

However, he is quick to explain that these are symptoms and not the disease. "The question is: Why is the savings rate low? Why are we unable to diversify our exports and accelerate export earnings? Both these problems are located in Pakistan's limited access social order – an institutional framework which excludes most people from entering into the process of investment and competition in the economy," he argues.

"The institutional structure, within which the economy has functioned, is designed to exclude the majority of the people from the process of economic growth. It is precisely on the basis of this exclusion, by restricting competition to the elite, by restricting the process of investment to the elite, by restricting high wage employment to the elite, that rents are generated for the elite, which is unearned income", he says. He associates such rents with corruption.

"Corruption though immoral is also a part of the same phenomenon of giving unearned income to the elite," Akmal argues.

He emphasizes the importance of social equity, saying that it is important for sustaining democracy as well. "You cannot run a political democracy where the economy is by the elite

and for the elite," he claims, asserting that unjust economic arrangements breed terrorism. "If you want to fight terrorism in the long run, then the elite must open up the economy."

For that, Akmal suggests "opening up markets for capital to the poor and middle class, giving them access to productive assets, investible resources and high quality education and health so that they can engage in investment and high wage employment," he says, adding if you open up the economy to the middle class and the poor you will have a larger number of people who will save and invest, thereby generating a higher, more self-reliant and sustainable growth.

"As it stands, if you restrict your institutional structure and the economic players, then you will have lower savings, lower investment, less competition and greater inefficiency. If you are getting subsidies from the government and making large profits in spite of being inefficient, why should you become internationally competitive, take risks or try to diversify industry and develop new products? There is no incentive," says Akmal, while criticizing the subsidy culture of the economy.

"Again, the institutional structure excludes people from competition; its inherent incentive structure goes against

competition, it goes against efficiency and creates disincentives for productivity increase, innovation, risk taking and hard work," he explains.

He further highlights the grave scenario of unemployment in the country exclaiming, "There are 90 million people who are young and looking for jobs! Right now, you do not even have the capacity to generate 7 million jobs in the next five years. China and India have five year plans, but Pakistan has decided to do away with five year plans!"

About Pakistan's political culture where most individuals seek political power for personal enrichment, "we have a patron-client model of governance, in which state resources are used by politicians to transfer to their dependents or to themselves or to other government officials," says Akmal, pointing out that this is the reverse of Aristotle's saying "when you enter the public domain you leave your personal interests behind".

-Interview by Ali Khizar

SUBSIDIES: MISSING THE TARGET

By Dr Asad Sayeed

Social Protection or social 'welfare', as it is commonly known, is an important component of state policy virtually everywhere in the world. Arguably, it is one of the central elements that define the state-citizen relationship. The utility of social protection becomes even more salient in situations of an economic downturn or in the aftermath of a natural disaster.

Pakistan is thus a perfect illustration of a country that requires a well designed and an encompassing social protection program. So what has been done in this regard and what are the impediments? Before we dwell on this, it is important to be clear as to what we mean by social protection.

Social Protection can be broadly defined as provisions that "society provides to individuals and households through public and collective measures to guarantee them a minimum standard of living and to protect them against low or declining standards of living arising out of a number of basic risks and needs." This includes different forms of social assistance as well as social insurance benefits provided by the state. It is also important that social protection is conceptualised as distinct from, yet linked to, other social sectors, such as education, health, provision of clean water, etc.

Pakistan has an elaborate network of social insurance programs – EObi, Workers Welfare Fund, etc. – but much of this is geared towards formal sector workers. Since employment in the non-governmental formal sector is less than 10 percent of the labour force, the relevance of such social insurance programs, by the very design of the schemes, is minimal. Moreover, because much of social insurance is contributory and does not come from state resources, we will concentrate for now on the assistance aspect of social protection.

Pakistan has a large number of social assistance programs. Food and fuel subsidies, housing schemes, etc, in addition to Zakat, Baitul Mal and the Benazir Income Support Program (BISP). Apart from Zakat, Baitul Mal and BISP, most other schemes are untargeted.

TARGETED VS UNTARGETED

Untargeted subsidies are universal in character and benefit both the rich and the poor. This is true for the food and fuel subsidies prevalent right now as the non-poor disproportionately benefit from them. Untargeted subsidies mean that scarce resources go to subsidise the rich as well as the poor.

When the government initiated the BISP, there was a tacit acknowledgement that it wishes to move from untargeted to targeted subsidies. As we see in Figure 1, this promise has not been fulfilled. In fact, subsidies on fuel, electricity, gas, sugar, etc. have eaten up resources that could potentially have gone to provide protection to the poorest and most vulnerable sections of society. Thus one important impediment to appropriate social protection itself has been the imperative to provide across the board universal subsidies.

The extent of untargeted subsidisation, in turn, is because of a number of reasons.

First, inefficiencies and bad governance in the power sector in particular and the public sector in general have contributed to this expansive process of universal subsidisation. Second, volatile international food and fuel prices, particularly since 2007, have contributed to the need to subsidise some of these commodities for the population at large.

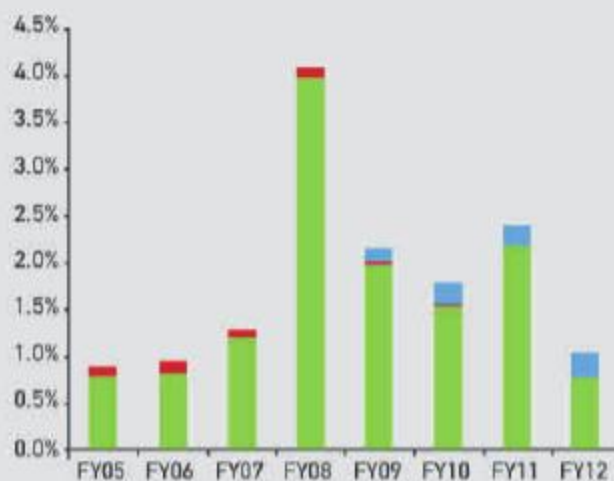
Third, there is a lack of consensus amongst the population on subsidisation for the poorest. In other words, the upper and middle classes of Pakistan have often used their political voice and influence with the state to divert subsidies toward themselves. The recent subsidisation of fuel prices and subsidisation of sugar last year are recent cases in point.



EXPENDITURE ON TARGETED AND UNTARGETED SUBSIDIES

(as a % of GDP)

■ UNTARGETED SUBSIDIES
■ BAITUL MAAL ZAKAT
■ BISP



*data on Zakat for 2010-11 and 2011-12 is missing

► BISP: AS THE FLAGSHIP TARGETED SUBSIDY

The launch of BISP is an important development on Pakistan's social protection landscape. Not only did it increase allocations for social protection from roughly Rs10 billion in 2007 to more than Rs50 billion in 2011, it also channelled them towards a targeted subsidy to the poorest and particularly to be dispensed amongst women of the household.

BISP's targeting instruments to date have been less than perfect – dependent on provision of lists by parliamentarians but whetted through NADRA's database. Now a poverty scorecard census is being conducted across the country. Once the shift is made to the poverty scorecard, the system will have a robust, transparent and verifiable system of beneficiary selection. This will also address one important point of scepticism regarding political interference in the choice of beneficiaries.

One frequently mentioned critique of BISP is that Rs1000 per month is an insufficient amount and that in the context of high inflation its value has eroded further. While it is a fact that the real value of this monthly social protection funding has eroded over the last three years, it still constitutes between one-fifth to one-sixth of the expenditures of households in the lowest income decile. The underlying trade-off is between the quantum of benefits and the number of beneficiaries given the fiscal constraint. The judgment to spread the benefits thin or to concentrate them is ultimately a political one and there are no better technocratic solutions either.

TEACH 'EM TO FISH

Another frequently voiced critique of cash transfer programs like BISP is that it promotes a culture of dependency – 'rather than give them fish, teach them to catch fish' is the usual refrain. It goes without saying that 'catching fish' can be taught only to those who have some basic human capital endowments.

EXPENDITURE ON TARGETED AND UNTARGETED SUBSIDIES

(as a % of GDP)

■ EDUCATION
■ HEALTH
■ BISP



Sources: Annual Plan 2011-12, Planning Commission; Budget in Brief-Ministry of Finance, various; Economic Survey of Pakistan 2010-11, Ministry of Finance; Poverty Reduction Strategy Paper (PRSP); Annual Report-Ministry of Finance, various.

For those who are categorised as 'ultra poor' with virtually no education and weak health indicators, the priority will have to be to provide them with resources to meet their basic nutritional and other life sustaining needs before they can be put through programs to 'catch fish.' As such, a cash transfer for the ultra poor has to be distinguished from that intended for those able and willing to improve their human capital endowments.

Having said this, in due course, BISP should make a transition from unconditional to conditional cash transfers. These conditions could be: whether children are sent to school, or being vaccinated, or whether mothers have access to medical facilities for child birth, etc. This is how cash transfers work in middle income countries (Mexico and Brazil are two examples). In our case, however, before we initiate conditionality to the cash transfers, it is important that BISP consolidates itself and that the requisite facilities for education and health are provided.

A comparative picture of social sector (education and health) allocations with BISP is provided in Figure 2. We see that contrary to popular perception, BISP has not poached on social sector budgets. We also see that there has not been any appreciable increase in social sector allocations as a proportion of GDP.

Since education and health (along with most other social sector areas) are now exclusively provincial subjects, one should expect that in the coming years greater prioritisation to social sectors should come forth. The Eighteenth Amendment and the 7th NFC Award have created the requisite administrative and fiscal conditions to realise this.

NEED FOR OTHER SOCIAL PROTECTION INSTRUMENTS

In a situation where inflation and unemployment rates are high and social service delivery poor, a much larger cohort needs to be protected and, through other instruments, be provided if increasing levels of poverty are to be effectively addressed.

It is indeed the case that high food inflation and a lack of employment opportunities necessitate a broader social protection net than what is provided. Given the volatility in international food prices and the inability of the administration to insulate domestic prices, a targeted food subsidy should have been introduced by those in power presently.

The federal and provincial governments, however, chose to stick to universal subsidies through the utility stores network, Ramadan packages and the sasti roti scheme. In each of these programs, it is impossible to determine the number of beneficiaries and their socio-economic characteristics. The numbers can be large or small and beneficiaries can be rich or poor for the simple reason that the schemes are by and large untargeted. Without a beneficiary list and a system of verification, the non-poor also become beneficiaries of these schemes. In fact, the more entrepreneurial of them have the incentive to arbitrage the subsidised goods being sold with the higher prices prevailing in the market.

Protecting the poor and the vulnerable will thus require a targeted food subsidy. Based on a mechanism where the poor are identified – potentially this can be done through the poverty scorecard – they can be provided a basket of subsidised food items.

The network of Utility Stores is an existing asset that can be used for this purpose and if necessary it should be extended to areas hitherto uncovered. This is one area where a change in institutional design is a more important requirement rather than resource allocation, given the allocations that are already made for wheat and sugar subsidies, the Ramadan packages and the sasti roti scheme.

Creation of an employment program, however, will require considerable resources. Its utility, however, is not only that it will provide employment in the short-run but that it will help in developing small infrastructure at the local level.

Such a scheme can be initiated in a phased manner in areas affected by the war on terror and by the recent floods. An employment programme that provides 100 days of employment in a year to unskilled workers should be initiated in a phased manner. In the first phase, the scheme should be introduced in FATA, Balochistan and the flood-affected districts across the country. Rough costing carried out for a phased program comes to roughly Rs40 billion.

If the government is able to reduce untargeted subsidies as envisaged, essentially by streamlining the power sector, only then the underlying conditions needed for social protection to take root in Pakistan will be created. Ultimately, the country's upper and middle classes will also have to acknowledge that it is the poor and not them who deserve to be subsidised by state resources.



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