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No more diktats

While World Bank and IMF fiats have time and again proved to be ineffective, the theory of trickle-down effect is the biggest fallacy of them all. Only a home-grown solution can ensure sustained economic growth

By Tasneem Siddiqui

go by, others are following suit at an alarming rate.

The question is, do the policy-makers in Pakistan understand the causes of high incidence of poverty? Secondly, do they have a vision, a strategy, a road map to address these causes? Thirdly, do they have the capability and the political will to launch policies that can reduce poverty? Unfortunately, right now all these essential ingredients seem to be missing.

In any discussion on poverty reduction, the emphasis remains on dole-outs like *zakat*, grants from the *baitul maal*, food stamps, subsidies on essential items, and, to top it all, micro-credit through the newly-created Khushali Bank. Full stop.

But even a lay person understands that these steps cannot provide succour to over 46 million poor people. Micro-credit may be necessary, but in no circumstances it can be a sufficient step to alleviate poverty. Even the Grameen Bank of Bangladesh, which is known the world over for its pioneering work, has not been able to make any substantial dent in poverty, although it is operative since 1978.

The same applies to food stamps and subsidies. In most cases, they hardly reach the target groups. Even the Khushali Pakistan Programme has limited impact, like its predecessors *Tameer-e-Watan* and *Peoples' Works Programme* etc., because of the magnitude of the problem.

ber of shopping malls, the increasing consumption of meat, eggs and milk, indicate that we have come a long way from poor living conditions of four decades ago.

They also say that since 1947 a large number of people have done a lot better. More children are going to schools, more people can afford to have medical cover, more and more people have telephones, televisions, refrigerators, even dish antennas in their homes.

Some overly patriotic people also point out our nuclear capability, our military strength, and the establishment of a few centres of excellence. They say that in

no doubt, but what is the condition of our roads? As an indicator of continuing poverty, they refer to the caloric intake and consumption of cloth per capita which has not changed much since 1947.

They say if anyone wants to verify the real condition of the urban poor, he should go to the OPD of any government-run facility in any big city, and see how under-nourished and ill-clothed the people are. And, of course, the patients are there mostly because of diseases caused by the absence of sewerage, and the lack of potable water.

In support of their argument, they point out that 67 million people are still without piped water, whereas 89

One may accept the low inflation rate, but no one talks about those who have hardly any income or are unemployed. In any case, government methodology in calculating the rate of inflation does not include things like transport, medicines, school fees, rents and utility bills which keep on increasing all the time, while incomes do not.

These opinions can be debated ad infinitum. But most people agree that in spite of apparent and 'superficial' ostentatiousness, and conspicuous, at times vulgar, consumption, we have not been able to attack mass poverty as yet. Few would disagree that disparities in income have starkly increased during the last 35-

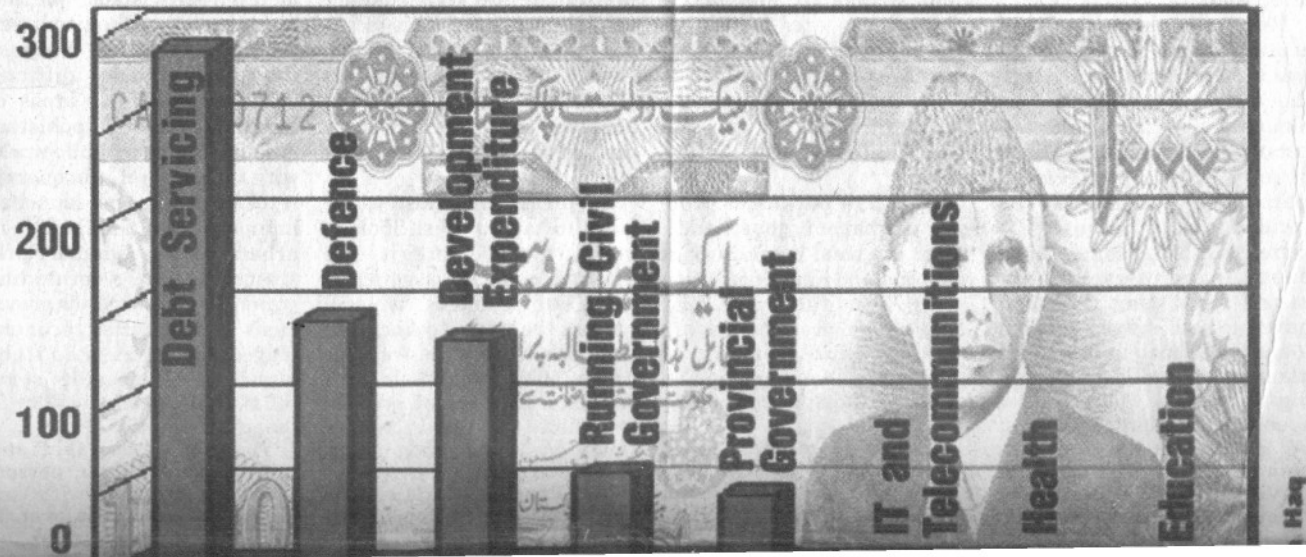
ing resources (both in agriculture and small industry) and also the variety of human material available.

The data should then have been carefully analyzed for evolving a long-term vision and developing a homegrown strategy, giving priority to physical and social infrastructure. The second priority should have been given to agrarian reforms based on land distribution amongst peasants, proprietors, landless millions and the *haris*. Thirdly, we should have ensured the strengthening of local government institutions so that small-sized cities could grow and provide support — both financial and technological — to small-scale engineering goods industry for which we had a

In the midst of plethoric plenty, the poor perish.
— Thomas Carlyle

OUR foreign exchange reserves will soon be touching the \$11 billion mark. After the 9/11 incident, rescheduling of our loans and some write-offs have also reduced our debt burden. Exchange rate is apparently stable, and the \$10 billion export target is likely to be achieved as well. How much of these surpluses have been earned, how much are gifted,

Rupee being spent on...



of these surpluses have been earned, how much are gifted, or are the result of some windfall, is for everybody to guess. But does this whole stabilization process provide any hope to those hit by rampant poverty which has now touched the 34 per cent mark?

During the last couple of years, our economic managers have been telling us that once macroeconomic stability is achieved, problems of increasing poverty will be tackled or, at least, its intensity will come down automatically. While the majority of the poor is still waiting for that day with bated breath, there are, or were, those who lost that hope and, out of frustration, committed suicide. If newspaper reports are anything to

because of the magnitude of the problem.

Our economic wizards tell us that upto 1990 we made strides in economic development. They quote doubling of per capita income, and four-fold increase in food production during this period as indicators of development. According to them, the very fact that we are able to feed our population (which, by the way, increased from 35 million to 120 million during the period) is a great achievement.

Other senior bureaucrats, while agreeing with this perception, further add that high incidence of poverty notwithstanding, the prosperity of our middle classes, the number of cars on our roads, the housing improvement in the cities, the num-

ber of cars on our roads, spite of our many failures in the political field, we have after all succeeded in laying the structure of a modern state, and provided a strong base for industrialization.

But there are independent economists and social scientists who say that these signs of prosperity are at best superficial. They argue that we should not take pride in loan-based development which has made the country hostage to international financial institutions. They are more concerned with quality of life for the teeming millions. They admit that we have more cars on our roads,

million have no sewerage worth its name. They add that in urban centres, as much as 70 per cent of the economy is 'informal' and, in addition to providing much-needed services, it provides millions of jobs. Imagine what would have happened on the employment front, if the people had not taken the initiative.

Extreme poverty in rural Sindh and Balochistan is a matter of great concern even for the World Bank. Certain areas in Punjab, NWFP and Sindh have, no doubt, done better, but what about the landless, the daily-wagers?

40 years, giving rise to frustration and seething anger, specially among urban youths who have 'paper degrees' and are not able to find gainful employment. This phenomenon is largely responsible for the deteriorating law and order situation, as well as the crime pattern.

WHAT HAS GONE WRONG: When Pakistan came into being, we should have started the development process based on what we had. To achieve this objective, the first thing was to collect data and carry out a detailed survey of our exist-

good base. Lastly, we should have taken effective and meaningful steps to check population growth.

But we did not pay attention to any of these things. Before partition, the Muslim League had the reputation of being a revolutionary party and had promised drastic land reforms. But perhaps this was the only political party that 'banned' its own manifesto as soon as Pakistan came into existence.

Our new rulers, the erstwhile ICS officers, planners and economists behaved in the most superficial manner

289.7	146.0	134.0	57.9	44.0	4.48	3.30	2.60	Khalid
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and stated a visionless, directionless process of modernization, jumping to large-scale industry without having a firm foundation in agriculture. The social sector was starved of funds, with no attention to human resource development. At the same time small-scale engineering industry, was ignored. No technological support was provided to those who wanted to improve and expand their units. Nor any financial support and market research was forthcoming from the state.

The decaying institution of feudalism was not only strengthened, but a new class of absentee landlords was created. The central government became too strong and top-heavy, creating a vacuum at the local level. Starved of resources and technical capability to solve their own problems, our cities and small towns started decaying and their infrastructure crumbled. We can see the result of all these policies today — everywhere in Pakistan. All this has happened in the lifetime of a generation.

Surprisingly, in the same period countries like South Korea, Malaysia, Taiwan and Thailand allowed clear-cut and consistent policies for economic development, and, in a short period of 30 years, became part of the industrialized world. Just one example will illustrate the point. In 1965, our manufacturing exports were worth \$200 million, which were equal to the exports of Thailand, Malaysia and South Korea put together. In thirty years, our exports of these items had risen to only \$5 billion, while South Korean exports alone had touched the \$77 billion mark.

In the late 1950s, Harvard Development Advisory Service Mission, which was strategically located in the Planning Commission, was entrusted with the responsibility of devising the future strategy for Pakistan. They advocated that the industrialists in Pakistan (who in no way were entrepreneurs, but, at best, robber barons) should be provided government support, easy loans, protection from foreign competition, low wages for the labourers in order to increase profit, tax holidays, regular and inexpensive supply of raw material, and reduced duties on import of

labours', they thought, the question for income distribution could then be tackled and everybody made happy. This is what the famous, or infamous, theory of 'trickle down effect' was all about.

By the beginning of 1970s, however, it had become clear that the trickle down strategy was not working as planned. While aggregate output had indeed increased, development benefits were not trickling down. Unemployment, underemployment, and low productivity remained a serious issue both in rural and urban settings.

When enough jobs were not available locally, the surplus labour began to eye foreign markets. We started exporting our labour in the mid-seventies, taking advantage of the oil boom in the Gulf states. Hordes of unemployed people were exported to the UAE and Saudi Arabia. That eased the job market in Pakistan, and, in turn, we started earning about \$2 billion annually. But we did not take advantage of this boom to improve our physical and social infrastructure, and, like a *nabob*, squandered most of this money on wasteful expenditure.

And what is the state of industry in Pakistan that was so much pampered in the mid-Sixties. It is by no means a mass employment sector sustained. Most of our industries have a high-import content and there is no integrated technological cycle for having a domestically sustained development.

Did the planners and the bureaucrats think that Pakistan could reach a 'take-off' stage without fully exploiting our comparative advantage in agriculture and the existing small industry? Or could Pakistan leap-frog into the group of industrialized nations by simply issuing permits and licenses to a bunch of hand-picked traders and favoured plunderers who wanted to become industrialists overnight, without taking any risk or putting their own money at stake?

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If all this was done, they believed, industrialists would save and re-invest the profits; the rates of saving would sky-rocket; and the country would reach the take-off stage. Having generated finances and having industrialized the country after absorbing the 'surplus

exploiting our comparative advantage in agriculture and the existing small industry? Or could Pakistan leap-frog into the group of industrialized nations by simply issuing permits and licenses to a bunch of hand-picked traders and favoured plunderers who wanted to become industrialists overnight, without taking any risk or putting their own money at stake?

No one knows why we ignored our potential for developing engineering goods industry, which could lay the foundation of large-scale manufacturing and provide jobs to millions of people. The most unfortunate thing was that we did not pay any attention to human resource development either, although we had inherited a good base for it from our colonial masters. Besides, technical education was almost completely ignored. Look what India did by establishing ITTs which produce

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