



RESEARCH AT PIDE

Key Messages

Nadeem Ul Haque

Musleh-ud Din

Lubna Hasan

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PREFACE

Pakistan Institute of Development Economics (PIDE) conducts research on a variety of issues ranging from economic growth to macroeconomics, and from poverty to demography. Whereas our research has generated a number of messages, these remain confined to research reports and journal archives that are accessible only to the specialised research and academic communities. More often than not, the messages tend to get obscured in technical rigour that is inherent to any scientific inquiry. This manuscript brings together and presents key messages emanating from PIDE research on contemporary economic issues in a concise, reader-friendly form. The objective of this endeavour is to sensitise all sections of the civil society to research outcomes with a view to stimulating further discussion and debate on important development issues. The research work is organised into eight themes, including economic growth and development, macroeconomics, trade and industry, labour economics, poverty issues, agricultural economics, social and demographic issues, and governance. A summary of key messages precedes the presentation of the research sections of our focus here. We are thankful to Ms Saima Bashir, Staff Demographer, for her help in the preparation of this document.

Musleh-ud Din

KEY MESSAGES

- ✦ *Review growth strategy to reorientate the role of the government. Initiate debate on the subject to keep growth strategy informed of the new research on economic growth which argues for the role of government to be the development of growth-promoting institutions.*
- ✦ *Improve governance for sustained economic growth. Governance and growth are intrinsically linked. Poor state of governance and unsatisfactory performance of a host of institutions are the binding constraints on growth in Pakistan.*
- ✦ *Enforcement of property rights and contracts requires an efficient and impartial legal system. Quick and fair dispensation of justice is necessary for individuals to feel secure in possession of their properties and investments.*
- ✦ *Revamp the public sector and establish productivity incentives. The priority reforms include: a recruitment process in favour of specialists; monetisation of perks; and performance-based promotion system.*
- ✦ *Improve the regulatory structure through greater autonomy, no interference from the ministry, and professional hiring, instead of relying on retired bureaucrats.*

- ✦ *Develop domestic markets to unleash the potential of domestic commerce. Domestic commerce is the most important pro-poor growth possibility in Pakistan. The employment impact of this sector is far larger than any other sector.*
- ✦ *Renew cities as engines of growth. Configuring our cities for growth requires facilities for entertainment, learning and commerce coupled with an efficient and responsive system of city governance.*
- ✦ *Improve efficiency of public investment. Reduce misallocation of resources towards unproductive capital expenditures.*
- ✦ *Encourage competition to improve efficiency of industries. Adoption of modern technologies, product diversification, production of quality products and “Demand for Market-oriented Strategy”, i.e., to increase their market power by producing high priced quality products should be encouraged.*
- ✦ *Invest in improving efficiency and productivity of agriculture through adoption of better technologies, extension facilities and farming methods.*
- ✦ *Liberalise domestic financial markets to encourage domestic resource mobilisation. Financial sector reforms are helping improve the efficiency of the domestic commercial banks in Pakistan.*
- ✦ *Inflation in Pakistan is a monetary phenomenon. Both the inflation and the output variability would be less with a rules-based monetary policy (targeting inflation and output stabilisation).*

- ✦ *Greater openness to international trade and investment is beneficial for Pakistan's growth prospects. Different export promotion schemes such as export financing, rebate/refund scheme have an insignificant impact on exports. Pakistan needs to diversify its exports, reduce reliance on industrial tariff, and view devaluation with caution.*
- ✦ *The key to enhancing enrolment and reducing dropouts and gender gap in school attendance lies in actions that raise the demand for schooling of girls, especially in rural areas, with equally matched availability of quality primary and secondary level schools.*
- ✦ *The development goal should be the long-run growth in living standards of the ordinary people through asset creation, access to better health services and geographical mobility of workers to get them absorbed in productive sectors of the economy.*
- ✦ *To reap the potential economic benefits of the demographic dividend devise appropriate policies dealing with education, public health and those that promote labour market flexibility, and provide incentives for investment and savings.*
- ✦ *The productive employment of youth is crucial to achieve the sustainable high economic growth and reap the benefits of the on-going demographic transition. Pakistan needs to invest more on the education, skill development and nutrition of the children.*
- ✦ *A substantial decline in fertility could occur if quality services are provided to a large fraction of*

women experiencing unwanted pregnancies and birth and have an unmet need for family planning.

- ✦ *National Finance Commission should provide the framework for an amicable distribution of resources between federal and provincial governments for a joint goal of development and prosperity. Population should not be the sole distribution criteria.*
- ✦ *Local Government Ordinance is getting more polarised than ever. There are questions regarding: the design and sustainability of the reforms; fears of a bureaucratic claw back and re-centralisation; actual decentralisation as against a conceived one; and issues related to vertical programmes and overlapping of jurisdictions. The LGO needs re-evaluation from various dimensions, including: (i) conceptual; (ii) empirical; (iii) capacity building; and (iv) policy inputs.*

CITATIONS

I. ECONOMIC GROWTH AND DEVELOPMENT

1. The growth strategy in Pakistan continues to remain focused on production with a mercantilist bias and a domineering role of the government. What is missing is an emphasis on markets and commerce. This policy stance has stifled entrepreneurship, impeded social mobility, and encouraged rent-seeking. The limited debate on the subject has kept the growth strategy uninformed of the new research on economic growth which argues for the role of government to be the development of growth-promoting institutions [Haque (2006a)].
2. Domestic commerce is the most pro-poor growth possibility in Pakistan. A vibrant domestic commerce sector, which facilitates intermediation between supply and demand, entrepreneurial development, risk-taking, innovation, and competitive markets can improve the growth prospects for Pakistan. Following this agenda would need a huge increase in construction activity, strong development in hoteling, retail shop, transport, warehousing, storage and other service industries. The employment impact of this would be far larger than through investment in any other sector [Haque (2006b)].
3. Poor state of governance and unsatisfactory performance of a host of institutions are the binding constraints to growth in Pakistan. Given these

constraints, even if factors like a reasonable savings rate are in place, the growth rate may not improve on a sustainable basis [Qayyum, Hyder, and Khawaja (forthcoming)]

4. Factor accumulation and technological development are only proximate causes of economic development. Institutions are the fundamental determinants of economic performance. Existence and enforcement of property rights for a broad cross section of people; enforcement of contracts; rule of law; impartial and speedy dispensation of justice; honest and efficient governments are necessary conditions for sustained economic growth [Hasan (2006)].
5. Trade and financial policies play an important role in enhancing economic growth in Pakistan in the long-run. However, the short-run responses of the real deposit rate and trade policy variables are very low, suggesting further acceleration of the reform process [Khan and Qayyum (2007)].
6. Foreign direct investment (FDI) exerts a positive impact on economic growth only if the domestic financial system has attained a certain minimum level of development. Better domestic financial conditions would not only help attract FDI but also ensure maximisation of gains from FDI [Khan (2007)].
7. Contrary to popular perceptions, public investment does not have a beneficial impact on economic growth in Pakistan. This raises some concern on the efficiency of public investment which may have been compromised by misallocation of resources towards unproductive capital expenditures [Ghani and Din (2006)].

8. For sustained growth, attention should be focused on long-run policies, for example, the creation of modern financial institutions in the banking sector and the stock markets. The financial markets affect the cost of external finance to the firm and, therefore, their effects should be materialised through facilitating the investment process. Unless conditions for low-cost investment are created, long-run growth is impossible [Khan, Qayyum, and Sheikh (2005)].
9. Financial sector reforms affect economic growth significantly; however, the impact is not immediate. Monetary policy instruments like changes in the rate of interest may have limited impact on economic growth when the country is highly indebted and the loan default rate is high [Siddiqui and Siddiqui (1997)].
10. There is a need to implement rational and consistent pro-growth policies and the maintenance of a stable economic environment [Malik and Ahmed (2000)].
11. There is a need to mobilise domestic resources to minimise dependence on foreign aid. That is, increasing the marginal rate of saving and lowering capital intensity either through the adoption of less capital-intensive techniques or by changing the sectoral compositions of investment towards sectors with lower capital-output ratios [Siddiqui and Malik (2001)].
12. Workers Remittances are an important source of economic growth in Pakistan [Iqbal and Sattar (2005)].
13. Domestic resource mobilisation is one of the key determinants of sustained economic growth. The

savings rate in Pakistan is sensitive to per capita income, dependency ratio, real interest rate and foreign capital inflows. Dependency ratio and foreign capital inflows exert a depressing effect on savings while income and real interest rate have a positive effect. Realistic interest rate policies in the context of liberalised financial markets are required to mobilise greater savings [Khan, Hasan, and Malik (1994)].

14. Cities are the engine of growth. There is an urgent need to renew our cities as all segments of our society are dissatisfied with the current state of our cities in terms of both what they offer and how they are governed. The essential elements that go into making a vibrant city are missing, and, worse still, how cities are managed and who manages them is not clear and this seems to render the citizens powerless and voiceless. Configuring our cities for growth would require facilities for entertainment, learning and commerce coupled with an efficient and responsive system of city governance [Haque and Nayab (2007a, 2007b)].
15. Cities are the epicentre of information, knowledge, learning, creativity, technology, innovation, economy, institutions and government. Cities have not only played an important role in history, but are also the motor behind national economic development, since trade and commercial activities always occur at the level of a city. The way forward, thus, for any country is to develop its cities [Nayab (2007)].
16. Pakistan is an energy deficient country. Over the last decade, energy consumption has significantly

increased due to higher levels of economic growth. To maintain the growth momentum, the Pakistani economy would require cheap and abundant energy supply in the coming years [Mahmood (2007)].

17. For sustained economic growth, availability of cheap energy is critical. All the energy security indicators like domestic availability of energy, pricing of energy, sources of energy imports and energy storage capability are moving in the adverse direction for Pakistan. Building and maintaining storage capacity and diversification of sources of supply are critical in ensuring uninterrupted energy supply [Siddiqui (2007)].
18. Energy shortages affect economic growth adversely. However, impact of all sources of energy is not the same. There is an urgent need to increase the supply of electricity and petroleum products [Siddiqui (2004)].
19. The rise in energy prices does not lead to a proportionate increase in government revenue, but it may lead to undesirable outcomes like rise in inflation, worsening income distribution, loss of competitiveness, and environmental degradation/conservation [Siddiqui (1999)].

II. MACROECONOMICS

20. It is not the concentration of banking industry but rather the interest insensitivity of bank deposits that is responsible for rising interest spreads in the banking sector [Khawaja and Din (2006), (forthcoming)].

21. Financial sector reforms are successful in terms of improving the efficiency of the domestic commercial banks in Pakistan [Qayyum, Ahmed, and Iqbal (2007)].
22. There is a broad consensus among macroeconomists on the superiority of a rules-based monetary policy—a policy that targets output stabilisation and inflation control. However, the evidence suggests that the State Bank of Pakistan (SBP) has never followed a rules-based monetary policy and other policy objectives may have taken preference. Results by counterfactual simulation show that both the inflation and the output variability would have been less and similarly the loss to the society would have been reduced with a rules-based monetary policy. [Malik and Ahmed (2007)].
23. Monetary policy transparency is essential to hold central bankers accountable for their actions. The State Bank of Pakistan (SBP) is completely opaque on the procedural issues, whereas it is least transparent in the policy transparency. On the political and economic matters, SBP is partially transparent. An area where SBP is quite transparent with moderate score is the operational transparency. In comparison with the other central banks, SBP is at par with some of the central banks in the political and the operational transparency but quite behind in all other respects [Malik and Din (forthcoming)].
24. The best policy option for State Bank of Pakistan (SBP) is to encourage mergers, while keeping a check on interest spread, so that the benefits from reduction in cost due to mergers are passed on to

depositors and borrowers [Qayyum and Khan (2007)].

25. Inflation in Pakistan is a monetary phenomenon. Consequently, monetary policy cannot escape responsibility for the persistently high inflation [Haque and Qayyum (2006)].
26. The money supply growth at first-round affects real GDP growth and at the second round it affects inflation in Pakistan. The important policy implication is that inflation in Pakistan can be cured by a sufficiently tight monetary policy. The formulation of monetary policy must consider developments in the real and financial sectors and treat these sectors as constraints on the policy [Qayyum (2006)].
27. The P-star inflation model has replaced previous monetary policy procedures in a number of countries because of its predictive power regarding future inflation. The P-star model can be used to obtain the leading indicator of inflation in Pakistan [Qayyum and Bilqees (2005)].
28. Broader money (M2) can still be used as a policy variable by the monetary authorities in Pakistan to control inflation and growth [Qayyum (2005)].
29. Overall expansion in Money Supply and Gross Domestic Income are positively related with each other. The expansion in income leads to rise in money supply. Hence, the real factors seem to affect the nominal factors [Abbas and Hussain (2006)].
30. The pass-through from Treasury Bill rate to Call Money rate is completed during the impact period, that is, in the very first month. However the pass-

through from Treasury Bill rate to Deposit rates and the Lending rate takes much longer, that is, these rates exhibit rigidity [Qayyum, Khan, and Khawaja (2005)].

31. A tight monetary policy implies a high rate of real interest rate, which negatively affects the demand for bank credit by the business sector (and investment), leading to low aggregate demand and lower output [Qayyum, Khan, and Zaman (2004)].
32. The Monetary Conditions Index (MCI) of inflation shows the resolve of the monetary authorities to keep inflation low. Low inflation at the end of the decade indicates the success of the monetary authorities in the conduct of monetary policy in achieving the target of low inflation [Qayyum and Khan (2003)].
33. The rate of inflation is an important determinant of real money balances demand by the business sector, whereas the business sector gives no importance to the rate of interest while holding money [Qayyum (2000)].
34. Financial Liberalisation policies are likely to result in financial deepening in Pakistan. An increase in the real interest rate would lead to accumulation of money balances and improve the supply of loanable funds for investment [Khan and Hasan (1998)].
35. Government expenditure (whether on consumption goods or investment goods) acts as a substitute for private consumption in Pakistan suggesting that households in Pakistan have behaved in accordance with the patterns predicted

by the Ricardian equivalence theorem [Khan and Malik (1997)].

36. Monetary seigniorage imposes an implicit tax on people and plays an important role in determining government expenditure. It also reduces private consumption by curtailing disposable income [Abbas and Mehmood (1994)].
37. Introducing international capital mobility may not be welfare improving in economies with a dualistic economic structure which is observed in many developing countries where a large informal sector thrives besides a formal sector [Din (1996)].
38. The stock markets in Pakistan have not yet reached a stage where they can be taken as a leading indicator of real economic activity. Therefore, using the stock markets as a barometer of economic performance can be misleading [Husain (2006)].
39. The development in stock markets in South Asia does not seem to influence the real sector and the stock markets are still playing a minor role in their respective economies [Husain and Qayyum (2006)].
40. The behaviours of the stock exchange and the foreign exchange markets are interlinked. The returns in one market are affected by the volatility of the other market. There is a strong relationship between the volatility of the foreign exchange market and the volatility of returns in the stock market [Qayyum and Kemal (2006)].
41. The stock markets within Asia as well as Latin America are closely interlinked. The stock market inter-linkages are unstable in the short run but

relatively stable in the long run. In the short run markets are likely to over-react to news from the other stock markets while the reaction in the long run is more considered. Therefore, the long run inter-linkages are more sustainable while the short run inter-linkages are mostly temporary [Ahmed (1998)].

III. TRADE AND INDUSTRY

42. Trade and growth theories generally predict a positive relationship between openness to international trade and economic growth. Pakistan's growth prospects have significantly improved as a result of greater openness to international trade and investment [Din, Ghani, and Siddique (2003)].
43. Manufacturing industries in Pakistan are by and large technically inefficient. Most of the industrial groups have improved their efficiency scores while some have experienced a decline. All of the industries with improving efficiencies happen to be export-oriented industries (sports and athletic goods, surgical instruments, leather and leather products, manufacturing of textiles, and wearing apparel). Their previous low levels of efficiency perhaps explains why the government has all along provided a host of incentives to such export-oriented industries i.e. to offset their inherent inefficiencies. A more competitive environment is recommended to improve the technical efficiency of these industries [Mahmood, Ghani, and Din (2007)].
44. The establishment of an enclave sector (e.g. an export processing zone) is not a panacea for

increasing employment in developing countries. As a matter of fact, establishing capital-intensive industries in such enclaves may even exacerbate the problem of unemployment in developing countries [Din (1993)].

45. The textile industry has scope for increased investments and export activities in the high value added segments. The sector also needs to adopt modern technology, product diversification, production of quality products and “Demand for Market-oriented Strategy” i.e., to increase their market power by producing high priced quality products. With an increase in market power they can easily transfer rising cost to consumer in the form of rising prices [Malik (2003)].
46. Resources devoted to research and development (R&D) and availability of highly qualified manpower with appropriate support of technical staff creates knowledge resulting in higher total factor productivity growth (improved competitiveness) in the economy [Siddiqui and Mahmood (2000)].
47. Throughout Pakistan’s history, policy has sought to promote exports through government support and incentives, without a serious evaluation of the impact of different export promotion schemes-export financing, rebate/refund schemes-on export performance. However, over the long-run, there is no conclusive evidence in support of this policy paradigm. The export financing scheme had a negative effect on exports while the rebate/refund scheme affected exports insignificantly [Haque and Kemal (2007)].

48. The welfare analysis of non-agricultural market access (NAMA) negotiations based on Swiss Formula of tariff reduction support the hypothesis that revenue cuts lead to increased poverty and inequitable distribution. The results suggest that Pakistan needs to diversify its exports and reliance on industrial tariff should be reduced. There is need to have other revenue sources to implement development policies and increase expenditure for improving income distribution and GDP growth rate of the economy [Javid and Shafique (forthcoming)].
49. In order to capture the prime markets of Europe, USA, Australia and South East Asia, the compliance with WTO regulation particularly SPS certifications are necessary [Sharif, Mustafa, and Farooq (2006)].
50. The devaluation policy should be viewed with caution. The present concentration of trade with countries where real devaluation does not have a significant effect on the respective trade balance [USA and UK] suggests a need for Pakistan to diversify its export destinations. This paper suggests exploring new markets rather than the present concentration of trade with USA and UK [Aftab and Khan (2007)].
51. Two way causality exists between manufactured exports and economic growth. An increase in manufactured exports boosts economic growth and vice versa. [Khan, Malik, and Hasan (1995)].

IV. HUMAN CAPITAL AND LABOUR ECONOMICS

52. 'Brain drain' and 'capital flight' are factor responses to developments in the domestic economy

and hence should not be viewed differently with divergent metaphors and sharply differing policy approaches. Consequently, it is proposed that Human Capital Flight might be a better metaphor. Like the rich countries, the poor countries must also take advantage of the global talent market and cease the policy of protecting domestic jobs for national talent [Haque (2005)].

53. Achieving universal primary education by 2015, as mandated in the Millennium Development Goals (MDGs) is critical for nurturing human capital and remains a tall order for Pakistan. The key to enhancing enrolment and reducing dropouts and gender gap in school attendance lies in actions that raise the demand for schooling of girls, especially in rural areas, with equally matched availability of quality primary and secondary level schools [Mahmood (2005)].
54. Regional equity needs to be emphasised with respect to human capital formation. Province-wise breakdown confirms that Sindh is a key contributor toward the aggregate HCI [Human Capital Index] and any slowdown in Sindh has the potential of pulling down the national-level HCI accumulation [Sabir and Aftab (2006)].
55. The levels of economic development correspond to certain levels of development of education and training. In order to cope with development, universal secondary education, workers up-gradation and technical training should be the priorities [Mustafa, Abbas, and Saeed (2005)].
56. Literacy can be raised more effectively through focusing on primary education rather than

implementing non formal education programs such as adult education. This is because primary education starts at a much younger age therefore people have more time to learn as compared to adults who may already be partly employed and do not have that much time to raise their literacy levels [Nazli (2001)].

57. Land redistribution is critical for ensuring availability of schooling infrastructure in the villages of Pakistan. Landed power has adverse impact on educational attainment of boys and girls in rural areas [Siddiqui (1996)].
58. Large public-private wage differentials exist in Pakistan. The public sector in Pakistan has both a compressed wage distribution and a smaller gender pay gap than that prevailing in the private sector. The women with higher paid jobs in Pakistan are not as disadvantaged as many of their counterparts in developed countries [Hyder (2005)].
59. Public sector workers in Pakistan tend to have both higher average pay and education levels compared to their private sector counterparts. The positive wage differential in favour of public sector is creating job queues and wait-unemployment given risk-averse agents preferences for stable and well-paid public sector jobs. Public sector jobs are an attractive option not because of wage differentials but because of fringe benefits [Hyder (2007a, 2007b)].
60. To achieve both sustainability and full employment there is a need to divert investment towards employment creation and maintenance as well as restoration of the natural environment [Malick, Ghani, and Hamid (2006)].

61. The public sector workers earn more than the private (formal and informal) sector workers. These earnings are higher due to their superior personal human capital endowments; however, the wage structure of the public sector is not helping them [Nasir, (2000)].
62. Rise in education and occupational and sectoral diversification of females in labour market are critical factors to reduce gender discrimination in the labour market. Controlling for the differences in education and labour market characteristics of male and female workers reduces the gap in their earnings by more than 60 percent [Siddiqui, Hamid, and Siddiqui (1998)].
63. Feminisation of both the labour force and unemployment rates increased in the post-adjustment era. Mother's education is an important determinant of child education, specifically for female education. Market work helps improve women's self esteem and economic security [Siddiqui, Hamid, Siddiqui, Akhtar, and Soomro (2006)].

V. POVERTY ISSUES

64. Redistributive transfers to the poor through different safety nets have not contributed to poverty reduction. The development goal should be long-run growth in living standards of the ordinary people primarily through asset creation, access to better health services and geographical mobility of workers to get them absorbed in productive sectors of the economy. In terms of interventions, the focus

may be shifted from the narrow-targeted programmes to broad-targeted programmes such as universal basic education, child immunisation, and lady health workers programme and infrastructure development [Arif (2006)].

65. Poverty perpetuates its own vicious circle and giving poor people the means to decent income generation provides the most effective and sustainable way out of it. The lack of resources constrains not only the potential to realise productivity-enhancing opportunities but also the ability to smooth consumption. Access to well functioning credit markets is, therefore, crucial for sustainable rural poverty alleviation [Malik (1999)].
66. For poverty eradication it is necessary to have a pro-poor livestock strategy i.e. organise the small livestock farmers and empower them so that they have better access to resources [Mustafa, Sharif, and Afzal (2006)].
67. The dimensions of pro-poor growth which include poverty, inequality and growth in share of income for bottom quintile indicate that the poor do not benefit proportionately from the economic growth. Greater voice and accountability, political stability and rule of law should be the priorities if Pakistan wants to achieve the Millennium Development Goals of halving poverty by 2015 [Haq and Zia (2006)].
68. Socio-economic dimensions of poverty transition reveal that poverty compels the parents to let their children drop out of school and join the workforce. The employment status of the head of the household who are 'always poor' suggests that most of the poor

are employed in low paid informal sector jobs. Problems like low school enrolment, child labour and indebtedness of the poor cannot be handled without attacking household poverty [Haq (2004)].

69. Microcredit is an enabling, empowering, and bottoms-up tool to poverty alleviation. However, it is not a replacement for jobs that are not there, markets that are inaccessible, or education and skills that do not exist. Microcredit is indeed an essential ingredient in the income generating opportunities but not the only ingredient [Khan and Buchenrieder (forthcoming)].

VI. AGRICULTURAL AND RESOURCE ECONOMICS

70. Farmers' heavy dependence on the use of highly toxic chemicals in cotton production can be reduced through farmer field school (FFS) training and the adoption of various cultural and biological methods suggested under integrated pest management (IPM). The FFS training enhances technical efficiency at graduate farms. The IPM practices don't harm the farm level productivity [Khan and Iqbal (2005)].
71. The relationship between institutional credit and GDP remains positive and significant. It was proposed that the credit for consumption in case of crop failure and for the purchase of inputs should be provided in time to the farmers, especially small farmers [Iqbal, Ahmed, and Abbas (2003)].
72. Tenancy and old age are less of a constraint towards technology adoption as compared with small farm

size and low education [Iqbal, Khan, and Ahmed (2002a)].

73. The zero tillage technology reduces cost of production with comparable wheat yields in the rice wheat zone. The technology enhances water and fertiliser use efficiency [Iqbal, Khan, and Ahmed (2002b)].
74. Wheat productivity has a strong inverse relationship with the proportionate farm area devoted to the rice crop. Wheat farmers in Punjab are comparatively more efficient than their counterparts in Sindh and the NWFP. The reasons for this disparity are that the farmers in Punjab are better off in terms of having irrigation and agricultural extension facilities, and are also more educated [Chaudhry (2002)].
75. High value crops should be encouraged to boost income [Mustafa, Ali, and Kuswanti (2006)].
76. Adopt fiscal measures to rationalise the tax structure with a view to improve environment, reduce natural resource degradation and pollution. Environmental degradation and poverty have a two way causation, i.e. poverty causes environmental degradation and environmental degradation causes poverty [Mustafa (2007)].
77. Throughout the world, natural resources are predominantly held and managed under state ownership. However, state ownership is no panacea for resource degradation. More often than not, private benefits hold sway over public interest and resources are left as 'open access' leading to their eventual decline [Hasan (2007b)].

VII. SOCIAL AND DEMOGRAPHIC ASPECTS

78. The productive employment of youth is crucial to achieve the sustainable high economic growth and reap the benefits of on-going demographic transition. Pakistan needs to invest more on the education, skill development and nutrition of the children. Rural-urban movement of labour, inter-province migration, movement of youth between large, medium and small cities and overseas migration may be used as policy instruments to correct regional imbalances in unemployment [Arif (forthcoming)].
79. Around the world, national governments as well as international organisation measure and monitor performance of large cities and the Quality of Life (QoL) of urban residents, to gain insights into the well-being of the citizens and the state of various amenities at city level and make informed policy decisions. There is a need to develop a system of measuring and monitoring QoL and city performance in the large urban areas of Pakistan [Hasan (2007a)].
80. Rural-urban migration is no more male selective. Family migration is gradually becoming common with a considerable proportion consisting of females [Arif and Hamid (2007)].
81. Overseas migration has a close association with household well-being. The annual placement of Pakistan workers abroad is low, and high cost of migration, complex recruitment procedures and low skill levels of workers are the main barriers. Besides addressing these barriers, Pakistan should look for new avenues of overseas employment e.g. Europe [Arif (2004)].

82. Migration to urban centers leads to improvement in the household well-being in the medium to long run. Urban population is overall better off than the rural population. In view of population pressure, land scarcity and limited job opportunities in the rural non-farm sector, cityward migration may not be discouraged, if not encouraged [Arif (2005)].
83. A substantial decline in fertility could occur if quality services are provided to a large fraction of women experiencing unwanted pregnancies and birth and have an unmet need for family planning. Some clear policy options are to improve women's education, instill the value of child quality over quantity, and promote communication strategy that may bring an ideational and attitudinal change in the reproductive choices and behaviour of Pakistani couples [Mahmood (2006)].
84. For the potential economic benefits of the demographic dividend to materialise there is a need for devising appropriate policies dealing with education, public health and those that promote labour market flexibility, and provide incentives for investment and savings. In the absence of such policies demographic dividend might, in fact, be a cost, leading to unemployment and an unbearable strain on education, health and old age security [Nayab (2006c)].
85. Integration, improvement and reorientation of health services are the need of the hour. The concept of reproductive and sexual health should be dealt with holistically, as it makes sense to control infection and unwanted conception in one clinical setting, by integrating Reproductive Tract Infections (RTIs)

management services and the services provided by family planning clinics and Maternal and Child Health (MCH) centres [Nayab (2006a)].

86. Better trained health providers at lower rungs of the health delivery structure would improve the existing poor patient referral system, and reduce pressure on tertiary health services. Public campaigns should use local vocabulary and idioms to carry the intended message, with special consideration given to the need of the illiterate [Nayab (2006b)].
87. Female education and the labour force participation rate are the two critical instruments to reduce fertility rates in the developing countries [Siddiqui (1996)].
88. Economic hardships and lack of information and implementation of legislative support to deal with gender based crimes have resulted in increased violence against women [Siddiqui (2000)].
89. Lack of water and sanitation infrastructure has complex effects on income and consumption of a household, which deeply influence people's overall well-being. Inadequate water and sanitation services to the poor increase their living costs, lower their income earning potential, damage their well-being, and make life riskier [Khan and Javed (2007)].
90. Pakistan's health care system is inadequate, inefficient, and expensive; and comprises an under-funded and inefficient public sector along with a mixed, expensive and unregulated private sector. For equity, efficiency and effectiveness of the health sector, inputs from both the public and private sector would be necessary [Akram and Khan (2007)].

91. Inequalities in the shares of different quintiles exist at provincial and regional level. Allocation of financial resources with equity at the horizontal and vertical levels, both at provincial and regional tiers, can be more effective and result oriented. Policy measures, such as, fee waiver, scholarships, cash transfers and in-kind transfer and/or any other public sector support could result in the increase of subsidy to the poor and could raise the living standard of the lower quintiles in longer run [Akram and Khan (2007)].
92. In order to fulfill the housing demand new technology and innovations for construction of housing units should be introduced to make this sector globally competitive and financially affordable. Foreign and domestic investors should be encouraged to invest in infrastructure of roads, bridges and energy sector [Ahmed (2007)].
93. Research boosts income and efficiency of the masses. Both producers as well as consumers benefited from the research and development. It increases productivity and reduces the cost of production, which resulted in low output prices and generates substantial welfare gains to the society [Mustafa, Malik, Sharif, and Akhtar (2004)].
94. Population growth or environment degradation was not perceived as a major issue at local level. It was a problem at the global or national level [Amalric, Hameed, Javeed, and Mahmood (1995)].

VIII. GOVERNANCE

95. Public sector reform efforts have been less than successful in the past. Motivated by budgetary considerations, they have focused on downsizing and procedural changes without radically altering the outmoded incentive system which is often characterised by declining real wages, wage compression, and a non-merit promotion and reward system. For a reform effort to succeed, public sector human resource management will have to be reformed at an early stage to establish productivity incentives in the public sector [Haque (2007b)].
96. The structure of the civil service needs a total revamp. The priority reforms include: a recruitment process in favour of specialists; monetisation of perks; and performance based promotion system [Haque and Din (2006)].
97. Recent research in growth economics highlights the importance of well-specified and enforced property-rights and contracts for economic growth, without which people will not be “lured” into economically productive activities. But specification and enforcement of property rights and contracts requires an efficient and impartial legal system. Quick and fair dispensation of justice is necessary for individuals to feel secure in possession of their properties and investments [Hasan (2006)].
98. The local government system is well-designed but lacks capacity and suffers from administrative and financial deficiencies as well as from lack of autonomy [Khalid, Shah, and Shah (2006)].

99. Five years into its implementation, the debate on the successes or failures of the Local Government Ordinance is getting more polarised than ever. There are questions regarding: the design and sustainability of the reforms; fears of a bureaucratic claw back and re-centralisation; actual decentralisation as against a conceived one; and issues related to vertical programmes and overlapping of jurisdictions. The LGO needs re-evaluation from various dimensions, including: (i) conceptual; (ii) empirical; (iii) capacity building; and (iv) policy inputs [Nayab (2006d)].
100. The existence of decentralised and participatory structure of the present local government system in Pakistan is incompetent to formulate policies and programmes which can augment the perspectives of the poor expressed in economic and noneconomic terms and ensure improved quality and enhance accountability in the delivery of public services. The system is also unable to facilitate faster and sustained reduction in poverty and to accomplish the Millennium Development Goals by 2015 [Haq (2005)].
101. Controlling state-owned enterprise is the most difficult challenge in Pakistan due to incomplete privatisation (or limited private participation), substantial state ownership and above all the same ministry interfering in regulatory matters. A regulator alone cannot resolve this conflict of roles unless government allows them complete autonomy to carry out their functions. Also, instead of relying on retired bureaucrats to take charge of different institutions, professional experts should be hired to carry on the business effectively [Malik (2007)].

102. The Corporate Governance Code 2002 has potentially improved the governance and decision-making process of firms listed on the Karachi Stock Exchange. Large shareholders still have a tight grip on companies. However we point out that adequate firm-level governance standard can not replace the solidity of the firm. The low production and bad management practices can not be covered with transparent disclosures and transparency standards [Javid and Iqbal (2007)].
103. National Finance Commission (NFC) should provide the framework for an amicable distribution of resources between federal and provincial governments for the joint goal of development and prosperity. Population should not be the sole distribution criteria [Ahmad, Mustafa, and Khalid (2007)].
104. Governance and growth are intrinsically linked. Sustained growth cannot be achieved without good governance. An analysis of the international datasets (the World Bank, ICRG, Transparency International, and Freedom House), however, reveals that the governance situation has not improved in Pakistan [Hasan (forthcoming)].
105. The roots of resource degradation under state control lie in the improper institutional structure-inefficient property rights and enforcement mechanisms; ineffective management; and lack of accountability. Instead of technical fixes, the government should pay more attention to improving the overall institutional set-up [Hasan (2000)].

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