so great a hurdle in its way. In this sense, a comparison of relative economic performance of Pakistan and India is quite meaningless. While their relative performance can vary from one period to another, they both must pay heavily in terms of foregone growth opportunity in the long run even if they can avoid more dramatic disasters. Pakistan may legitimately claim that the latest escalation of competitive militarisation was not her choice. That, however, is not much of a consolation when one considers the massive loss of welfare of the people of the Subcontinent that this process will bring about.

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