

## A new agenda for Pakistan

# “People are dependent on biraderi networks for informal security. State based social protection will provide them benefits as citizens”

– Asad Sayeed, Director of the Collective of Social Science Research, Karachi, and member of the Panel of Economists, Planning Commission, Government of Pakistan

## TFT: Can Pakistan be a welfare state?

**Asad Sayeed:** Pakistan's transformation depends on what you mean by a 'welfare state'. If it means cradle to grave security for all citizens, a form of welfare that exists in varying degree in the developed world, it is not going to happen in Pakistan or other third world countries for many generations.

The reason, in a nutshell, is that the resource base of developing countries is too small and the number of deserving beneficiaries too large. The average revenue-GDP ratio of OECD countries is in the range of 35 percent, while this ratio for developing countries is around 17 percent. Roughly 70 percent of these revenues are spent of welfare payments.

Moreover, the uptake in terms of free health, free education, unemployment benefits, pensions to the elderly, assistance to single mothers, child benefits, etc will be proportionately much higher than in developing countries.

## What are the pre-requisite for such a transformation in developing countries? Are there any models or example to emulate?

The revenue-beneficiary balance is an essential pre-requisite to attain the towering heights of welfarism that the developed world has attained.

However, what is possible in developing

countries is to lay the basis of welfarism. A number of developing countries have embarked on the path to provide targeted subsidies in the form of cash support, employment programs and food subsidy to the poorest. Some countries have also instituted programs for providing school meals, especially to the girl child, to reduce nutrition deficits. These countries right now spend anywhere between 2 to 4 percent of their GDP in providing these benefits. South Africa, Argentina, India, Sri Lanka and Mexico are some salient examples.

Also, the case of South Korea in particular is inspiring for developing countries. The grandparents of today's South Korean beneficiaries' seeked out a living, similar to those of citizens in Shikarpur and Dera Allahyar in Pakistan. In a matter of two generations they have been able to provide cradle-to-grave security to their citizens.

## What are the safety-nets in general, that need to be created for the people of Pakistan?

There are essentially five areas where the Pakistani state can start to provide benefits. The first is cash transfers to the poorest in the form of the Benazir Income Support Program (BISP). This has already been established but has some



way to go before it is institutionalised. The program needs to move towards a transparent and verifiable system of beneficiary identification and perhaps also make it transfers conditional on basic health and education outcomes.

Second, initiate an employment program for the unskilled. India now spends 1% of GDP on its employment guarantee program in the rural areas and it has created an important

entitlement for the rural poor.

Third, a nutrition program for the girl child through school meals can also be launched. A pilot in the form of *Tawana Pakistan* was done a few years ago which did not prove successful because of a number of reasons. However, throwing the baby out with the bath water is never a good idea.

The fourth area will be food rationing. Right now we have gimmicks in the name of food subsidy in the form of the Utility Stores subsidy and the *sasti roti* scheme in the Punjab. Both these schemes are non-targeted and the rich and the poor both benefit. Moreover, it is open to arbitrage as those in the 'business' can buy the subsidised commodity and sell it at market rates. What we need is provision of rationed amount to the poor, identified through the poverty scorecard that BISP is in the process of developing in conjunction with NADRA.

All these four measures will cost an estimated 2.5% of GDP in the initial stages.

The fifth measure has no fiscal cost but is equally important and that is residential land security. This is particularly important in rural areas, though it has its utility in large urban centres also. The state owns land virtually in every union council in the country. Part of this land can be allocated to the landless for residential

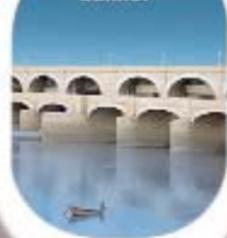
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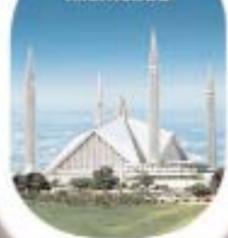
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purposes. Land deprivation, particularly for housing, leads to dependency on landlords and is one reason for the incidence of bonded labour. If proprietary rights are given over this land it will free workers from different forms of bondage and also endow them with a commodity that becomes an asset. It will create labour mobility in more ways than one.

**What measures of minimum welfare already exist? Are they efficient?**

BISP is moving in the right direction. Let us hope it stays course. Food subsidy and *sasti roti* are totally inefficient and the wrong way to provide a subsidy.

Then we have a number of 'labour welfare' schemes, such as Employees Oldage Benefits Institution (EOBI), Workers Welfare Fund, provincial social security institutions, etc. These are riddled with corruption and duplication of benefits. Also, they benefit a miniscule proportion of the formal sector workers, who in any case are better off than their compatriots working in the informal sector.

**Will a welfare system make people more dependent on the government, which has been highly inefficient and corrupt in the past? Also will it not make a section of the population less willing to work?**

This notion of dependency is a misnomer in my view. Right now people are dependent on landlords and/or their biraderi networks for informal security. What a state based social protection will do is to provide them with those benefits as citizens. Thus, formal social protection has a transformative role as it reduces parochial identities and enhances citizenship rights. Right now, the poor citizen of Pakistan only comes across the state through the *thana* or *kutchery*. If this link is created through social protection, it will create a posi-

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tive link between the citizen and the state and will be one element in nation building.

So far as the question about disincentive to work is concerned, there are two issues. One, the benefits are so small that they do not create a disincentive. In any case, Pakistan is a labour abundant country and not a labour scarce one. Two, right wing economists are wont to say that welfare schemes distort labour markets. My argument is that if existing labour markets cannot provide people basic necessities then they are quite distorted to start with. Also, examples from India, Brazil and other countries show that employment schemes have raised the reservation wage without any negative impact on investment.

**What should the aim in Pakistan be: social assistance to increase investment in human capital or to bring households above the poverty line? It is said that the former is a more successful measure, but for Pakistan's case what may be more effective?**

Both. Without bringing people above the poverty line, there is little you can do about improving their human capital endowments.

**What sort of tax reform would be required in context of Pakistan's already weak tax base?**

Remove all exemptions. GST is already in a VAT mode and to extend it to retail should be a long term goal. In the immediate future it is destined to fail. Right now exemptions that exist - on textiles,

## “Agriculture income taxation is a provincial subject and the provinces should be pushed to collect more from it”

pharmaceuticals and a number of services - should be removed. Of course agriculture should also be taxed. Contrary to popular belief, agriculture income taxation is a provincial subject and the provinces should be pushed to collect more from it.

**Can welfare be privatized to remedy the problem of an inefficient and weak government and bureaucracy? What is the scope for private corporations to facilitate the process through measures like redistributive taxation?**

Some forms of Public Private Partnerships - say in health insurance or perhaps in the admin-

istration of food subsidy - are possible, but welfare remains a public good. To say that 'welfare' should be privatized is like saying that the nuclear command and control should be privatized or private corporations should operate and run F-16s or submarines.

**Is the welfare state even a correct model to follow? Are there alternatives to fix Pakistan's problems?**

Don't know where you came up with this. Providing welfare to some in a milieu of extreme deprivation should not be equated with a welfare

state. It can be a long term goal to be taken ahead by a particular political thought. Right wing politics will oppose it but then they have to demonstrate that market failure does not occur.

**How possible is the scenario of Pakistan becoming a welfare state?**

Pakistan has to first become a state in its basic sense... and the bets are out on that. If we can achieve 2.5 percent of GDP dedicated to welfare in the next five years we will have done well.

— Saadia Gardezi

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