

GAMBLING ON DEVELOPMENT

WHY SOME COUNTRIES WIN
AND OTHERS LOSE



THE ELITE BARGAIN AND ECONOMIC POLICIES IN PAKISTAN: CAN ANYTHING BE FIXED?

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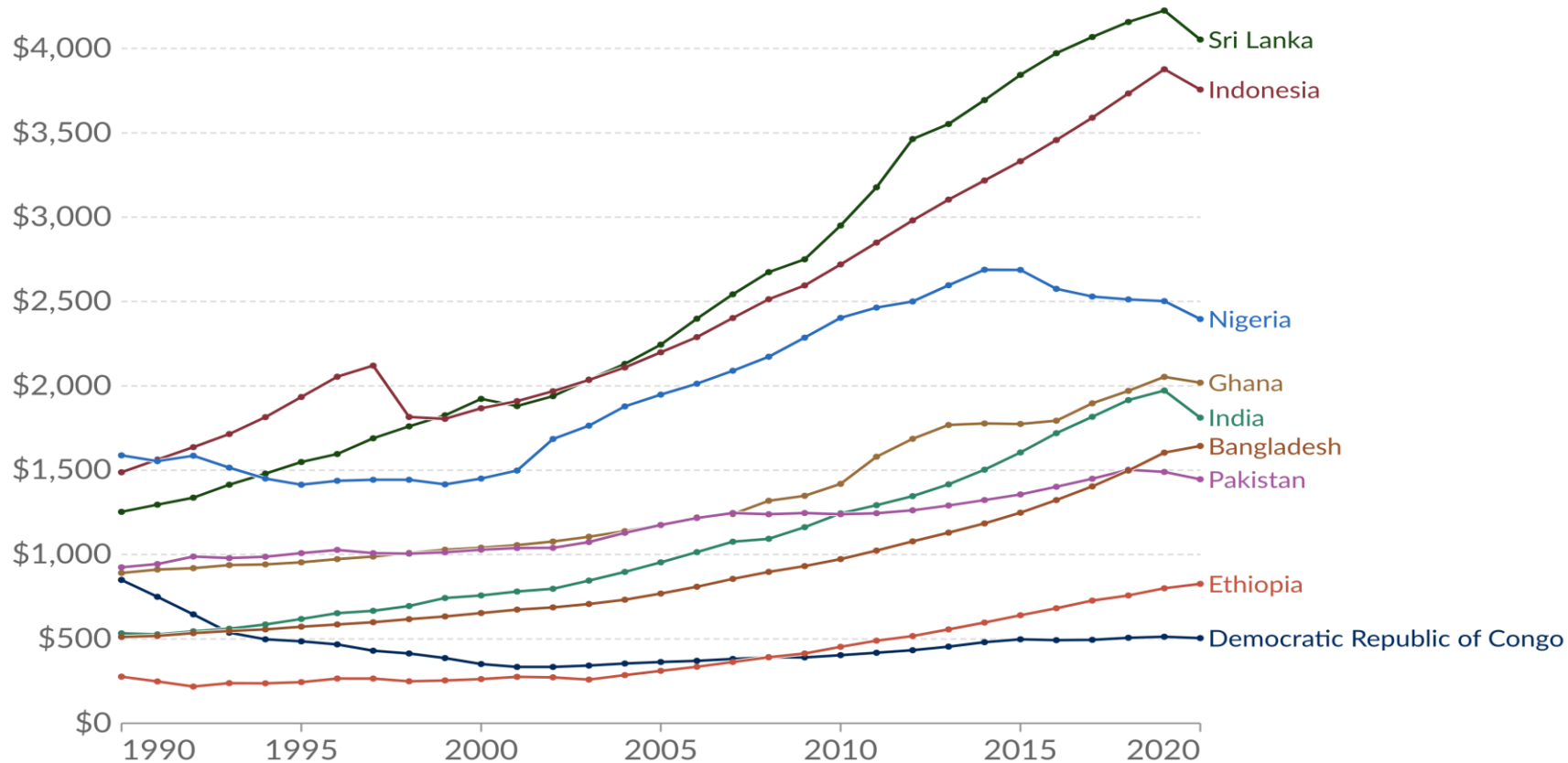
Some Facts

Growth success and failure since 1990

GDP per capita

Measured in constant US-\$, which adjusts for inflation.

Our World
in Data



Source: World Bank and OECD

Note: Figures are given in constant US-\$. This means it is adjusted for inflation to allow for comparison over time, but not for price differences between countries.

OurWorldInData.org/economic-growth • CC BY

mean GDP per capita
growth for lower middle
income was 3.9%

'Winners' (>3.9% p.c.)

China: +12.7%

India: +6.3%

Bangladesh: +6.0%

Sri Lanka: +5.9%

Indonesia: +4.7%

Ghana: +4.2%

Ethiopia: +5.4%

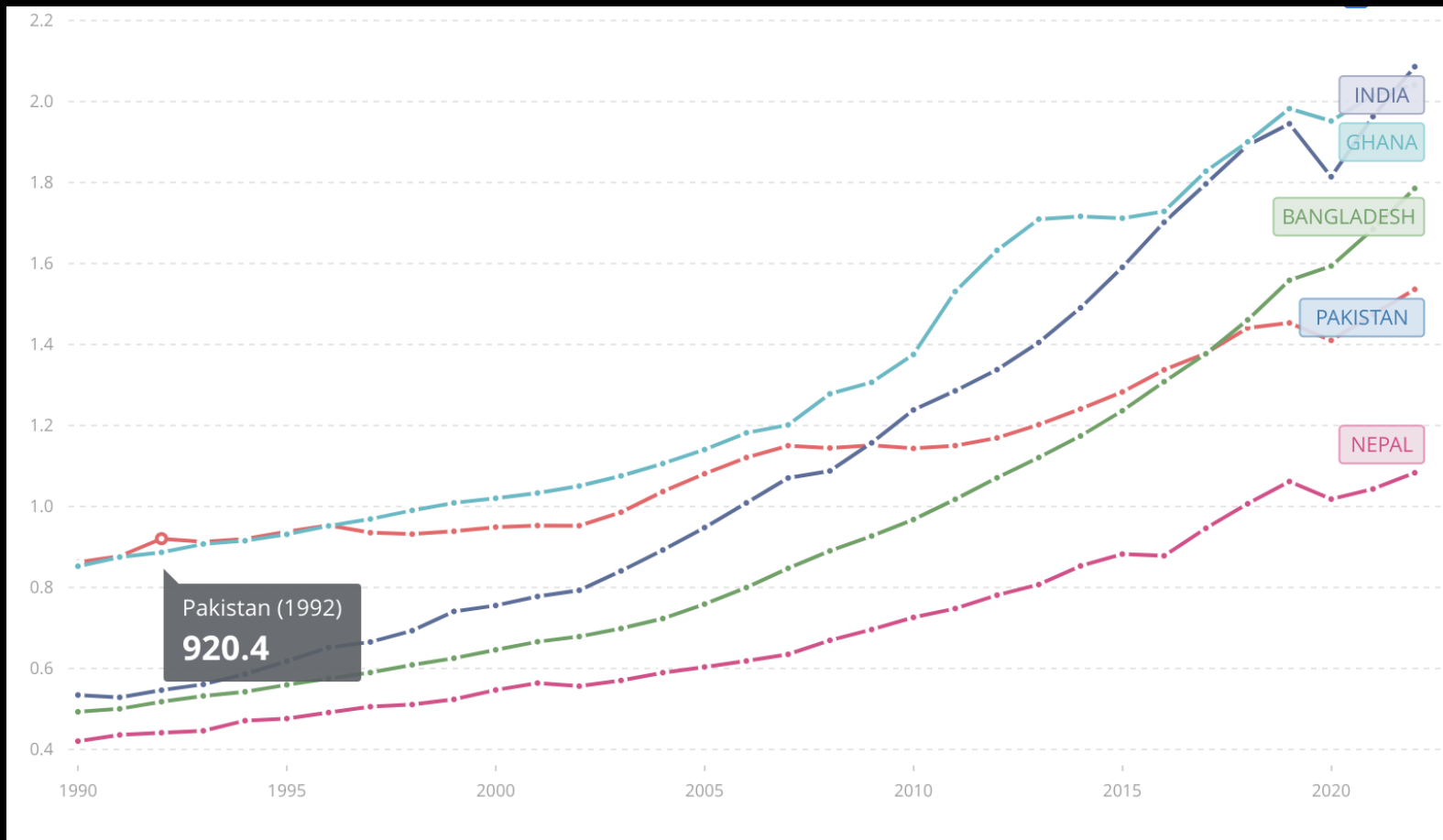
'Losers' 1990-2021

Nigeria: 2.0% per year

Pakistan: 2.6%

DRC: -2.3%

Closer look at Pakistan



GDP per capita at constant 2015 prices

Pakistan

= was like Ghana in 1990:
Now well below, and
below India, Bangladesh

=even Nepal converging on
Pakistan...

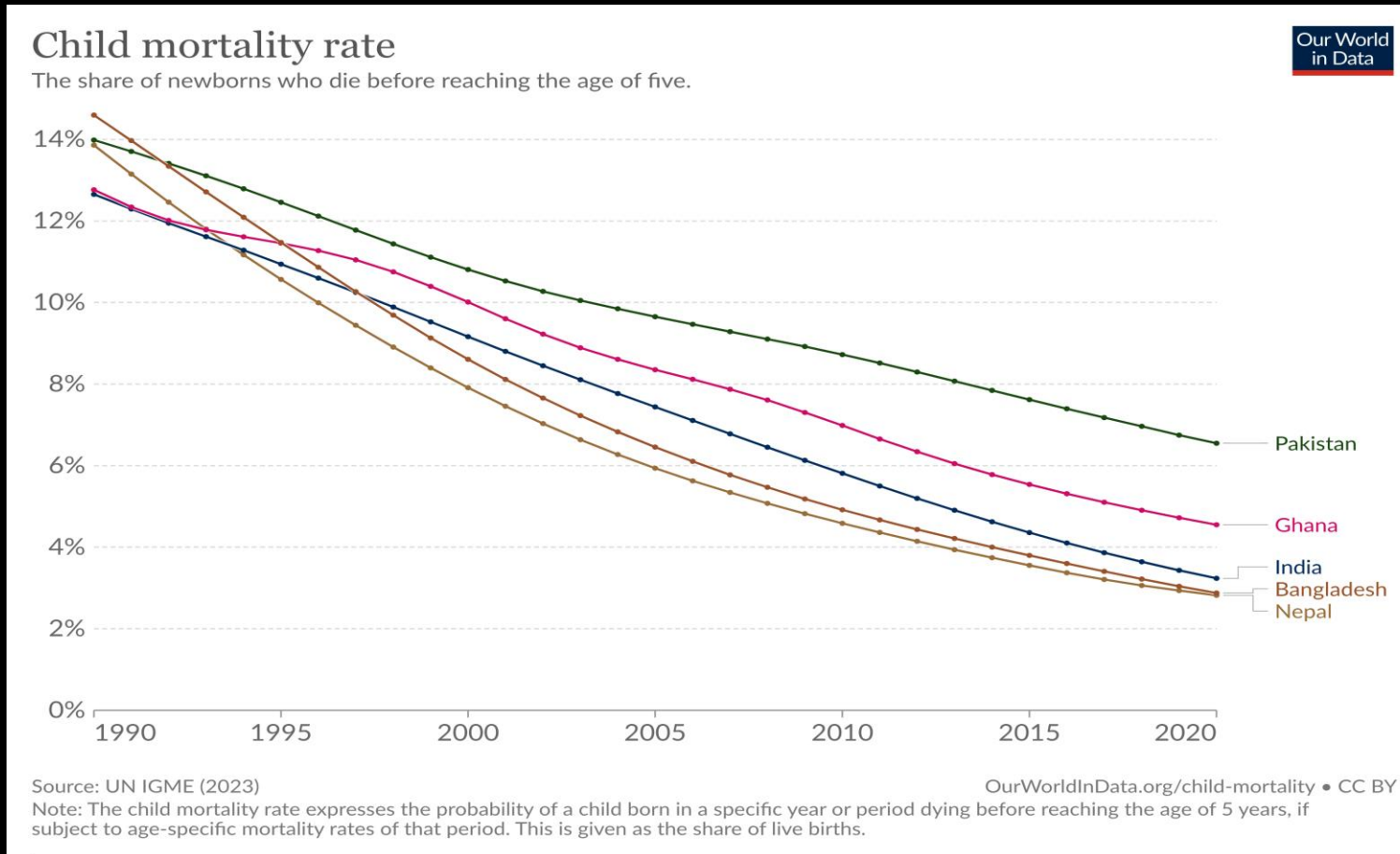
Human development indicators lagging well behind (in progress)

Child mortality rate (% dying before age 5)

Similar in 1990

Now India, Bangladesh, Nepal about half Pakistan

African countries progressing faster than Pakistan!



How to understand these differences?

Why are some countries making substantial progress and not others?

Indonesia, China, Bangladesh, Ghana, Ethiopia, India, Pakistan: very different from each other

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Diagnosis? Common aspects of success or failure?

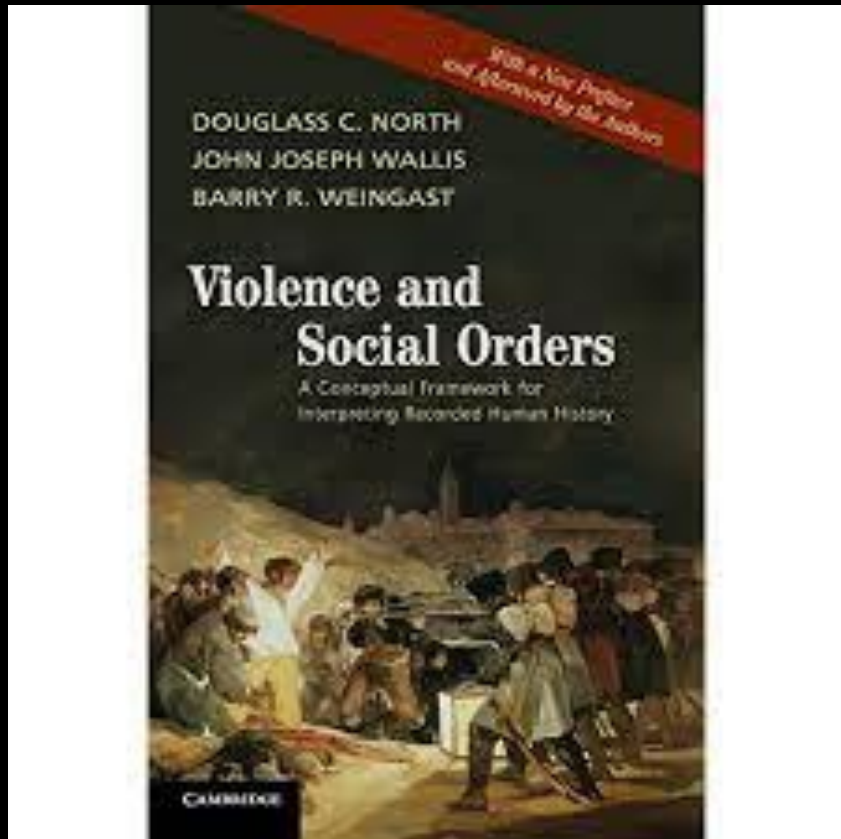
- very imperfect places, e.g. economic governance and corruption
 - Didn't need to have "perfect institutions" first
- diverse political systems (dictators, autocracies, democracies, and all in between)
- rather different economic policies, strategies
 - "We know the ingredients, but we don't know the recipe..."
Bob Solow (as said by Mike Spence, The Growth Commission, 2008)
 - Reasonable policies : *macroeconomic stability, correction when required, outward orientation (exports), but otherwise* but a broad set....
 - Don't stick to unreasonable policies! = a choice!

Key question?

Why do some countries then seem to employ “unreasonable” policies or cannot sustain “reasonable” policies?

The role of the elite bargain

The origin of the state



A [...] state manages the problem of violence by forming a dominant coalition that limits access to valuable resources – land, labor, and capital – or access to and control of valuable activities – such as trade, worship, and education – to elite groups.

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Think of a state as an elite bargain amongst those with power or influence, → the elite are those with power and influence: politics, business, military, civil servants, intellectuals,...

It is at a minimum a coalition for peace and stability.

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Think of a state as an elite bargain amongst those with power or influence, → the elite are those with power and influence: politics, business, military, civil servants, intellectuals,...

It is at a minimum a coalition for peace and stability.

It involves a political deal – who controls the state – and an economic deal – who has access to resources and their distribution.

Elite bargains: some possible objectives

- A kleptocracy
- A patronage-based elite bargain (often with clientelist methods)



An elite bargain for development

How to get/restore growth and development? Through a development bargain

You need an elite bargain that involves a shared
commitment to growth and development



How to get growth and development? Through a development bargain



Success requires an elite bargain that involves a sufficiently strong shared commitment to growth and development

Why would the elite have these objectives?

- Out of conviction
- As part of seeking legitimacy
- As part of maximizing rents

IT IS A GAMBLE!

Pakistan's Elite Bargain

Pakistan's elite bargain? (1)

Think of a state as an elite bargain amongst those with power or influence,

→ the elite are those with power and influence: politics, business, military, civil servants, journalists, intellectuals,... and a dominant coalition emerges to control the state.

What is that dominant coalition in Pakistan?

Pakistan's elite bargain? (2)

(2) Pakistan's Construct: an elite bargain, fragile by design, entirely focused on sufficient stability for status quo

- **History**: sets of families (landlords, traders), with elite bargain focused on status quo (keep that order) and **clientelist-patronage state**
- However, fierce **competition on who should control** the patronage (political polarization with occasional attempts to enter) = very **little common purpose** but winner takes all competition
- **Political class in competition with military** on who should control access to resources/control of state

Pakistan's elite bargain? (3)

(3) Economics of that elite bargain:

- Low **tax collection** is part of (**clientelist**) **equilibrium** (as is having 15 revenue authorities)
- As are high subsidies, with low savings and investment so **consumption-based economy = part of patronage-clientelist equilibrium** (low investment economy of traders and real estate)
- **Inward orientation and control regimes** are part of avoiding dynamic firms to emerge, plus easy way to control economic rent distribution (licenses, access to procurement contracts)
- Similarly, **poor business environment avoids FDI** (beyond as part of staged government or military related contracts eg. CEPEC)

...too many unreasonable policy measures regularly lead to macroeconomic fiscal crisis and need to outside support (and legitimacy crisis and at times guarantors of stability taking over).

Is this time worse? debt-fueled implosion? Legitimacy crisis?

What does it mean for economic policy making?

(1) Growth and development is not core motivation of dominant political class nor of the military

- Dare to interpret all economic policies as driven by quest to keep power as part of clientelist patronage based state... (and all those not in power to disrupt any stability so they can gain power to control the clientelist state)
- Growth and development would DISRUPT this status quo!

(2) Low degree of implementation of economic reform is part of the same 'political economy' equilibrium, as is obsession with quick 'technical' fixes (including of those who mean well) is also linked to perception of long-horizon actions have zero change of success.

(3) Note: international community for decades was happy to pay for 'enough' stability (and military/politics) even at costs of growth and development... and little difference in apparent behaviour from China or West?

Can it be fixed?

What to do? How to 'fix' it? Some lessons.

(1) Experience teaches that **'crisis' can be moment.**

- Eg India 1990s, Bangladesh 1990s, Indonesia 1970s, China 1979.
- Pakistan is in crisis now.

(2) **Needs common ground and purpose.** Most reforms fail because short-run "hurts" too much and easily exploited. Tends to be linked to 'legitimacy' and **some common purpose across leading groups.**

- E.g. Sri Lanka in 2023 ('undermine') vs Mauritius in 1980s ('overcome').

(3) **No quick fix.** Tinkering, new finance, etc just delays and makes reform more costly. Getting basics right matters...

What is required?

(1) **What? No shortcut to building common ground across politics (and others such as military).**

- Based on shared recognition: status quo is untenable and hurts Pakistan. And even elite is losing now.

(2) **Who? Not simply about politicians (and journalists) – involve business community, civil society, intellectuals, journalists across divides...**

- Those in **business community or youth generation** that would gain from growth and more outward orientation could be key.

(3) **Does not mean: no more political contestation** – India or Bangladesh or Ghana all had this –

- but need for **some common ground on centrality of growth and development...** India in the 1990s: all parties saw benefits in the end!

What can be done now?

- (1) Do the required basic reforms with politics and sustainability of reforms in mind
- (2) And ask about all measures: **can they survive politics** (sustainable)? How to work on this?
- (3) And ask will it help to showcase **benefits of 'common purpose'** around growth and development?

- Design tax policies and collection policies that touch clientelism but in ways that are hard to object to:
 - not manual, but automated; transparent audits, not political exploitation of cases; simplification of tax codes
- Go after subsidies but smartly – eg learn from Iran's abolition of fuel subsidies
- Create pockets of excellence and success (transparently) that cannot be easily be captured or removed.
- Anything that can help exports, outward orientation and creates *real* openings to FDI
- Lay foundations now for 'sensible' macroeconomic management

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 - **Go after subsidies but smartly** – eg learn from Iran's abolition of fuel subsidies
 - **Create pockets of excellence and success** (transparently) that cannot be easily be captured or removed. Could be at local level.
 - **Anything that can help exports**, outward orientation and creates *real* openings to FDI

Conclusion

- Growth and development turn arounds happen!
 - Gunnar Myrdal on Indonesia, or James Meade on Mauritius
- But there is no **short-cut**: politics and economic policies need to be aligned = **around some general common purpose on long-term growth and development** or they will not be implemented
- Meanwhile: **economic policies need to understand political equilibria (they never are just technical)**
 - Go for policies that help to showcase benefits from
 - or set incentives for the emergence of a better elite bargain for growth and development.

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