Social Policy and Development Centre. *Social Development in Pakistan: Annual Review 1999.* Karachi. Social Policy and Development Centre and Oxford University Press. 1999. Pakistan Rs 395/(Pb). 166 pages.

This Report on Social Development in Pakistan is a welcome addition to the economic literature on Pakistan; it reviews the development and policies during the past year (1999) in the perspective of long-run trends. The 1999 issue has been enriched by an analysis of the impact of economic sanctions on Pakistan's economy. The five chapters of the Report discuss crises in the economy focussing on short- and long-run problems, the impact of the economic sanctions, the IMF package, and, alternative strategies of economic and social development, the future outlook for social development in Pakistan, the Social Action Programme and Social Safety Nets. Data and important social events during the year are presented in the annexures.

Three main issues are discussed in the first chapter. These relate to politics and governance and the impact of economic sanctions and IMF programmes on the economy. The issues of politics and governance is grouped into three distinct periods: the 1971–77 period is referred to as politicisation of the economy; 1977 to 1988 as a period of law and order and constitutional crisis, and the period from 1988 onwards, as the decade of "musical" chairs. The persistent institutional decay in all the three periods is critically reviewed.

A comparative review of the stabilisation and structural indicators over the 1977–88 and 1988–98 periods reveal a mixed picture of stabilisation indicators and a rather poor performance of the structural adjustment indicators. The average levels of the stabilisation indicators such as budgetary deficit, total revenue, exports and imports show improvements, while there has been a deterioration in the rate of inflation, current account deficit, exchange rate depreciation, money supply and return on deposits. On the other hand, the average level of all the structural indicators, except for savings and investments, show deterioration. Since average values may be reflecting divergent trends in the two time periods, such comparisons can be very misleading. For example, trend analysis would show a sharp fall in savings and investment in the latter period. The trends, together with the average levels, would have given a stronger basis for drawing meaningful conclusions.

The Report argues that the structural adjustment programmes have not been that successful because of a lack of political consensus, defective design and sequencing of reforms and emphasis on numerical targets versus institutional reforms. Though it is true that structural programmes have not been fully implemented, the counter-factual picture is not presented, that is, if the programmes had been fully implemented.

Four main areas have been thoroughly analysed in Chapter 1. First, the quite interesting analysis of the fiscal deficit in Box IC (page 11) indicates that the primary deficit was responsible for an increase in debt in both the decades of the 80s and 90s, and the other factors may have pulled down the debt. Considering that other factors include debt servicing, which had assumed alarming proportions in the 90s, such a result is quite unexpected. Second, the rising incidence of bank default is claimed to have been the result of genuine borrowers falling victim to the market-based interest rate policy, foreign currency loans ballooning because of depreciation, and overall depressed demand conditions, and that poor performance of the banking sector is partly a fall-out, rather than a cause of the crisis. That this may also reflect the politicisation of loans, poor project preparation, over-capitalisation and corruption has not been explored. Third, it is rightly argued that tariff rationalisation has slowed down the growth of the manufacturing sector in the short run but how long would it take tariff rationalisation to yield results has not been discussed. Fourth, deflationary policies have adversely affected the manufacturing sector due to lack of demand but, as to why exports could not fill the vacuum, is not explored. On the contrary, the study asserts that the supply of exports is basically inelastic to exchange-rate movements and, as such, the impact of exchange-rate movements has been to raise the cost of inputs, and thus, render them even less competitive.

On the basis of the experience of other countries about structural adjustment and liberalisation, the Report concludes that a liberalised economy is more vulnerable to shocks than an insulated economy. It also points out the heavy cost to the economy of half-hearted, incomplete or selective, wrong and delayed structural programmes.

The Report justifies capital controls and the freezing of Foreign Currency Accounts (FCAs) arguing that it prevented a hemorrhaging of the foreign exchange reserves, endorses the dual exchange rate system and points out the falling rate of inflation. However, the cost these policies imposed on the economy in both the short- as well as the long-run, have not been examined. The loss of investors' confidence, the necessity to freeze in view of a withdrawal of just 100 million dollars during the 11th to 28th May 1998 period, keeping the forward cover fee at low levels *et cetera* have not even been discussed in the Report.

Using a macro-econometric Integrated Social Policy and Macroeconomic (ISPM) model the Report assesses the impact of the nuclear blasts on economic growth. To what extent the results of the model are driven by the assumptions on exogenous variables is difficult to assess, especially because the assumptions regarding the exogenous variables are not reported. However, the large differentials in the actual and projected levels for 1998-99 suggest that the ISPM model may not be able to trace the short-run fluctuations and shocks. What shocks were administered to the system, and the mechanism through which the system traced the impact of blasts on the economy is not contained in the Report.

Chapter 2 is devoted to two strategic economic options: the revival of the ESAF programme, and the strategy of self-reliance. Unfortunately, the comparison is made with 1997-98 actuals rather than with the post-blast scenario. Such a comparison would have provided the impact of the ESAF programme on the economy. Tables 1.4 and 2.1 read together show that these programmes would help in a gain equivalent to one percentage point in GNP but without any impact on employment. Interestingly, private investment is to fall by one percent of GDP but public investment would rise by 1.0 percent of GDP. Compared to the post-blast scenario, exports would grow by an additional 1.5 percent, imports would decline by another 1.5 percent causing a further improvement in the current account balance by 1.5 percent of GDP. The budget deficit would fall by 2.0 percentage points further, and total debt would grow by 2.5 percent less. Public expenditure is to fall by 3.5 percent mainly because of rescheduling debt. These results are not necessarily consistent. For example, with an increase in output why would employment remain constant and why would private investment fall after reaching an agreement with the IMF.

The Report outlines a self-reliance strategy comprising of minimal dependence on foreign savings, administrative and legal controls on free outflow of capital and complete removal of deficit in the trade balance. While the unilateral moratorium reduces the interest payments liability and no new loans would be required for the repayment of the principal, the trade deficit is to be removed through quota restrictions on non-essential imports and institutional improvements and subsidies on exports. Some nominal devaluation initially and exchange rate 'crawl' to maintain a constant or even a somewhat over-valued rate subsequently is also recommended.

The structuralist strategy results in lower growth rates of output both in the short-run as well as the long-run, extending upto five years. While private investment remains unaffected, public investment falls by 1.5 percent of GDP. Intriguingly, the decline in public investment does not lead to a decline in public expenditure; these increase. Interestingly, growth rates of exports fall further, but a further fall in the imports results in an improvement in the balance of payments situation.

The impact of sanctions, the IMF programme and debt rescheduling and the structuralist strategy on poverty, labour markets, women and children are discussed in Chapter 3. The impact of sanctions on per capita income, unemployment and poverty has been thoroughly examined and turns out to be quite severe. First, the average loss for households in the short run, amounts to Rs 400 annually (at 1980-81) prices and the cumulative loss rises to about Rs 1600 over the five-year period. This amounts to a loss of Rs 13 billion in the short run and over Rs 40 billion by 2002-03. Second, employment opportunities would be reduced by over half a million annually in the next five years. Third, almost 2 million more people could fall below the poverty line in the short run, with the number rising rapidly to over 5 million by 2002-03. Rising food prices and lower incomes, along with a contraction in preventive health services such as immunisation programmes, will exacerbate the problem of poverty.

Even after the IMF programme real per capita incomes will fall by 6 percent and unemployment would rise even beyond the programme period. This, together, with high food prices would tend to raise poverty. Consequently another 3.5 percent persons would fall below the poverty line in the next five years.

The section of gender inequality is rather interesting. Four indicators chosen relate to life expectancy, literacy, school participation rate and labour force participation rate and they have been used to construct a composite index. While the inequality index still show 35 percent differential it shows a declining trend.

The review of the Social Action Programme (SAP-I) in Chapter 4 shows, that, despite larger allocations and some institutional improvements, social indicators have continued to be poor. The main reasons for failure cited have been the vested interests, bureaucratic delays, weak implementation etc. The Report rightly argues that the focus needs to be shifted to better utilisation of the services and improvement in the quality of the indicators. Quality improvements require fundamental changes in delivery mechanisms and developments of the requisite institutions. Handing over the responsibilities to communities, nongovernmental organisations (NGOs) and real devolution of authority may help in improving the indicators.

The Report argues, that unless improvements are made in the design of SAP-II, the basic flaws in the implementation capacity of the line departments would continue. It comes out with an alternative social sector programme strategy aiming at the identification of the core public services targeted to the poor and vulnerable groups, the role of government and civil society, mechanisms for independent monitoring and evaluation, and a redefinition of the role of donors. The Government should promote more and better teacher training and a curriculum, set standards, and protect the interest of the beneficiaries. In the health sector it suggests the expansion of preventive health services, the integration of public sector health, family planning, and nutrition services, increasing sustainability of lady health workers, limiting the public sector role in curative care and rationalising drugs and medical supplies. On water supplies, it calls for communities to initiate water supply schemes themselves. The private sector should be encouraged to deliver water, latrines and drainage through grants-in-aid, support in technology development, training and facilitation.

Rising poverty levels underscore the urgent need of social safety nets and this is discussed in Chapter 5. Three types of individuals requiring help are identified. First, those unable, more or less permanently, to work such as handicapped and disabled people, orphans, widows, etc. who need financial assistance. Second, those who are able to work but whose incomes are low and irregular and need supplementary work. Third, people normally capable of earning adequate incomes but are temporarily unable to earn a living because of shocks or downturns in the economy.

The principal form of cash transfers to the poor is through the publicly administered *Zakat* and *Ushr* system, private charitable contributions, and *Atta* Subsidy Scheme (ASS) through the *Bait-ul-Maal.* The World Food Programme (WFP) operates the food for work and food for lactating mothers and school girls' programmes. In the area of social security, the federal government operates an employees old-age benefits insurance scheme through a semi-autonomous institution, the EOBI. The coverage of workers under this scheme remains limited. The study examines the micro-credit scheme for self-employment launched recently by the commercial banks and other financial institutions, National Rural Support Programme (NRSP), Pakistan Poverty Alleviation Fund, and the subsidised housing finance scheme of the House Building Finance Corporation (HBFC).

The most interesting section in this chapter is the development of criteria to judge the efficacy of various programmes. The criteria include targeting efficiency, programme coverage, ease of access, percentage of programme expenditure dedicated to beneficiaries, adequacy of support, income equivalence of transfer, incentive effects, extent of self-financing/progressive financing, displacement of private transfers and impact on development. Various programmes are examined on the basis of criteria and interesting conclusions are drawn.

The total income value of the government transfer schemes is estimated at Rs 24 billion, equivalent to about 0.8 percent of GDP only one-fourth of the required amount. For the alleviation of poverty, public transfers should constitute about 3.5 percent of the GDP, more than four times the present level. The study concludes that the social safety nets have remained underdeveloped and largely ineffective in alleviating poverty in Pakistan. The total quantum of transfers is small, and fiscal constraints are eroding them even further. They are inefficient in reaching the right people, and their coverage is limited.

The report is rich in analysis and provides consistent data and policy framework. It is equally useful for students, researchers and policy-makers who deal in social issues.

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