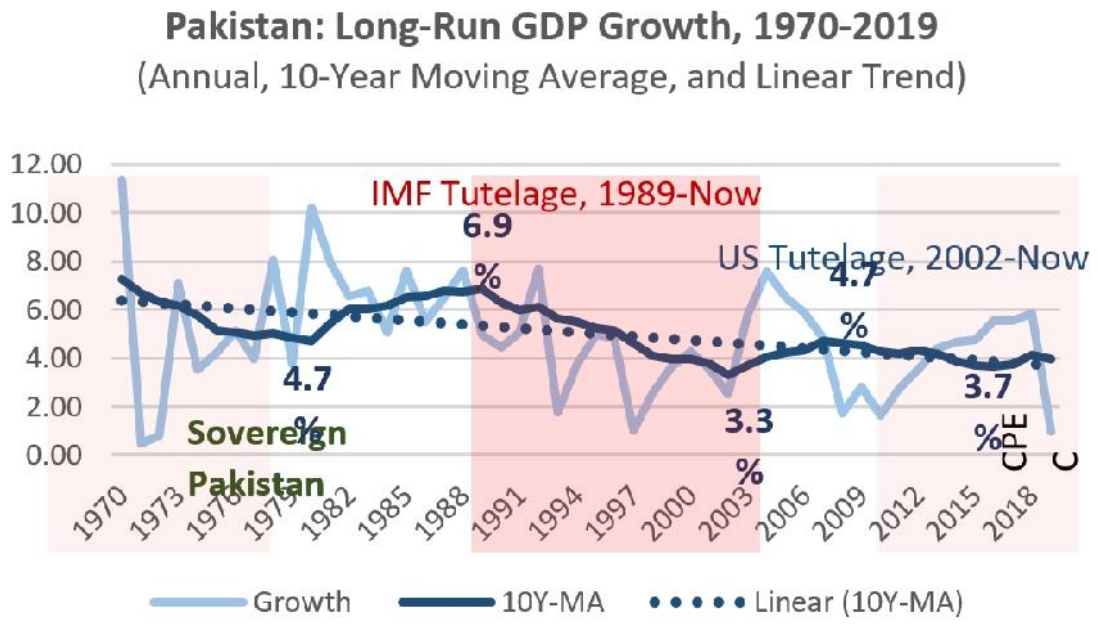
PIDE Interviews Arshad Zaman, Former Chief Economist, Government of Pakistan

PIDE: Pakistan's long-run growth rate has been declining for the last 3-4 decades. With your experience in planning, what in your view is the story here?

Arshad Zaman (AZ): It is true that as a linear trend Pakistan's long-run growth rate (the trailing 10-year moving average of annual rates of GDP growth) has been declining for several decades.



Source of data: World Bank, *World Development Indicators*, Online.

A closer look, however, shows three distinct phases in this decline: (1) accelerated growth (from 4.7% in 1980 to 6.9% in 1989; average: 6.2%); (2) precipitous decline (from 6.9% in 1989 to 3.3% in 2002; average: 5.0%); and (3) fluctuating low-level growth (between 3.7% and 4.7%; average: 4.1%), from 2002 to 2019. In short, after 10 years of average annual growth of 6.2%, the long-run growth rate fell by 3.6% points (from peak to trough) over 14 years, after which it has fluctuated at around 4.1%, for the last 18 years (counting 1989 and 2002 with both the preceding and the next period).

The story here, therefore, is not of 3-4 decades of decline. Instead, it relates mainly to the 14 years of what might be called "the long IMF-90s" (1989-2002), when long-run growth fell precipitously, with the implementation of neoliberal economic policies, under IMF tutelage. This was attended by the rise of crony capitalism, grand and petty corruption (including transnational bribery and kickbacks), capital flight, and deterioration in economic management capacity and a breakdown of social morals, law, and order, from which it hasn't recovered in 18 years.

Neoliberalism is an amorphous group of theories and practices. Nonetheless, it has a core ideology and policy component. In ideology, it advocates minimal government: relying on markets, and firmly opposing all government planning and regulation. In economics, it advocates liberalisation and monetarism: opening the economy to foreign imports and capital (globalisation) and liberalising domestic financial markets; and shifting the target of economic policy to controlling inflation by monetary and exchange rate policy, rather than promoting output growth, employment and equitable income distribution by fiscal measures. The last implies that the locus of economic management shift away from the ministries of planning and finance to a technocratic imperial central bank, "independent" from national political influence. This is what was implemented in Pakistan during the late 1980s and the IMF-90s, with disastrous results that were visible throughout the 14-year path downwards. The stubborn failure to correct course was a triumph of religious faith over growing adversity.

Without dwelling on the details, the key lesson of the last 50 years of our experience, in my view, is quite simple: sovereign states—who make their own decisions—grow and develop faster than what might be called subaltern ones, who outsource economic thinking and governance to foreigners. Ironically, the fact that the IMF programme would fail to achieve its objectives was clear enough to both government economists and the IMF Board and staff, when the government was induced to enter into the IMF agreement (signed on the last day of an outgoing government).

It isn't that sovereign alternatives weren't available. The agreement with the IMF scuttled a far superior and potentially more effective course of action outlined for the Eighth Five-Year Plan (1993-98), that was under preparation, which proposed to build on the high-growth path achieved in the previous decade. It addressed the social problems arising from "the existence of two parallel systems of education" and the problems of quality and lack of community participation in educational decision-making. It made "good governance" the centrepiece of its approach, proposing reforms in public administration (decentralisation, deregulation, and reforms in public service) and in local government, and in rural democratisation. It first introduced the term "governance" in public discourse in Pakistan, when the World Bank and the IMF weren't familiar with it (and they opposed it, as being contrary to their emphasis on the market). It proposed affirmative action for women, promotion of social justice, and popular well-being. Above all, it was evolved through two years of consultations and compromises within federal and provincial governments and civil society, involving literally thousands of people, and thus possessed the holy grail of "ownership" ostensibly sought by these institutions. Its fatal flaw was that it was ahead of IMF/WB thinking at the time, and a government short of confidence and money chose to go with its financiers.

In a retrospective review, the IMF, dogmatic in its neoliberal faith, found the superior performance of our sovereign years a "puzzle", and failed to attribute the subsequent fall in growth and the rise in the fiscal and external deficit, and eventually unsustainable debt, to the programme it forced upon the government, indirectly blaming its victim instead:

> "From 1970 to the late 1980s, Pakistan enjoyed an impressive growth performance (6–7 percent a year on average). Fiscal and external imbalances were large during most of that period, but unlike in many other developing countries, they did not lead to hyperinflation or to a debt crisis, which led Pakistan to be sometimes referred to as a "development puzzle." However, the picture deteriorated markedly from the late 1980s onward, as growth faltered and the continued failure to rein in the fiscal and current account deficits led the debt—which had been accumulating for over two decades—to become unsustainable. Pakistan made an intensive use of IMF resources during both periods [1970-1988 and 1988-2002], but became continuously dependent upon IMF-supported programs only in the second one."

There is, in fact, no puzzle: neoliberalism failed in Pakistan. When leadership and management was in our own hands, we pursued pragmatic strategies and policies based on ground realities, free of dogma, and did quite well. The surrender of economic sovereignty to the IMF led to persistence in the pursuit of neo-liberal dogma, despite accumulating evidence that it wasn't working. This resulted in multiple-system failure, which caused the secular decline in long-term growth, from which we have yet to recover some two decades later.

I estimate the cost of neoliberalism to Pakistan—the loss in GDP from 1990 to 2020, due to the slowdown in long-run growth during the long IMF-90s—at US$ 75.6 billion (at 2020 prices; current values capitalised by the US discount rate on January 1 of each year). This is roughly two-thirds of Pakistan's total external debt and liabilities as of end June 2020, of $112.8 billion.

PIDE: Amidst the pandemic, the global economy has come to a halt, and every aspect of human life has been affected. How do we even start reviving growth?

AZ: How, indeed! To begin with, let me separate the main question—how to revive growth—from what I fear may be a distraction, its linkage with the Corona Virus 2019 (Covid-19) pandemic. Also, the fact that the treatment, prevention and containment aspects of the pandemic are not yet fully understood by medical scientists, makes its economic impact harder to assess.

In my judgment, the pandemic may be a confounding variable that will only complicate analysis and provide an excuse for the policy failures currently underway. While it constitutes a serious public health crisis that has impacted and will impact growth in the short-term, the binding constraint to reviving future long-term growth, in my view, remains the government's persistent inability to move away from neoliberal policies and resume control over its own policies, despite the documented damage done to the economy during the long IMF-90s—and being done today.

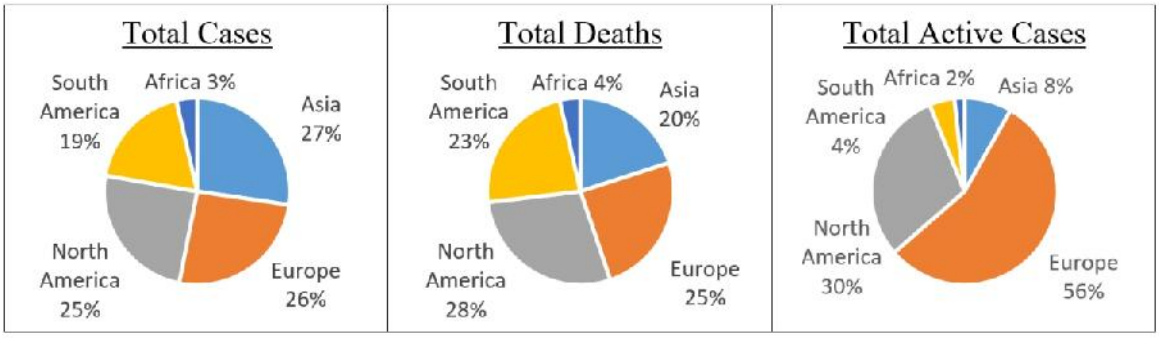
Due to the absence of quarterly or monthly estimates and the poor quality of the annual estimates of GDP, it is impossible to forecast future growth with any confidence. Still, the government's pre-budget estimates were for a fall in GDP growth in 2019-20 from 3.6% to 0.5%, and in investment from 14.0% to 13.8% of GDP. More recently, in October 2020, the IMF projected Pakistan's 2019-20 economic growth at negative 0.4%. For the future, the IMF forecasts a slow recovery in the next five years (growth rates, starting 2020-21, of 1%, 4%, 4.5%, 5%, and 5%). In November 2020, the State Bank reportedly forecasts a 2020-21 growth of 1.5-2.5%. The actual course, pace and shape of future recovery beyond 2020-21—especially, the distribution of its costs and benefits between the rich and the poor—remains to be seen.

To turn to the question of reviving growth, if and when a government that aspires to sovereignty takes office, the place to start would be to set aside the past and take stock of the situation at the time, assess the future outlook and opportunities, identify the constraints to action, formulate a strategic approach (not a static strategy), and proceed to implement an on-hands, properly sequenced, pragmatic strategy of balanced social and economic development—development, not just growth. To say more on reviving growth at this juncture would be pointless: nothing grows on saline ground.

On the pandemic, though, it is important to realise that Pakistan is a miniscule part of the global catastrophe—in terms of total cases and deaths, and currently active cases. Europe and the two Americas account for the overwhelming proportion of total and active cases and deaths. We must keep our eyes on our own situation, therefore, and avoid falling victim to vicarious fear and anxiety by an empathic response to the course of events and policy responses in the Americas and

Covid-19: Global Shares in Total Cases, Deaths, and Active Cases, as of November 17, 2020

(Pakistan's share of Asia: Cases 2.4%, Deaths 2.7%, and Active Cases 2.4%.)



Note: Excluding Oceania (Cases 42,829, Deaths 1,002, Active Cases 8,908). Four countries (US, India, Brazil and France) account for over half the worldwide cases and deaths; the next six countries (Russia, Spain, UK, Argentina, Colombia and Italy) raise this share to around two-thirds.

Source of data: https://www.worldometers.info/coronavirus/#countries

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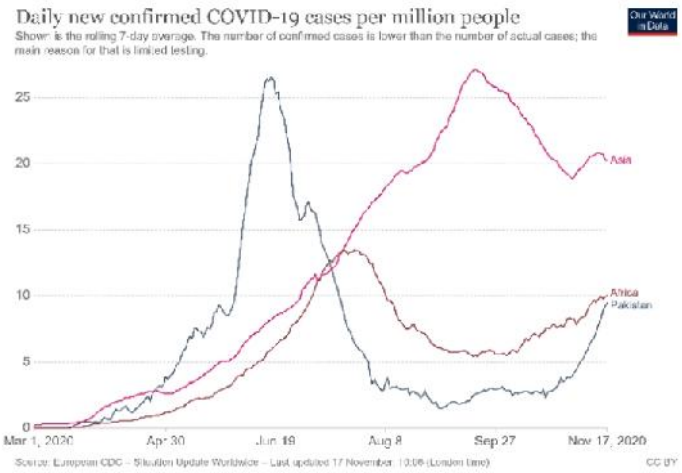
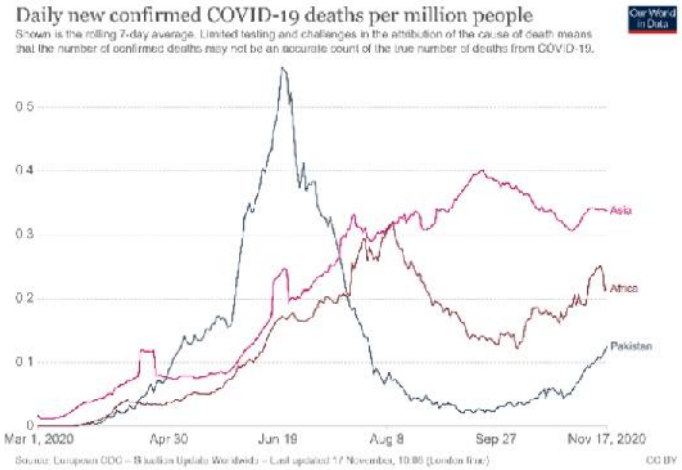
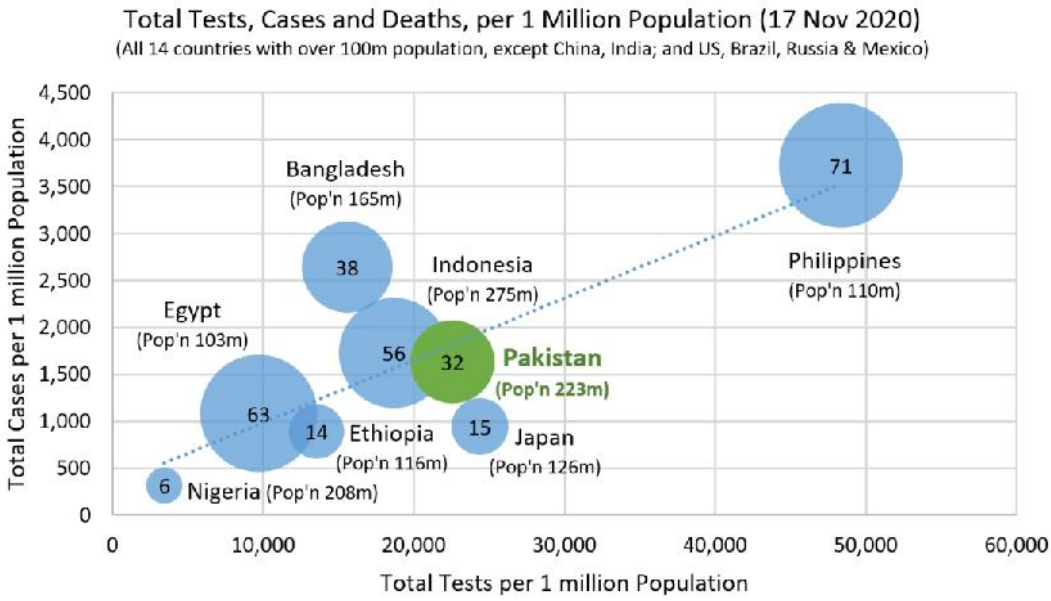
Source of data: https://www.worldometers.info/coronavirus/#countriesDespite our low shares, however, the total numbers of cases (368,665) and deaths (7,284) have been, and active cases (33, 839) today are, quite large and rising sharply, straining our health service capacities. Moreover, as this is written (20 November 2020) there has been a spike in new cases (+2,738, up from +2,298 two days ago) and in new deaths (+36, compared to +37 two days ago), that calls for renewed vigilance. This is especially true since in the summer (late April to mid-July) we failed to keep cases and deaths below Afro-Asian averages—which should be one of our prime policy target.Daily Cases and Deaths (per 1M population) in Pakistan, Asia and Africa, March 1 to





Source:
https://ourworldindata.org/coronavirus

Consequently, we should look at the progression of cases and death in Pakistan, in comparison to Africa and Asia (rather than Europe and the Americas, which are off the charts). The data suggest that the relevant comparator countries—in terms of population size, and key indices—for Pakistan are the seven large Afro-Asian countries shown in the chart below. Closer cooperation and sharing of experience among these countries may be helpful.



Notes: (1) Numbers in circles are Covid-19 deaths per 1M population. (2) China and India are excluded as outliers (both in terms of population and cases—cases in China too low, 60/1M, and in India too high, 6,434/1M). Four other countries, excluded due to much higher tests, cases and/or deaths (per 1M population) are: USA (517,544 tests, 35,255 cases and 766 deaths; Population 332m), Brazil (102,752, 27,737 and 782; Population 213m), Russia (476,510, 13,504 and 232; Population 146m), and Mexico (20,227, 7,811 and 765; Population 129m).
Source of data: https://www.worldometers.info/coronavirus/#countries.What this and other data show is that the number of confirmed cases is positively correlated with the numbers tested and is therefore a poor target for public policy. It is more important to look at the positivity rate—the share of tests that come out positive—both to see if we are testing enough (which we aren't) and to understand the spread of the virus. This rate stands at 6.2% in Pakistan today, down from 19.1% in mid-March, a sign of policy success. Nevertheless, it remains above the World Health Organisation target ceiling of 5%, but compares favourably with many of our comparators (Indonesia 14.8%, Bangladesh 12.2% and Ethiopia 8.7%; but not Philippines 5.9% or Japan 4.9%; no data for Egypt).
In sum, while serious in its health and short-term economic consequences, the pandemic is not likely to be the binding constraint to economic revival in the longer term, which is being held back by a number of other social and economic pre-existing conditions. Its most consequential short-term impact, however, is likely to be on distributional equity—on access of the poor to health facilities, the distribution of vaccines, and the sharing of gains and losses from the path of recovery chosen. In particular, the likelihood of malpractices by pharmaceutical companies to seize monopoly profits during the pandemic remains high.
If nothing else, the pandemic has exposed the poverty of the neoliberal policy outlook. Other than the few who advocated the path of herd immunity, no one in their right mind would argue today that the state should step aside and let the market handle the pandemic. Clearly, solutions lie in cooperation not competition. Also, since the impact on the global economy is distinct from that on national economies, the case for selective rather than dogmatic globalization is stronger today. Finally, the IMF itself has apostatised from the dogmas of austerity and rigid budget deficit targets. These insights should not be lost sight of in addressing other national goals.

PIDE: Demographics (a young population in need for a job) suggests that we require economic growth of 8% per annum over the next 30 years. Are there strategies to achieve and sustain such growth?

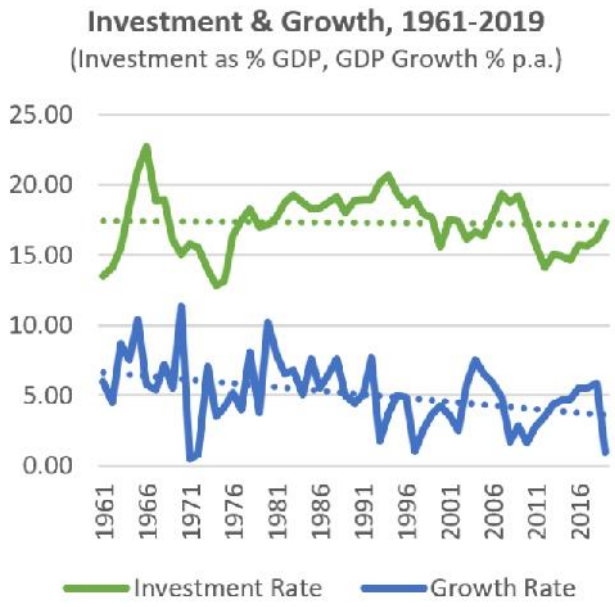
AZ:Yes, there are strategies but, again, there are no strategists. At present there are multiple bodies charged with formulating piecemeal strategies, but they are all actually engaged in managing tactical and logistical problems in their areas. In this vacuum, strategic national economic issues are settled indirectly as multilateral financial institutions led by the IMF supervise the implementation of a unified creditors' strategy—aimed only at keeping the government solvent and creditworthy (for further borrowing), so it can service its debt, without social unrest. Job creation doesn't feature in this framework; and inflation, not growth is its policy target.
Institutionally, there is no one concerned with achieving, say 'full-employment economic growth with price stability'. This neglect of employment (and real wages) in policy targets persists because the ruling class remains culturally, socially and politically alienated from the common people, in continuation of colonial traditions. Alienated rulers then are compelled to rely on foreign capital rather than domestic savings to finance themselves and their initiatives, leading among others to permanent fiscal and debt crises.
In this situation, a search for paths to 8% growth over the next 30 years is a purely academic exercise which leads to “agency-free” proposals that may shed some light on the problem but are of no practical guidance to a solution. That said, the need to create productive jobs for a growing youthful population—and an inclusive social safety net for those left behind—should be the highest priority of economic strategy and policy of any government—sovereign or servile. But the idea that GDP growth should be the main instrument—to some, the sole instrument—of job creation is theoretically and empirically unsound. What is needed instead is an integrated strategy for full-employment stable economic development, not just growth, like the one outlined for example in the Approach Paper for the Eighth Five-Year Plan (1993-98).

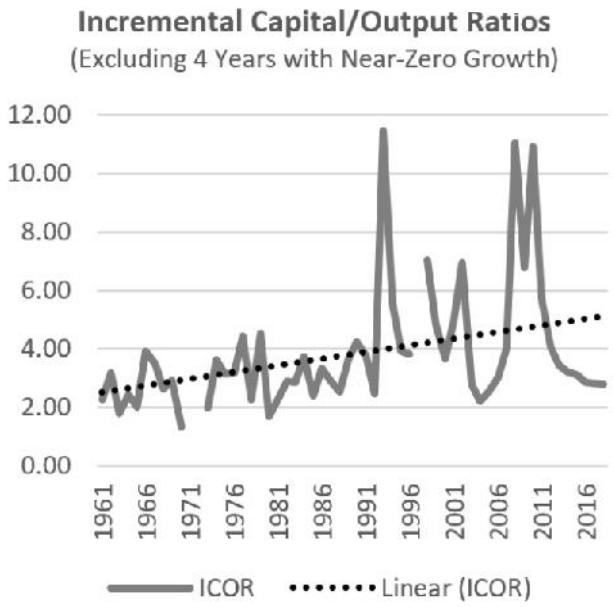
Briefly, in the area of employment, the Approach Paper had proposed a new set of categories of labour market segmentation: (1) a soft-jobs market; and (2) a hard-jobs market; the latter divided between (2.1.1) an urban formal, and (2.1.2) an urban informal sector, and (2.2.1) a rural farm, and (2.2.2) a rural non-farm sector. It had then proposed to look at the structure, conduct and performance of each of these segmented labour markets, and proposed differentiated interventions based on empirical evidence. It is this kind of innovative approach to employment policy that would be fruitful, even today. But, again, this would call for a restoration of planning and selective intervention in markets, and a move away from the neoliberal emphasis on money and finance (with neglect of output, employment and social policies) and on integration with the global economy and freedom for foreign capital. In short, it would call for sovereign development.

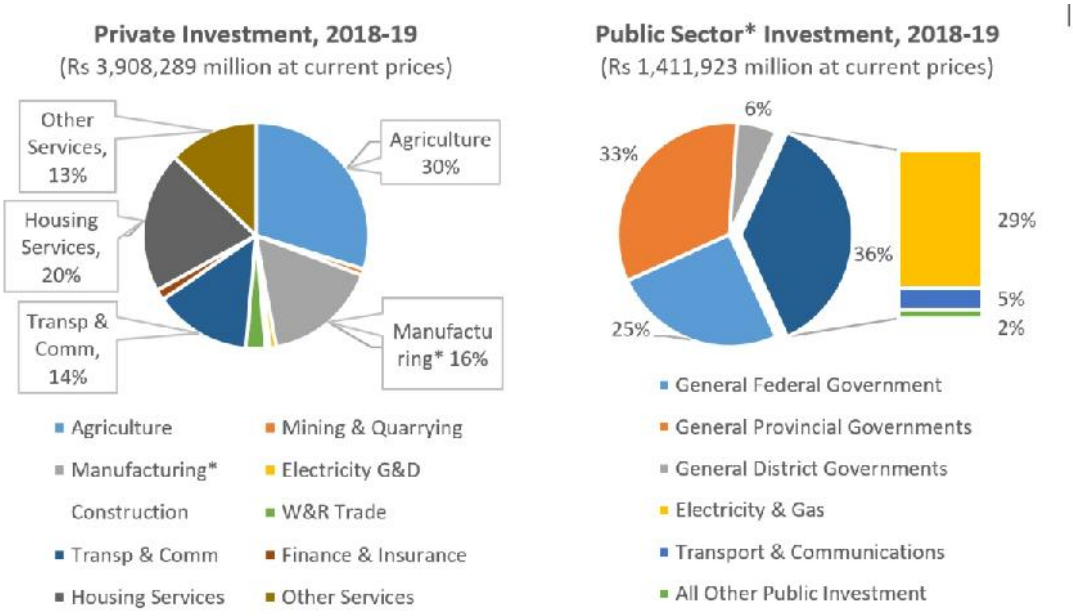
PIDE: Pakistan's investment has seldom gone to beyond 15% of GDP. Countries with sustained growth like China and India have sustained investment rates of more than 30% of GDP. Why is our investment rate so low, and what policies do you think are required to increase it to the desired level?

AZ: It is true that investment—and growth—rates in Pakistan have been lower than what we would like, but developing policy proposals to increase them requires three things: a clear theoretical perspective aligned with realities, a hard look at the data—for Pakistan, not for other countries being touted, and much pragmatic realism. Also, while convenient for policy-makers to think of investment as a key "driver" of growth, students of economics should be aware that this idea—derisively called "capital fundamentalism"—was never sound and was debunked over twenty-five years ago as theoretically simple-minded and empirically false.
Economic development—a wider concept than economic growth—is a historical process, in which numerous social, political and economic changes take place, of which a sustained rise in output per capita is only one inextricable phenomenon. From a theoretical perspective, therefore, it is sounder to think of and identify changes in a complex set of (instrumental) variables that lead to changes in another set of (target) variables, that include investment and growth.

This is just what the data for Pakistan—and elsewhere—show. Based, once again, on the World Bank's WDI data, the two charts below show rates of investment and growth, and the ratios between them (investment rate as a ratio of GDP growth, or the incremental capital/output ratio, or ICOR), over the last 49-48 years.







*Large-Scale is 93.2% of Manufacturing.

*Includes "General Government" (Rs 897,771 million)

Source of data: Federal Bureau of Statistics.

The bulk (64%) of public sector investment is capital expenditure by "general government" (federal, provincial and local) that contributes to value-added in public administration and defence. Of the remainder, "public" investment (36%), the overwhelming bulk (29%) consists of expenditure on fixed assets by autonomous and semi-autonomous bodies in the electricity and gas generation, and gas distribution sectors. The component of public investment that contributes to genuine growth, of non-service sectors, is miniscule, and public and private energy investments are bogged down under the twin burdens of structural irrationalities and grand corruption in old long-term contracts with sovereignly guaranteed, excessive returns that are burdening domestic industry and consumers. The suggestion, therefore, to review the PSDP is unexceptionable, but ways will have to be found to overcome resistance to changes from vested interests of lenders, provinces, federal agencies and state enterprises.

As for the private sector, misapplied neoliberalism during the long IMF-90s made a fetish of private investment, as a category, without attention to the nature, composition or quality of that investment. This was supported by propaganda masquerading as economics, which harmed policy-making. A good example, among others, was the Ease of Doing Business Index, which was so blatantly "manipulated to push neoliberal policies" that the World Bank, in the face of rising criticism, has now discontinued it. Policy-makers, increasingly professionals with a banking or corporate background since the 1990s, readily swallowed this propaganda. Naturally, the private sector made hay while the sun shined.

"The best way to achieve the goal of increased private sector participation," as the Approach Paper for the Eighth Plan had advised, "is not by baiting them with greater incentives and subsidies in protected niches but by reducing bureaucratic controls and interventions and replacing them by strategic and non-discretionary instruments of regulation." This advice is still relevant today. But, once again, the neoliberal stranglehold on our sovereign capacities allows no room for new ideas on investment promotion and industrial policy.

Clearly, investment and growth rates have not moved together in Pakistan. For instance, from 1980 to 1994, while investment as a ratio of GDP rose from 17.1% to 20.7%, the growth rate fell from 10.2% to 3.7%. Both before and after, the pattern has been erratic and when they do seem to move together it isn't clear whether investment precedes growth or growth, investment. The truth is that other, extraneous variables determine their joint movement.

Another way to look at the same data is to see whether the ratio of the investment rate to the growth rate (ICOR) has been stable. Again, the graph to the right shows that the ICOR has fluctuated widely, especially in the last two decades. The linear trend, for what it is worth, shows a steady rise (to over 4, in recent years: meaning, as an unsound but commonly used rule of thumb, that a 5% growth would be associated with—or, "would require"—a 20% investment rate). Obviously, the rising capital-intensity of investment and the increasing share of infrastructure in its composition is reflected in the data.

For the last four or five years, domestic investment has hovered around 14% of GDP, with the private sector, just over 10%, and the public sector, just under 4%. So, why have these rates been low and what can be done about it? This is an empirical question, on which I have only anecdotal evidence. I suspect, however, that private sector investment rates remain low because of extra-economic concerns about security of person and assets, about political stability and due to the lack of predictability of laws, government policies and the overall structure of investment incentives. As a result, the total risk-adjusted return (including normal commercial, and all other risks) on fixed investment is probably too low today in relation to the cost of capital, and alternative returns on short-term legal and extra-legal schemes in collusion with regulators are extremely high. On the other hand, public investment has been decimated and is constrained by ideological predispositions and a critical shortage of federal and provincial fiscal resources. Like much else, there are no purely economic solutions to the problem.

PIDE: Which sector should take the lead in achieving the desired investment level? Research at PIDE shows that Public Sector Development Programme (PSDP) needs to be seriously reviewed. Private sector has its own tales of business unfriendliness? Your thoughts.

AZ:The question of leading sectors—or in textbook terms, balanced vs. unbalanced growth—is relevant only for governments in a position to affect the sectoral composition of investment. In Pakistan, the government takes credit—and deflects blame—for growth that takes place, over which in reality it has very little direct control. During the long IMF-90s, public investment, regulation and control was rolled back to the point where the government has little to no ability to influence economic outcomes. Should a time come when a government has the confidence to be sovereign, unbalanced growth should be privileged, but leading sectors should be chosen as opportunities arise, as part of an overall strategy, and not on a doctrinaire basis.

For a closer look at where investment—private and public—is going, and why it isn't contributing to genuine growth, let us look at latest full-year data.

Obviously, this was and is a con job. There is no reason to believe that sustainable growth and investment can be engineered without undertaking the social and political changes required. Moreover, the initial conditions of Pakistan in the twenty-first century bear no resemblance to those of England in the nineteenth, so adaptive problem-solving rather than "isomorphic mimicry"—monkey-like imitation—would be required to go forward. Every economy has a natural rate of growth. Efforts to enhance this rate of growth, artificially, by recourse to foreign loans should be undertaken with extreme care if we are to rise from our present state of being a debt-colony to regaining economic sovereignty.

Box 4: IMF and Pakistan

Pakistan is one of the most frequent users of IMF resources. Unlike the regional competitors, it has been under IMF-supported programs almost continuously since the late 1980s (see table 2). Until now, Pakistan has approached 22 times to IMF for financial support since December 1958, that is, 22 programs in the last 62 years. It implies that there are some structural /fundamental issues in the economic growth model of Pakistan. Indeed, Pakistan was, in terms of income per capita, much richer than its neighboring countries, but unfortunately, the situation is opposite now. China is 500 times, India is 60 times, and Bangladesh is also more prosperous than Pakistan. Furthermore, these countries did not approach the IMF for the fund facilities for long.

Table 2: A Brief Summary of IMF Programs

	Pakistan	China	India	Bangladesh
No. of Program	22	02	07	10
Last Program	3-Jul-19	12-Nov-86	31-Oct-91	11-Apr-12
Total Amount (Thousand SDRs)	23,656,650	1,047,725	7,680,425	2,813,690
Ratios	1	22.58	3.08	8.41

The question of how much of the burden of this recovery should rest on the state's shoulders would depend on who emerges as the vanguard of this effort. Certainly, history demonstrates convincingly that rapid growth has occurred under both minimal and maximal roles of state and government—but I know of no case where a non-sovereign government has achieved sustainable long-term growth. Even where the role of government has been minimal, it has devised and enforced a system of laws and regulations ensuring competition in markets, and there has been a vibrant private sector willing to risk its own capital without (or with minimal) government support.

In Pakistan, today, there is neither a genuine private sector nor a sovereign government. Equally, competition is the exception rather than the rule in most markets, and oligopolies and monopolies abound. So, I don't believe that the size of the government's shoulders (or footprint), has any bearing on the rate of investment or growth that can be achieved. What matters is the quality of government, and of the private sector, rather than size. In the public sector, "The essential issue is to provide large enterprises with freedom from ministerial and bureaucratic control in setting their own prices, procuring their own materials, and awarding their own sub-contracts. The location of actual ownership is not of prime importance."

The question of the relative productivity of public and private enterprise is an empirical matter on which honest research is much needed. What evidence there is—some of the key papers were written at PIDE—finds no difference between the performance of public and private enterprise in the early IMF-90s. This is especially true if private financial profits are adjusted for distortions in domestic prices due to protection and subsidies. Evaluated at world prices, many financially profitable private industries would show negative value added. A study for the Asian.

Development Bank found that the performance of 78% of privatised enterprises remained the same (44%) or was worse (34%), while only 22% did better. For these and other reasons, I believe that there is room to enhance the productivity not only of government but also of the private sector in the economy. But this calls for more, not less government.

PIDE: Experience has also shown that the chief driver of growth is local investment. Here the policy preference seems to be for foreign investment. We give foreign investors tax breaks and many other advantages, while the locals are under suspicion on their source of funds, for tax evasion/avoidance and they have to seek all sorts of permissions and no objection certificates. How do we resolve this contradiction?

AZ:I see this less as a contradiction than as faulty theory and practice. The reliance on global rather than local capital is, of course, a key doctrine of neoliberalism. Also, as I have said, rather than seeing investment as driving growth, it is more fruitful to look at investment and growth as being jointly determined by other economic and extra-economic variables.
Experience shows conclusively that foreign direct investment (FDI) can accelerate the pace of growing local investment (or domestic fixed capital formation). But FDI has never been a source of igniting domestic investment. In this condition, efforts to attract FDI will always lead to demands from foreign investors for unreasonable sovereign guarantees. Where these guarantees can be secured by kickbacks and other corrupt practices, the foreign investor will be willing to pay for guarantees not only against political risk but also against normal commercial risk. By over-invoicing imported machinery and other shenanigans, the foreign investor will and does succeed in recouping his cash investment in months rather than years. This, as we know, is the story of independent power producers (IPPs) and some of the key projects dis-invested under the IMF-coerced privatisation programme. Finally, the beneficial ownership of foreign investment, routed usually through offshore companies, is seldom known, posing legitimate security risks.
So, yes, until we get domestic investment growing, we should not consider any special incentives to FDI. The only exception being projects involving technology transfer, to ensure which requires a vigilant government. In general, however, this kind of predatory foreign investment is best avoided.

PIDE: PIDE has estimated the state footprint (the amount of the regulatory space, land, and the government intervention in markets) is very large—as much as 70-80%. Can investment and growth happen without reducing the government footprint? Or, is there a way to make this footprint productive?

AZ:These are complex questions. They involve beliefs about the sources of investment and growth, the role of government and markets among these sources, the relative productivity of public and private enterprise, and the case for and against government regulation. Let us take each of them, in order.
Economic development is a historical process. In particular, it refers to the cultural, social, political and economic changes that occurred in England and Wales over the course of the long nineteenth century (1789-1914)—and similar changes later in some other countries. Until the birth of development economics—which bears the same relation to economics that astrology bears to astronomy—it was studied using historical methods. In the struggle between communism and capitalism during the Cold War (1947-91), an ideology was needed to combat the feared rise of socialism in the “third” world. This was the genesis of development economics which, for reasons of bureaucratic convenience, marketed economic development to governments as a mechanical process, in which loan-financed projects (and later, liberal policies) were sold as a magical potion to bring about the historical changes that had occurred in industrial England, and elsewhere.

We come, finally, to the case for and against government regulation. This is less a matter of economics than of political and economic philosophy. Let us review the case for deregulation, as set out in one of the holy books of neoliberalism (that Margaret Thatcher is said to have pulled out of her purse and slammed on the table during a meeting declaring, “this is what we believe”):
“The classical argument for freedom in economic affairs rests on the tacit postulate that the rule of law should govern policy in this as in all other spheres. We cannot understand the nature of the opposition of men like Adam Smith or John Stuart Mill to government 'intervention' unless we see it against this background. … Freedom of economic activity had meant freedom under the law, not the absence of all government action. The 'interference' or 'intervention' of government which those writers opposed as a matter of principle therefore meant only the infringement of that private sphere which the general rules of law were intended to protect. They did not mean that government should never concern itself with any economic matters. But they did mean that there were certain kinds of governmental measures which should be precluded on principle and which could not be justified on any grounds of expediency.”
In the UK (and the US), deregulation (and associated policies) met, arguably, with success largely because there was a vigilant legislature, enforceable laws, mechanisms for ensuring competition and inhibiting monopolistic behaviour in markets, public participation in legislation and governance, an independent judicial system to adjudicate disputes and curb legislative excesses, and a loyal and competent civil service. In Pakistan, it was precisely the absence of this infrastructure of governance that had led to the abuses that resulted in the breakup of Jinnah's Pakistan and to Bhutto's hugely popular socialism. While they weren't without faults, the structure of public control and regulation that had been put together during 1971-1988 in Bhutto's Pakistan—our Pakistan—was all that stood between the maintenance of good-enough governance and the rampant crony capitalism of the 1960s that had led to social and political disaster.
With the rollback of the state during the IMF-90s, a new crony capitalism, now combined with state capture, once again erupted with a vengeance. Accumulated economic and political grievances and the perceived short horizon of civil governments, led to grand corruption at an unimaginable scale. Having been burnt once, wealthy private businessmen and politicians transferred abroad the bulk of the capital they accumulated by fair or foul means, to forestall any future political or economic misfortune. The environment so created led to a pervasive and severe breakdown in social morals and public order.
So, yes, there is a way to make government intervention more efficacious. But until the rule of law (over all persons) is established, subjects become citizens, and together they are able to influence the acts of parliament passed, the next-best alternative is precisely to rely on rules and regulations to protect what a bureaucracy with limited independence can of private rights, ensure competition in markets, and break up monopoly power. This is not a happy situation, but to do away with good-enough regulations—because some can be bad—in a situation where the constitution is weak, laws ineffective, the judiciary not free from political influence, and legislation stymied by political differences, is to throw the baby out with the bath water. Once again, there is no substitute for sovereign action.

PIDE: Last, but not the least. Could you please sum up for our readers a growth path that, in your considered opinion, will likely take the economy out of the present stagflation and onto to sustained growth at the level necessary to achieve socio-economic goals?

AZ: Our present economic predicament does not arise from un-clarity on a growth path. It arises from the absence of leadership, and of a self-confident independent community of scholars to guide them. As a result, foreigners, with their own aims and interests, end up determining our goals, strategies and paths. In a word, our economic difficulties arise from the lack of “agency” of our scholars and of “sovereignty” of the state. In this situation, nothing can be done; because both leaders and scholars are incapable of anything more than isomorphic mimicry—mindless imitation—rather than intelligent adaptation.
This is a mouthful, so let me unpack the key terms. Individuals have 'agency' when they possess the capacity to act independently and to make their own free choices. A state is 'sovereign' “when persons in authority—those who mediate, or formulate, and enforce policies—are [1] indigenous .

and [2] can determine the content of their policies free from constraints imposed by foreigners." A study of forty countries, over 1870-1950, shows that there is a "quantitatively strong positive" relationship between economic growth and sovereignty ("the power of the state to advance, in the long run, the interests of indigenous factors in opposition to the interests of foreign factors")Also, there is a difference between leadership, management, and administration. Leaders lead people—human beings, not human 'resources'—toward shared goals. Managers manage processes—like plans, programmes, budgets, supply chains, etc.—designed to achieve leadership goals. Administrators administer tasks—adjudication of disputes, maintenance of order, collection of revenue, implementation of projects, controlling the spread of pandemics, etc.—assigned by managers. Sadly, for most of our history, the nation has been led by managers and managed by administrators. Consequently, the men who rule Pakistan have always looked to foreigners for leadership, in all areas. In this situation outlining growth paths and formulating strategies become academic exercises which, if taken by decision-makers as a serious representation of reality, can cause positive harm.

Nevertheless, to respond to the question, in the briefest of terms, let us recall that every economy is embedded in a political society. Again, to be clear, the 'economy' can refer to one or both of two things: arrangements for the provision of livelihood to people, or to enriching the treasury of the state. And 'political society' or polity, refers to a society 'constituted' by an ultimate shared collective objective (religious or secular) and an agreed distribution of power within rulers and between the rulers and the ruled—this, incidentally, is the sense of the term 'constitution' which need not be a written document.

In Pakistan, the written constitution bears no resemblance to the real constitution. As a result, Pakistan in fact is an un-constituted polity, or at best a "colonial" polity, in which rulers, alienated from the people, seek to extract revenue from them to enrich themselves, while providing them minimum livelihoods to keep them peaceful. Consequently, "the socio-economic goals" of the rulers are quite different from those of the people. As a result, there are three growth paths to achieve, respectively, three sets of socio-economic goals: those of the rulers; of the ruled; and of their joint goals, if any.

History teaches us that societies so divided either break up (pre-modern Europe, antebellum America, Jinnah's Pakistan), or are unified either by bloody democratic revolutions (England, USA, France, Russia) or peacefully by an authoritarian elite that unlike Pakistan is not culturally alien from the people (Germany, Italy, Spain, Japan). It is only when a cohesive, stable, law-abiding political society, with provisions for popular representation in making laws and resolving disputes, has been formed that sustainable economic growth can begin to take place. Until that happens in Pakistan, social and political development must be privileged over economic development and growth.

Contingent as it is on the emergence of self-confident leaders, the path of development that I have advocated for the last three decades is the path of self-reliant, sovereign development. "Sovereign development not only expands the conception of development to include security, but also in its economic component, it suggests that economic development be re-defined as the capacity to protect domestic markets and capture foreign markets, in aid of national security and power; rather than just the growth of production capacity." In this perspective, we should snap out of the 'borrow-invest-grow' pipedream and pursue pragmatic strategies rather than wooden-headed ideologies; selectively protect our exposure to the expected volatility ahead in the global economy; privilege employment and distribution over output growth; identify competitive (not comparative) advantages, especially in defence-related industries; rationalize the integrated management of all public assets, with sensible rather than dogmatic privatization and a role for better management of all state assets; and take a cold hard look at the discontents of financial sector liberalization—which has avoided scrutiny due to the rise of bankers in government. Implementing this would require a fundamental rethinking and reform of national economic and financial management, as part of comprehensive administrative reforms. In short, to roll back neoliberalism.

This, in a thumbnail sketch, is the path of social and economic development—not just growth—that in my considered opinion will take the economy out of our current predicament of a debt-colony toward the achievement of sovereign, joint socio-economic goals. It awaits leadership.