

## *The Presidential Address*

### **Investing in People**

RASHID AMJAD

Syed Naveed Qamar, Federal Minister for Petroleum and Natural Resources, Dr Ishfaq Ahmad, Deputy Chairman, Planning Commission, Professor Syed Nawab Haider Naqvi, Former President, PSDE, Dr Sarfraz Khan Qureshi, Former President, PSDE, Dr G. M. Arif, Secretary, PSDE, Past Presidents and Distinguished Members of the Society.

#### *Excellencies, Ladies and Gentlemen*

It is my pleasure to welcome you all to the 25th Annual General Meeting and Conference of the Pakistan Society of Development Economists.

We are extremely grateful to Syed Naveed Qamar, Federal Minister, Petroleum and Natural Resources, for having spared his precious time to join us at the inaugural session. It was during your tenure as Finance Minister that important and difficult economic decisions were taken to restore macroeconomic stability resulting from the unprecedented increases in international commodity prices, the global financial meltdown and neglect and inaction of past policy-makers. That the economy today has achieved macro stability in many of the key indicators is to a large measure the result of these decisions.

I am also extremely grateful to our Patron Dr Ishfaq Ahmad, Deputy Chairman, Planning Commission, for his active interest and support to the work of our Society.

A warm welcome to our members and guests who have come from different parts of the country and abroad. It is especially satisfying to see our future economists from all over the country join us at the Conference.

Let me join Dr Arif in welcoming Dr Mohsin Khan who will be delivering the Quaid-i-Azam Lecture, Professor Hirashima who will be delivering the Allama Iqbal Lecture, Professor John Casterline, the Mahbubul Haq Lecture and Professor Robin Burgess, the Gustav Ranis Lecture (which we started last year).

This is indeed a special occasion! We celebrate this year the Silver Jubilee of our Society. Looking back over the years we can say with a considerable degree of satisfaction that it has played a path-breaking role in getting together each year the leading economists from Pakistan and abroad to analyse, debate, and discuss findings based on high quality research on critical national and global economic issues.

Here, I would like to pay tribute to the Founding President of the Society, Professor Dr Syed Nawab Haider Naqvi who not only conceived the idea but also ably guided the Society to where it is today over many years. Let me also congratulate our past Presidents and all our members who have actively contributed to the success of the Society on this occasion.

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As we complete our first twenty-five years, it is an opportune time to also reflect on how we plan to grow over the next many decades. An important challenge I increasingly find is how to encourage young researchers from economic institutions that are now springing up all over Pakistan to present their research results to active scrutiny by their peers at the PSDE and so contribute to the high standards of research the Society has set for itself.

I look forward to receiving suggestions on this from our members at the AGM on the last day of the Conference.

I am happy to report again this year that members of our Society from economic institutions all over Pakistan have continued to play an important role in supporting the process of economic policy formulation on critical economic challenges. Besides being well-represented on the Economic Advisory Council (EAC) to the Prime Minister, the Panel of Economists, the Task Force on Food Security, the Task Force on Climate Change, economists have been actively involved in the many different Working Groups set-up to assist the Planning Commission in the framing of the 10th Five Year Plan (2010-15) which included the Macro Group, Export Competitiveness, Monetary and Fiscal Policy, Poverty Alleviation and Employment and Human Resource Development as well as being members of other Working Groups.

This as I said last year is democracy's gift to the economists of Pakistan. Democracy encourages independent thinking, accommodates diverse view points and thus makes it possible to evolve sound policies that are both efficient and equitable. This healthy interaction between teaching, research and economic policy-making is the hall mark of a vibrant and thought provoking body of economists who are not only preparing our future generation of economists but also contributing to nation building during these challenging times.

The theme of this year's Conference "Investing in People" not only addresses the critical need for Pakistan to focus on its long neglected human resources but also is the overarching theme under which Pakistan's Tenth Five Year Plan (2010-15), to be launched in July 2010, is being prepared. The Silver Jubilee Conference, therefore, provides us an excellent opportunity to propose policies and programmes to be incorporated in the Tenth Plan.

I think it may be important for me to draw on the Approach Paper to the Tenth Plan as well as the theme of the Conference to remind ourselves that "...the past development strategies of Pakistan have not delivered high sustainable economic growth; rather have only led to boom-bust cycles. Progress in human and social indicators has been disappointing. Poverty levels remain high, job opportunities that meet the citizen's aspirations have been lacking, and stark income inequalities have appeared in the recent years. This situation demands a fundamental change in the development paradigm—common people must be at the centre of the development process and have ownership in the economic development of the country. This change requires more investment in people, leading to high sustainable growth, reduction in poverty, improvement in income distribution and harmony among regions and provinces."<sup>1</sup>

<sup>1</sup>Planning Commission, Approach Paper to the 10th Five Year Plan 2010–15 "Investing in People", Government of Pakistan, Islamabad, June 2009, 51 pages.

Almost all studies have shown that the returns on investing in people by creating a productive and employable work force would be extremely high especially as we start from a very low base in terms of our existing human development indicators. This is because investment in education, research and skills development is the key to igniting sustained growth in productivity, that alone can generate rising incomes and better standard of living for the people. Recent research has again shown, including in comparisons with India, that growth in Pakistan has been driven by increased use of factors of production rather than growth in total factor productivity. Lack of growth in total factor productivity reflects our low levels of investments in education and skills as well as in research and science and technological development. As the pioneering works of Romer and others have shown, it is the returns on investment in human capital that explains the “black box” or the large “Solow residual” that economists could not explain in breaking down long term trends in productivity growth through conventional tools such as the Cobb-Douglas production function.

In my view the whole issue of investing in people must be seen in an integrated framework that covers:

- First, the development of human resources through increased investment in education and skills development especially primary and secondary education and vocational and technical education;
- Second, the effective and productive utilisation of human resources for that only will guarantee returns on this investment through adequate wages and remuneration; and
- Third, the creation and strengthening of labour market institutions and governance that result not just in a well-functioning and efficient, but a rights-based, gender sensitive, labour market where fundamental rights at work are fully protected.

While we still have a long way to go, one sees with some satisfaction that the Government has taken measures and brought in new legislation to ensure that fundamental rights of workers are guaranteed. Also it is a subject on which I have spoken and written on many times, I will therefore concentrate on what I see are the critical challenges in relation to the first two issues I have identified.

My first major concern in the context of our current economic situation is that the current and expected growth rate over the next many years is far too low to provide productive and remunerative employment to our labour force that is expected to grow at around 3 percent. With the economy on average expected to grow around five percent (and a historical employment elasticity of around 0.45) if we continue on the old growth path this will result in increasing unemployment and under-employment. Also given the close nexus between employment and poverty this would make it extremely difficult to reduce poverty which despite arguments over its current level is still high especially in rural areas.

The pressing challenge that we face in Pakistan today is how we move the economy to a higher growth trajectory (as China and India have done) as well as a more employment-intensive growth path while maintaining macroeconomic stability.

This challenge becomes all the more daunting especially in the context of raising resources needed to invest in education and health while overcoming critical shortages in energy and water, at a time when the economy faces a severe resource crunch. The situation is further compounded by an estimated cost of the war on terror that has been calculated by PIDE at around US\$7–8 billion each year over the past few years. This is equivalent to nearly 5–6 percent of our GDP.

To add to aforementioned two major challenges namely low expected growth, and the resource crunch, we must add a third challenge which would make it difficult to change course. This is the throw-forward of already committed development resources in the PSDP which now stands at almost Rs 3 trillion, of which about half is committed to 11 mega projects including the Bhasha-Daimer Dam. This would require each year more resources than we expect to generate to complete ongoing projects before we can commit resources to new ones.

As recently announced the Public Sector Development Programme (PSDP) 2009-10 has again been reduced this year, as in the last year, and is now well below 2 percent of the GDP. To directly relate this to planned investment in education, the new Education Policy 2009 projects an increase in public expenditures on education to 7 percent of GDP by 2015 from around an existing 2 percent. How will we manage to achieve this given our current resource constraint?

My answer to this is that short-term adhoc policies are not going to be the answer to our current economic problems and development challenges. In many cases our existing problems can be traced to following short-term solutions to real structural problems and constraints that the economy faces.

To my mind, therefore, debating these critical issues in the context of a medium-term or a Five Year Plan framework would provides us an opportunity to carefully define our objectives and prioritise use of our limited resources. This is the only means of overcoming the serious imbalances we face-whether it is low levels of human development, serious energy and water shortages or the challenges that can arise in the long term from climate change. This will involve important trade-offs in terms of which sectors and projects are selected and those which are closed or delayed.

Clearly, this medium-term exercise is not development planning in the old traditional sense but one which is private sector-led and market driven in a highly globalised world economy.

Such a medium term development framework will also allow us to most effectively utilise expected increases in donor funding, which hopefully will be coming in the future in areas, which have been clearly identified as priorities in terms of our development.

This then my fellow economists is the challenge or the “problematique” Pakistan faces in prioritising the use of our limited resources.

We look to you to come up with “out of the box” and “home grown” solutions as the challenges are really daunting.

Clearly, some of them appear obvious, but it is exactly these which can prove to be the most difficult. Let me try to list them.

First raise revenue generation each year by at least 1 percent to reach at least (though still not yet very respectable) tax to GDP ratio of 15 percent by 2015.

Second, to reignite investment by the private sector both domestic and foreign by creating a conducive business environment that is transparent and profitable and reducing the cost of doing business.

Third, by encouraging private-public partnership to fund badly needed infrastructure projects.

And fourth, to attract the Pakistan diaspora to continue the high growth in remittances as well as invest in Pakistan.

While these four are essential from the supply side the question still arises as to where the demand to drive growth will come from? Again let me list what I see these to be.

- Economic reforms which will attract private investment (amongst others in modern services) and lead to more efficient allocation of resources.
- Investing and developing agriculture as a leading sector given its enormous potential in both the crop and livestock sector with the right incentives and timely inputs;
- Growth of agro-business and value-added exports leading to job creation which growth in agriculture should encourage;
- Growth of new leading sectors (such as ICT where Pakistan's share of world markets remains extremely low);
- But for this to happen we would need to overcome energy and water shortages in the first instance through short-gestation projects selected through a transparent process.

As to investing in people many years ago while delivering the Allama Iqbal Lecture I identified 4Ws as to where we should invest: Women's Education, Water, Worldwide Web and Workers' Rights.

With age one thinks even four may be too many!

So for developing our human resources let us select one priority which will serve as the beacon light and which government at all levels (Federal, Provincial, Local), private sector, civil society will own and give it its full attention. Also resources for this initiative will be protected at all costs through a separate allocation.

This target should be "100 percent enrolment in primary by 2015".

I thank you for your patient hearing.