

The Quaid-i-Azam Lecture

Fulfilling the Pakistan Vision of Quaid-i-Azam

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INTRODUCTION

In this lecture I will begin by suggesting that economic equality is one of the founding principles of Pakistan in terms of the explicitly stated view of Quaid-i-Azam Muhammad Ali Jinnah and also in the Constitution of Pakistan. I will in section-II indicate the analytical basis of growth policies followed by Pakistan's policy-makers in the decades after independence and the consequent inequality and mass poverty that persist till today. In the next Section-III, I will discuss recent research to lay the basis of an alternative perspective on economic growth which can provide the framework for fulfilling the Pakistan vision. In the final Section-IV, I will outline three main features of a new inclusive development strategy. It will be argued that if a prosperous future for Pakistan is to be achieved then a change in the institutional structure is required whereby all of the people rather than only a few have opportunities to fulfill their human potential. Thus Pakistan can be placed on a new trajectory of sustained and equitable growth.

I. A FOUNDING PRINCIPLE OF PAKISTAN

The country's founding father, Quaid-i-Azam Muhammad Ali Jinnah regarded equality to be one of the foundational principles of Pakistan.

"The great ideals of human progress, of social justice, of equality and of fraternity constitute the basic causes of the birth of Pakistan...." (Jinnah's Address at the Public Meeting in Chittagong on 26 March, 1948).

The Constitution of Pakistan articulates this vision of Jinnah in article 38 (a), as follows:

"The state shall secure the well being of the people irrespective of sex, caste, creed or race by raising their standard of living, by preventing the concentration of wealth and means of production and distribution in the hands of a few to the detriment of the general interest...."

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II. ECONOMIC POLICY AND ITS CONSEQUENCES

In contrast to the foundational vision of equality, Pakistan's economic policy was formulated on the principle of inequality.

For a long time mainstream economists had thought that inequality was the inevitable result of economic growth in at least the early stages of the economic development of a country.¹ Furthermore, it was believed that only the rich save and invest and so if growth was to be maximised the rich should be allowed to become richer. Of course in this conception the poor had to settle for the "trickle-down" effect of such growth. In Pakistan's policy making this postulate of mainstream economics was assiduously adopted ever since economic planning began in the mid 1950s. During the decade of the 1960s (during the Ayub regime), economic planners more systematically introduced policies designed to transfer real incomes from the poor to the rich in accordance with the orthodox view that economic growth could be maximised only through inequality. Let the size of the cake become bigger they argued before talking about income distribution.

It was not surprising that by the end of the 1960s, the rich became very rich with 43 families in West Pakistan producing 46 percent of value added in large scale manufacturing industry, controlling 84.4 percent of earning assets in banking and 75.6 percent in insurance.² Over the same period the per capita consumption of food grain by the poorest 60 percent of Pakistan's population declined in absolute terms.³ Just as inter personal inequality increased sharply so did the economic disparity between regions. The former resulted in a mass movement in West Pakistan that overthrew the Ayub government and the latter phenomenon fuelled an independence movement in East Pakistan that resulted in the emergence of the new state of Bangladesh where the majority of Pakistan's population had earlier resided.

In spite of the explosive consequences of economic policy in the 1960s Pakistan's economic planners failed to grasp the fact that inequality can place unmanageable stresses on the political fabric as well as the state structure. Except for a brief period in the regime of Prime Minister Z.A. Bhutto, inter-personal and inter-regional economic inequality persisted. Today even after 68 years of independence mass poverty exists alongside great affluence. According to the latest estimate by the International Food Policy Research Institute (IFPRI) 39.7 percent of the population is living below the poverty line (it is an extreme poverty line defined in terms of an adult equivalent of only 2350 calories per person per day).⁴ In terms of the poverty line of USD 2 per person per day (usually adopted in international comparisons), 60.3 percent of Pakistan's population is living below the poverty line.⁵ This incidence of poverty estimate is consistent with the figures on malnutrition in Pakistan. According to the National Nutrition Survey 2011,

¹Kuznets for example introduced the idea of the inverted U-shaped curve whereby inequality increased in the early stage of growth, then flattened out and in the third stage of growth inequality declined. See, S. Kuznets, Economic Growth and Income Inequality, *American Economic Review* XLV (1): 1-28, 1955.

²Akmal Hussain, Institutions, Economic Structure and Poverty in Pakistan, *South Asia Economic Journal*, Volume 5, Number 1, January-June 2004, SAGE Publications, New Delhi, 2004.

³Naved Hamid, The Burden of Capitalist Growth, A Study of Real Wages in Pakistan, *Pakistan Economic and Social Review*, Special Issue, 1976, XIV: 315-419.

⁴Sohail J. Malik, Presentation in the Distinguished Lecture Series, FC College University, Lahore, 5th November 2015.

⁵Poverty in Pakistan, Wikipedia.Org, https://en.wikipedia.org/wiki/Poverty_in_Pakistan, 7th November 2015.

43.7 percent of children under 5 years, were stunted and 36.9 percent were wasted.⁶ If we take account of services such as safe drinking water, decent transport, adequate housing, quality health care, quality education and affordable access over justice, then we can say that the majority of the people of Pakistan are deprived of the minimum material conditions of dignified human existence.

Amidst mass poverty the elite are living in luxury. The inequality is acute: If we take USD 2 per day as the poverty line then the average annual income of the richest (over USD 200 per day) is about 100 times more than the average annual income of the poorest 60 percent of Pakistan's population. These stark numbers are palpable at a visceral level for those with a heart: the rich drive in their Mercedes limousines to grand banquets in the affluent neighborhoods of cities, while children in Tharparkar crawl to their deaths in starvation.

The prevalence of such acute income inequality is a key factor in perpetuating mass poverty. Research by Ravallion and others has shown that the greater the level of inequality to begin with the smaller the poverty reduction effect of given GDP growth rates.⁷ Thus, the poverty elasticity of growth is lower, the higher the level of inequality. Accordingly Pakistan's relatively small trickledown effect historically, is now being virtually halted as GDP growth rate over the last seven years has declined sharply compared to the earlier period, while income inequality has increased.

III. UNDERDEVELOPMENT OF PAKISTAN'S HUMAN POTENTIAL

In the face of the deprivation of the majority of the people of Pakistan, the government faces acute fiscal constraints which make it financially incapable of addressing the problem. At the same time there is a critical dependence of the government on loans such that the accumulated stock of debt has become unsustainable, with debt servicing amounting to over 50 percent of government revenues. Under these circumstances and within the existing institutional structure, the government is constrained from seriously addressing its Constitutional obligation to "secure the well being of the people irrespective of sex, caste, creed or race by raising their standard of living..."

To make matters worse, a significant percentage of society due to ignorance and inculcation of bigotry in many schools, have acquired narrowed identities, become intolerant and are prone to violence against the other. This has created divisiveness and conflict in society which the latest research has shown, is inimical to development.⁸ Such intolerance and violence also undermine the fabric of a community which Sir Muhammad Iqbal had envisaged could lead humankind to new heights:

*Urooj e khaqi e Adam kay muntazir hein tamaam,
Yeh kehkashan yeh sitaray yeh neelgoon aflaaq*

⁶"Stunted", refers to a condition of chronic restriction of growth in height indicated by low height for age. "Wasted", refers to a condition of acute weight loss indicated by a low weight for height ratio. See, *National Nutrition Survey 2011*, Planning Commission, Planning and Development Division, Government of Pakistan, Conducted by the Aga Khan University, Supported by UNICEF, Islamabad, 2011.

⁷Martin Ravallion and Shaohua Chen, What Can New Survey Data Tell us about Recent Changes in Distribution and Poverty? *World Bank Economic Review* 11:2, 357-82, 1997.

⁸W. Easterly, J. Ritzgen, and M. Woolcock, Social Cohesion, Institutions, and Growth, *Economics and Politics* 18 (2), 103-120, 2006.

The rise of earthbound man is awaited
by these mountains, these stars, these azure skies

Allama Muhammad Iqbal
[Translation mine]

The irony is that these features of poverty, deprivation, aid dependence and human underdevelopment prevail in a country with the world's largest contiguous irrigation system, along with over 40,000 megawatts of hydro power potential in its main rivers alone; the world's largest deposits of copper; possibly the second largest deposits of gold; and deposits of gas, oil and coal that are yet to be quantified.

Perhaps the richest and most underdeveloped resource of the country is the over 60 percent of the population who are young, with a rich genetic structure evolved over seven millennia in this crucible of civilisations called Pakistan today. Over the last seven centuries folk cultures have emerged in each of the four provinces in the Pakistan area which carry one of the great intellectual traditions of the world: a tradition of universal spirituality that seeks God through a transcendent journey to the heart, whereby a consciousness of love, tolerance and human solidarity is developed. After over four decades of teaching youngsters and three decades of dialoguing with poor communities, I can humbly testify, based admittedly on a small sample, that some of our youth are gifted and can be reintegrated with this great tradition of love and enlightenment.

Finally, the institutional structure of the polity and economy is such that apart from a small elite, most citizens are denied opportunities to fulfil their human potential and bring it to bear to contribute to the development of society and economy.

IV. TOWARDS A NEW TRAJECTORY OF DEVELOPMENT: INCLUSIVE DEVELOPMENT

(1) The Historical Pattern of Institutions, Governance and Growth

The time has come to examine the causes and the cure for this incongruence between the very idea of Pakistan and the human condition that has been shaped by post independence policies. The key question in this context is why Pakistan has not been able to sustain a high per capita income growth over the long run? Seminal research in the field of New Institutional Economics (NIE), by Douglass C. North., has shown that the distinguishing feature between the developed and underdeveloped countries is that the developed countries are able to sustain their per capita income growth over the long run, while underdeveloped countries are unable to do so.⁹

The characteristic feature of underdeveloped countries is that they grow in spurts. The gains made in the high growth periods are largely lost during the subsequent periods of stagnation when per capita income growth approaches zero. Thus per capita income over the long run does not increase substantially resulting in persistent poverty. Pakistan is a typical example.

⁹Douglass C. North, John Joseph Wallis, Barry R. Weingast, *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History*. Cambridge University Press, New York, NY, 2009.

The recent work of North, Wallis and Weingast¹⁰ and subsequently by Acemoglu and Robinson¹¹ has shown that the fundamental factor that determines whether a country achieves long term economic growth or not is the kind of institutional structure it builds. An institution is defined as “a set of formal rules and informal norms that together with their enforcement mechanisms structure human interaction”.¹² Since rules embody incentives and disincentives for human behaviour, therefore institutions shape the behaviour of individuals and organisations, and thereby the performance of the economy.

The developed countries have an “open access” or efficient institutional structure. This provides opportunities for open competition and associated incentives for selection based on merit, hard work, efficiency and innovation. Hence sustained growth is achieved. Aghion and Howitt, the pioneers of endogenous growth theory, have empirically established that the greater the depth and range of innovations the greater the long term growth of a country.¹³ The underdevelopment of countries by contrast is rooted in an inefficient institutional structure which restricts competition as a means of generating rents for the elite. By rent we mean unearned income which accrues when a person gets a return on an asset (including skill) that is greater than what it could have earned (opportunity cost) under competitive conditions. Such a “limited access” institutional structure has incentives for selection based on nepotism and lacks incentives for hard work, efficiency and innovation. Consequently sustained economic growth in such an inefficient institutional structure is not possible.

Pakistan’s pattern of stop-go growth is typical of an underdeveloped country. Central to the failure to sustain growth is that in Pakistan, political power of individuals is constituted through rents by establishing patron-client relationships. The ruling elites appropriate state resources for arbitrary transfer as rents to selected individuals and groups. The rent based model originated under the British Raj in the 19th century when resource gratification for the agrarian elites was used to garner political support. But this support was mobilised not to build power for individuals in the government but for British rule in general.

Post independence the governance model and the underlying institutional structure continue to generate rents, although in a variety of new forms and for a coalition of elites that emerged in the post independence period. This rent generation is achieved through the exclusion of the majority of the people from access over productive resources, capital markets and high wage employment. Consequently inequality is built into the process of economic growth. At the same time this inequality prevents growth from being sustained because the process of investment is restricted to a small consumption oriented, state supported elite: an elite that has so far failed to generate adequate savings or sustained high investment for long term growth independent of foreign aid.

The constrained competition characteristic of such an institutional structure while generating rents for the elite, creates disincentives for diversifying exports into high value

¹⁰*Ibid.*

¹¹Daron Acemoglu and James A. Robinson, *Why Nations Fail: The Origins of Power, Prosperity and Poverty*. Profile Books Ltd., London, 2012.

¹²Douglass C. North, *Institutions, Institutional Change and Economic Performance*. Cambridge University Press, Cambridge, United Kingdom, 2004.

¹³Philippe Aghion and Peter Howitt, *Endogenous Growth Theory*. The MIT Press, Cambridge, Massachusetts, 1998.

added goods. Thus two key constraints to sustaining high rates of economic growth have emerged: (1) A low savings rate that has locked the country into aid dependence, and (2) A slow export growth that cannot keep pace with the high import requirements of a high growth trajectory. This proposition is demonstrated by the fact that every high growth period, (under Ayub Khan in the 1960s, Zia Ul Haq in the 1980s, Musharraf in the first seven years of the new millennium) has ended with a balance of payments crisis that has forced down the growth rate.

It is time to turn on its head the conventional wisdom that inequality is a necessary concomitant of economic growth. A change in the institutional structure is required whereby the economy is opened up to the middle classes and the poor to provide access over investible resources and high wage employment. By broadening the base of competition, investment, productivity increase and innovation, an equitable and sustained high growth could be achieved. Thus sustained high growth could be achieved through equity.

(2) Elements of a Strategy of Growth through Equity

The process of placing Pakistan on a sustained and equitable growth trajectory would have three essential elements:¹⁴

- (1) Providing the middle classes and the poor access over productive assets, credit and equitable access over input and output markets. In the rural areas an equitable growth strategy would require undertaking a new small farmer growth strategy which would involve providing land to the tiller through the distribution of government owned cultivable land to landless tenants. This would be combined with credit to purchase land. This initiative should be backed up by establishing a Small Farmer Development Corporation (SFDC) owned by small farmers and managed by professionals. The SFDC would provide land development services, credit, technologies, training and market access to enable small farmers to achieve high yields per acre and diversify their production base for a sustained increase in their incomes. Such an initiative could unleash the considerable yield potential of the small farm sector (less than 25 acres) which constitutes about 60 percent of the total farm area and 94 percent of the total number of farms.
- (2) Mainstream the poor into the structure of the economy by facilitating the establishment of large corporations with 100 percent of the equity owned by the poor and managed by professionals. These corporations could be set up in the fields of: (a) milk, milk products, meat and meat products, for domestic and export markets, (b) marine fisheries for export markets, (c) provision of specialised services to the middle classes and the poor to reduce malnutrition and support the development of small scale industries. These services could include provision of hygienically safe products containing essential micro nutrients (e.g. yogurt, chicken meat and chicken feed); solar powered tube

¹⁴For a detailed exposition of the proposed equitable growth strategy, see: Akmal Hussain, *Strengthening Democracy through Inclusive Growth*, chapter in, Akmal Hussain and Muchkund Dubey (ed.), *Democracy, Sustainable Development and Peace: New Perspectives on South Asia*. Oxford University Press, New Delhi, 2014.

wells and household electricity supply in the rural areas; provision of drip irrigation technologies for small farms; training in the design, manufacture and marketing of embroidered high end garments manufactured by poor women; provision of training and marketing in the field of software development for the middle classes and the poor.

- (3) Universal provision of basic services such as education, health and social protection. The evidence shows that in countries such as in Scandinavia, Britain, Germany, China, the provision of these basic services has been a major factor in achieving long term growth. This is because these services have enabled a healthier and educated labour force with a greater motivation and commitment to state and society. These services have also enabled social cohesion which research by Easterly and others has shown is a key factor in long term economic growth.¹⁵

The argument by some economists that Pakistan cannot afford the universal provision of basic services is untenable. This is because the evidence shows that a number of countries with universal provision of basic services had a per capita income at the time of giving the commitment that was lower than that of Pakistan today: for example, Germany under Bismarck in the 18th century, Japan under the Meiji dynasty in the 19th century, Scandinavian countries in the early 20th century and China in the mid 20th century. Moreover the very commitment for the universal provision of basic services by the state provides the political basis for broad based taxation mechanisms to finance the provision of these services.

V. CONCLUSION

The undertaking of this proposed strategy of achieving sustained and high economic growth through equity and the provision of basic services would not only create a more dynamic economy but a just society. When all of the people rather than only a few have opportunities to develop their talents, when they can undertake enterprise and conduct innovation in all fields, then the creativity of the nation could be unleashed and human progress achieved. Thus the people of Pakistan could build a bright future and in so doing contribute to human civilisation. This could help fulfil the vision of the founding fathers, Jinnah and Iqbal.

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¹⁵W. Easterly, J. Ritzen, and M. Woolcock (2006), *op.cit.*

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