

## SCHOOL OF ECONOMICS AND SOCIAL SCIENCES 2<sup>ND</sup> ANNUAL INTERNATIONAL CONFERENCE

### POLICY BRIEF

# Development: Discourses and Critiques

The Center for Business and Economic Research at the IBA Karachi, the research wing for the School of Economics and Social Sciences (SESS) conducted its 2nd International Conference in March 2022 under the theme "Development: Discourses and Critiques". This policy brief is based on the speaker lectures and panel discussions held during the conference and will be of interest to policymakers, international development organizations, researchers, and government departments. It contains some of the major issues identified and policy recommendations in the areas of economic growth, inclusive development, and ideas of citizenship.

While Pakistan has experienced occasional growth spurts, the economy has failed to sustain high growth rates for longer periods. Sustainable and inclusive growth is affected adversely by structural issues, policy failures, and economic incapacity. Dr Gonzalo Varela, Senior Economist at the World Bank, discussed how Foreign Direct Investment (FDI) and trade policies in Pakistan affect growth. Pakistan has one of the highest levels of protectionism, which hurts productivity, FDI and economic transformation. As a result, despite high potential, productivity levels of the most sophisticated firms of the country are shrinking. Dr Wasim (University of Peshawar) pointed out that the poor execution of monetary policy hampers economic growth and Pakistan's economy is dependent on monetary resources because of the mismatch between monetary policy and other development indicators. Dr Sajid Amin Javed (SDPI) agreed that the growth rate itself is not the best measure of economic development, and the quality of growth should be the focus of economic policy.

The 'quality' of economic growth is reflected in the level of economic inequality. Dr Burki's findings confirm that based on Labour Force Surveys from 1991-2018, there is a 6% rise in inequality (the Gini co-efficient). Episodes of inflation as a form of regressive tax further disadvantages low-income groups. There is a mismatch in the job market as the IT revolution, e-commerce and globalization have increased the payoffs for college grads, and less skilled jobs are being taken up by skilled labour. Protection from labour unions has further dampened real wages as only 3% of workers belong to

unions. As a result of these factors, the income share of the bottom income group has declined while the top 5pc share has gone up by 5pc and top 10pc has gone up by 33pc.

#### Policy Recommendations: Sustainable Economic Growth

- Economic Growth should be prioritized instead of price stability.
- Pakistan must build a consensus about inflation rate that should be linked to per capita income.
- It is important to be part of global value chains to improve FDI and trade.
- Protectionist policies should be revised.
- More investment in skilled labour and developing human capital.
- Central bank must control inflation as it adds to real wages, real purchasing power and thus productivity and growth.
- Inequality should be addressed through evidence-based independent research.

The COVID-19 pandemic was an unprecedented global event that had several implications for development which were mentioned throughout the conference. Pakistan faces many economic challenges, some of which were made worse during this time. Double-digit inflation is prevalent because of the higher oil, fertilizer, food prices, etc, and there is a widening fiscal deficit because of the rise in oil prices which are already subsidized. Hanns Timmer (World Bank) said that the pandemic worsened these problems by creating an

adverse economic environment with supply shocks and unprecedented contractions in GDP. During the fiscal year 2019–20, the real GDP came down by more than 3 percent, and per capita consumption shrank by more than 5 percent.

### **Policy Recommendations:**

#### **Dealing with the Post-Pandemic Economy**

- Pakistan can benefit from the new services economy by increasing the productivity in the informal sector.
- Produce opportunities for small firms to sell their services on e-commerce platforms or other matching platforms. The firms can access digital payment systems, which ultimately can lead to financial inclusion and increase productivity in the informal sector.
- Allow more international competition in services and focus on the regulations of the new service economy in the aftermath of the pandemic.
- For effective public service delivery in the country there is a need to identify, measure and remove sludge without losing the essentials of the bureaucracy.

Dr. Sunstein (Harvard University) discussed his sludge theory in the context of the pandemic. Sludge is explained as an administrative burden which often operates as a wall between human beings and the resistance produced by red tape and unnecessary administration. There is sufficient evidence from the globe that sludge in public offices negatively affects the ability of people to exercise their citizenship which includes delays in education, healthcare services, justice, and other fundamental rights. It may be noted that bureaucracy is essential however it is important to identify the causes of frustration which add to poor service delivery. The COVID-19 pandemic created interesting opportunities for governments to reduce sludge and increase efficiency as they experimented with different models of governance. A good example is the work from home model as it is a sludge-reducing device.

Pakistan has an agrarian economy, and yet the agricultural sector has not kept up with global developments and lags behind other competitors. Dr Burki also linked this to inequality, as 60 percent farms which are small, and medium are not doing well and cannot compete with larger farm. In her talk, Dr. White (Oxford University) discussed these issues in detail. There is a decline in wages, farm income and production that disproportionately affects small

farmers. The exploitation of small farmers is also a result of crop bias and class bias and an increase in the role of intermediaries. She emphasized that a policy-based solution had to be home-grown, market and labour friendly.

### **Policy Recommendations - Agriculture**

- To address inequality, small farmers should be supported to boost productivity.
- Retain public finance for seed research, subsidies for machinery, electricity, fertilizers, and pesticides.
- Consider agriculture as a complete sector (raise state expenditure and capital investment in a purposeful manner) and decentralize it.
- Remove market distortions and smoothen the supply and distribution system of agriculture commodities.

The issue of crop cycles causing seasonal hunger is a well-documented phenomenon. People in South Asia supplying their services are often landless, and hurt the most when labor wages drop, increasing seasonal deprivation. Seasonal deprivation means that failure of consumption will result in welfare losses and malnourished children. Dr. Mubarak has more than 10 years of experience investigating seasonal deprivation and migration in Bangladesh, Tanzania, Uganda, and India. Talking about Randomized Control Trials conducted in Bangladesh, Dr Mubarak said that the preliminary results confirmed that when people are provided with money to migrate, they do in fact migrate. Secondly, consumption, calorie intake, and food and non-food expenditures increased for households that had decided to migrate, and half of them continued the practice without the intervention next year, signaling a change in long term behavior.

### **Policy Recommendations - Seasonal Hunger & Migration**

- Subsidized migration encourages migration and increases both consumption and calorie intake for food and non-food expenditures for households.
- To fix seasonal deprivation, it is important to first identify the failures that contribute to it. For example, identify if it is a credit market failure, or migration failures.
- Customized policies will help encourage domestic migration which promises higher incomes when done right.

The pattern from recent data shows that countries with poor institutions are likely to have high inequalities. Dr. Sultan Mehmood discussed how the judiciary as an institution affects economic growth by enforcing property rights and protecting citizens. Court decisions need to be analyzed beyond the law from an economic and anthropologist perspective. Evidence suggests that the practice of land distribution to judges is questionable and increases pro-government rulings, case delays and backlog. Real estate incentives create distortion and erode not only economic development but also trust in state institutions. Property based incentives need to be transparent and accountable if they cannot be completely replaced. Reducing the term of judges in high court, service limits and investing in human capital will also strengthen the judiciary. It is not possible to achieve development targets without the evaluation of public policies and public institutions. From an institutional lens, civil service reforms as well as formally stated mechanisms, transparent objectives, consistency, and evaluation need to be adopted to improve the quality of policy making. Impact evaluation of public policies is crucial to their success, but these mechanisms are mostly sporadic. Resources are misallocated, either deficient or mismatched to development plans, for example the machinery for monitoring projects is not installed or updated and there is an issue of discontinuity in project units. Policy making is often formulated in absence of information, capacity, and evaluation.

### Policy Recommendations - Public Policy

- Utilize the advancements made in methods of data collection and trial techniques for more robust tests for impact evaluations.
- A programmatic approach based on outcomes rather than inputs is needed.
- A set of indicators need to be selected consistently for measuring policy success.
- Project managers need to stay for the length of the project for the project to work on full efficiency.
- The fear of failing in civil servants needs to be addressed to encourage impact evaluations.
- Multiple questions need to be asked before any evidence is scaled from projects into public policy.

More women in the workforce is only the first step towards inclusive development, and while there are many reasons for Pakistan's low female labour force participation, Dr. Izza Aftab (BNU) mentioned the lack of mobility as a major factor. For women who work outside

the home, this can be noted in the low number of cars and bikes women own. Other factors include the large number of women engaged in the informal economy, lack of safe public spaces and inequalities in education and healthcare. Beyond this, inclusion must be extended towards persons with disabilities. Differently abled people should be included in education, policy making, labor force participation, discussions etc. This narrative on inclusion, as Atif Sheikh (STEP) pointed out, puts marginalized communities at the center of the development debate as the resistance to accept diversity is used to justify the exclusion of certain groups.

Climate Change is now an issue raised and discussed on any forum on development. Not only is it looked at because of irresponsible development, but also a human crisis that developing countries are especially affected by. The 'leaving no one behind agenda' of the Sustainable Development Goals shows that addressing climate change is a fundamental requirement of the inclusive development agenda. Just energy transition presents opportunities for the state to work with the private sector as private capital can be used as a resource. There is also a need for improvement in the efficiency of state-led projects, the state must adhere to corporate governance structures to ensure smooth implementation of projects.

### Policy Recommendations - Inclusive Economy

- Bring more women in the labour force by increasing mobility.
- Financial inclusion is a must for inclusive and sustainable growth.
- Pakistan needs to rethink its pension policies and how these payments can be alternatively funded.
- With growing technology there are multiple ways in which differently abled people can be assisted and included.
- Creating awareness through inclusion in curriculum can help in changed behaviors.

### Policy Recommendations - Climate Change

- Dialogue with all relevant stakeholders to achieve broader acceptance towards just energy transition.
- Greater linkages between academic institutions and policy makers, backed by evidence from research.
- Private capital must be leveraged for developmental initiatives.
- Involvement of financial markets in Pakistan

will be possible if backed by policies from the State that give these markets incentives.

- Creation of alternative job opportunities for those whose livelihoods will be most affected by reduction in unsustainable energy practices.
- Involvement of youth through local governmental initiatives such as Youth4Climate where students can work on their ideas and present them on international forums for greater reach.

Critiques on mainstream development narratives highlight that a growth focused view simplifies the power hierarchies created through development processes and fails to place them within the context of the South Asian colonial experience. Participants from various disciplines were critical of the role of the state in reinforcing these power dynamics. For example, Palwasha Shahab highlighted that legal rights themselves are not given equally when it comes to development projects and property rights. There was also an emphasis on individual rights and an acknowledgement that unequal and biased development causes and adds to the trauma of marginalized communities, creating social unrest and distrust.

Dr. Mubbashir Rizvi (American University) said that development projects are often seen as projects of economic modernization, but it is important to question who gains from "development". A good example is how the colonial project in the sub-continent was justified as a development project. Beyond social history, marginalized communities are expected to make sacrifices for development to occur within the modern state centric global economy. Dr. Hafeez Jamali said that administrative and political processes and the underlying politics behind them are at the center of development failures. The political economy of mega projects has shifted the attention of bureaucracy away from routine matters of public complaints and grievances.

Several speakers, including Dr Asim Sajjad (QAU), Asma Shirazi, Sheema Kirmani and Dr. Akbar Zaidi (IBA) defined development in terms of generating new ideas and building a critical discourse rooted in active citizenship and freedom. Moving beyond economic development, democratic ideals demand a space for dissent and political organization. Without this space, development is a state sponsored project to establish dominance. Institutions such as the media play an

important role in this struggle to protect rights and a biased media risks increasing the gap between the state and its citizens.

### **Policy Recommendations: A Critical Approach to Development**

- Indigenous voices and community participation must be heard and included.
- Evaluate development success by understanding the social history of mega projects and how the distribution of benefits changes over time.
- Legal rights need to be understood within the hierarchy that prevents social justice.
- A clear and transparent legal framework needs to be created and implemented for displacement caused by development projects.
- The development agenda should be expanded to Arts and the media industry.
- Education should be geared towards creating pro-active citizens who are able to politically organize.
- State institutions should not repress voices of dissent or control the flow of information.

**Conclusion:** Economic growth must be supported through market friendly policies to increase FDI and trade to integrate with the global economy. COVID-19 has posed many challenges but also provided some opportunities, such as a potential competitive advantage in the service industry and alternative models of effective governance. The agricultural sector must be prioritized, and small and medium farm owners supported to increase productivity and reduce inequality. The quality of growth is determined by the quality of public institutions. Reforms in these sectors as well as formal mechanisms for public policy evaluation will reduce losses by reducing rent seeking, corruption, and failed projects. Importantly, development is not possible without a realization that development processes create hierarchies and ignoring these increases distrust in state institutions. Inclusive development should not discriminate on gender, or any other marker of identity and structural reforms are needed to correct these imbalances. Consequences of climate change are mostly borne by those that are already marginalized. States can work with the private sector on just energy transition, financial inclusion, and technological innovation. Sustainable and inclusive development is not only a question of economic growth, but a question of active citizenship, and in this regard, there is still a long way to go.