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The Social Science and Policy Bulletin is published quarterly by the School of Humanities, Social Sciences and Law at LUMS. It provides a forum for debate on the economic and socio-political issues pertaining to the formulation and conduct of public policy as well as its impact. The Bulletin aims to disseminate, to a wider audience, high quality research and policy-oriented work being done by social scientists. The editors of the Bulletin welcome short essays, either analytical or quantitative, that are relevant as well as intellectually stimulating.

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Editors' Note

Since June of this year, Pakistan's Economy has shown signs of recovery. The macroeconomic indicators such as inflation and balance of trade have shown modest improvements. The IMF assistance and the continued flow of remittances have helped in the balancing of external account. Foreign capital inflows which had all but dried up a year ago have now started to trickle back into the country suggesting a revival of investor confidence. Despite these developments, the situation did not improve in several key areas. The growth in the manufacturing sector and the volume of exports, especially of textiles, remain stagnant. The countrywide energy shortage has increased production costs significantly thus adversely affecting the international competitiveness of our products. In the agribusiness sector, problems in the distributive chain such as the speculative hoarding of important food items like sugar have caused severe shortages and price inflation. Recently, the Supreme Court issued a notification placing a ceiling on the price of sugar at Rs 40/kg. The latter action, aimed at reducing the burden on the consumer, has exacerbated the shortage in the market.

The security situation in the country showed some improvement. A successful military operation in Swat gave the people of Pakistan a few months of respite from the spate of suicide bombings which had earlier gripped the nation in fear and a feeling of despondency. The ensuing refugee crisis, which could have turned into a major humanitarian disaster, was successfully managed by the government. But the army is now undertaking another operation against the militants in Waziristan amidst an upsurge in terrorist activity. On the political front, following a verdict by the Supreme Court of Pakistan that ruled against the imposition of the Emergency Rule in the country by Musharraf on Nov 3, 2007, the government resisted calls by the opposition to hold the ex-President accountable for his illegal actions. Meanwhile, there was little progress in determining the role of local governments in the future political set up or the restoration of the parliamentary structure of the 1973 Constitution as envisaged in the Charter of Democracy. The government did manage to secure foreign aid through the Friends of Democratic Pakistan forum but not without attracting controversy over the conditions attached to the US aid in the Kerry Lugar bill.

This issue of the Social Science and Policy Bulletin carries three articles. In the first article, Professor Roger Myerson makes a persuasive argument for why local governments are good for a representative democracy suggesting ways in which the existing electoral rules in Pakistan could be changed to improve political competition and provide more options for aspiring local politicians. This article is topical given the debate on the local government system and makes an important case for its reform rather than outright abolition. Aqdas Afzal then takes a critical look at the microfinance sector in Pakistan in light of the recent repayments crisis facing certain MFIs. With a view to understand the factors underlying this crisis, his article examines some of the practical aspects of microfinance provision that have so far not gained much attention in the public discourse on the topic. The final article by Khalid Mir titled "The Sceptical Economist" discusses the importance of Amartya Sen's work particularly his contribution to our thinking on the issues lying at the boundary of ethics and economics and the limited notion of rationality in neo-classical economic theory.

Local Foundations for Strong Democracy in Pakistan[1]

By Roger Myerson



Amid the great forces pressing Pakistan today, local democracy may seem a small matter. Local democracy was introduced only a few years ago, under General Pervez Musharraf's rule, for small local unions with an average population of under 30,000. But the nature of democratic politics can be profoundly changed when the number of popularly elected representatives is increased by almost 80,000 members of local union councils, compared to about 1200 members of national and provincial assemblies. Although local democracy was introduced by a military ruler for his own purposes and now might seem inconvenient for many politicians at higher levels of government, it can provide an essential foundation for a strong democratic system in Pakistan. To see how, let us first consider the vital relationship between local and national politics, and then we can analyze alternative systems of local elections to see how they could strengthen the national democratic system.

The vital relationship between local democracy and national politics

Just as economic competition should motivate suppliers to offer better values in the market, so democratic competition in the political arena should motivate political leaders to promise better public services and more efficient government.

In a centralized unitary democracy, however, this competitive incentive could fail if no politicians had reputations for good governance. Voters may re-elect a known corrupt leader when they expect that other candidates would be just as corrupt or worse. Successful democracy requires many alternative candidates who also have established good reputations for using public resources responsibly to serve the voters.

Political decentralization creates autonomous opportunities for more politicians to begin building such reputations. If voters expected corrupt wasteful government at all levels, then a local leader who provides better public service could become a serious candidate for higher office. Thus, local democracy can make national democracy more competitive, by increasing the national supply of individuals who have good reputations for using public resources responsibly. Economists understand that the ability of suppliers to take exploitative profits from a market depends on barriers against the entry of new competitors. So in democratic competition, decentralized local democracy reduces barriers against the entry of new political competitors, by distributing opportunities for thousands of local leaders to prove their governing ability.

Many public services, from law enforcement to education, may benefit from supervision by locally elected officials. For local democracy to reduce entry barriers into provincial and national politics, however, it is only essential that the scope of authority for local governments should be substantial enough that a record of successful leadership in local government can demonstrate qualifications for public service at higher levels of government.

When local leaders are seen as potential contenders for higher office, national or provincial leaders could be tempted to try to control local politics by threats of budgetary reductions or administrative actions against local governments

with rival political leadership. But the political benefits of local democracy depend on voters having the freedom to entrust local government to local leaders who could indeed become future competitors for higher leadership. So it is important that the scope of administrative and budgetary authority for local governments should be defined and protected by constitutional law. Funding of local governments must be determined by a revenue distribution rule that is transparently verifiable, so that deviations from this rule can be publicly scrutinized for any indication of local budgets being manipulated to influence local politics. Agents of higher levels of government should not directly interfere in the administrative work of local governments within their mandated domains. As a general principle, legal actions by the national or provincial governments against a local government should require some independent sanction, either from an independent judiciary or from the local voters.

Even within a democratic political party, top leaders may sometimes prefer to control advancement for party activists on the basis of their loyalty to the top leadership, rather than on the basis of their independent reputations for public service, as such reputations can become the basis for contesting leadership of the party. This centralizing tendency has been called the "iron law of oligarchy."[2] But a party's competitive strength depends on its local agents' efforts to win popular support. Incentives for such local political work are strengthened when local agents' political advancement depends on their success in gaining local voters' trust and approval. Thus, when such approval is measured in local elections, local democracy can help a political party to decentralize in a way that (even if it sometimes seems against the interests of top leadership) makes the whole party stronger and more competitive.

Just as local democracy can help make national politics more competitive, so national democracy can also help make local politics more competitive, when national parties have the right to sponsor alternative candidates in local elections. Allowing the major national parties to nominate candidates in local elections can give these parties a vital interest in supporting the institutions of local democracy and in making sure that local elections are fair. Any democratic national party must maintain a reputation for defending its candidates' rights to compete in elections, and electoral abuse by its own people could tarnish a party's reputation. The participation of major parties can make local democracy more competitive, when rival parties sponsor challengers to established local leaders. Local bosses should know that, if they fail to provide good public service, they could face serious challengers supported by a rival national party. Thus, rules that prevent parties from sponsoring candidates in local elections (and in Tribal Areas) should be recognized as weakening local democracy.

Against violent insurgents, some restrictions on nomination to local elections may be necessary, to prevent elections from being stolen by candidates who use force to threaten voters. But such restrictions should not be used to exclude candidates of national democratic parties. A good rule is that any party which is endorsed by at least some minimal number of members of the National Assembly should be able to nominate candidates in all elections in all areas. To maintain a flexible party system that can provide a broadly inclusive range of democratic alternatives, members of the National Assembly should be free to endorse new parties.[3]

A violent insurgency can make local elections more difficult and dangerous, but local democracy can help build a stronger political system, which is essential for defeating antidemocratic insurgents. Insurgents can be defeated only when the political authority of the government is restored throughout the nation, and military operations against insurgents can succeed only by contributing to this political goal. Indeed, a classic study of counterinsurgency warfare summarized its essential mission in one sentence: "Build a political

machine from the population upward."[4] With effective local democracy, party networks extending into all communities can become such a political machine. Successful counterinsurgency requires such networks of local leaders who can establish the government's authority in all communities.

Denying legal and political rights to people in Tribal Areas and excluding national political parties from these areas left a narrow tribal leadership that was vulnerable to militant insurgents. Since 2001, efforts in Afghanistan to build a centralized democratic government without political parties have also been disastrously unsuccessful. Parties are social networks that can distribute power and privilege to their active members, but such networks are needed to mobilize agents who have stakes in sustaining democracy. Military operations can be effective for counterinsurgency only in cooperation with local leaders of democratic political parties.

In the long run, violent insurgencies can be fueled by expectations that some groups will be effectively excluded from political power. When local democracy opens more opportunities for entry into national politics, such fears of exclusion can be reduced.

Reforming local elections for stronger democracy

The strength of local democracy as a foundation for national democracy can depend on the detailed structure of local political institutions. So it is worth carefully considering the democratic structure of the local government and how it might be reformed.

Under Pakistan's local government ordinance, over 6000 local union councils have been elected throughout the country. These union councils have been popularly elected by a voting rule called single non-transferable vote or SNTV. SNTV is a kind of multi-seat proportional representation system, but each voter must cast a ballot that endorses one single candidate. There is no option to vote for any party list; each voter must name one candidate among those available for the seats. Historically, SNTV was introduced in Japan in 1900 by oligarchic rulers who had an interest in keeping democracy weak. We should understand how it can do this.

Under Pakistan's original local-election system from 2000, for example, a voter could cast one vote for a candidate to fill the 8 general unreserved seats on the council, plus separate votes for several other categories of reserved seats for women, minorities, and disadvantaged groups. To see the problems with SNTV, imagine that two factions are competing to control the council, and each has nominated enough candidates to take a majority of the council. Suppose that one faction is preferred by a majority of voters, but this faction has not organized its supporters or directed them how to vote. Without organizational discipline, it could easily happen that most of this faction's supporters might give their general-seat votes to the faction's most popular candidate. Then the other faction could win all the other general seats, even with support from less than half of the voters, by organizing its supporters into 7 equal-sized subgroups and directing each group to cast its ballots for one of 7 candidates for the faction. Such a victory for the minority faction would depend on its leaders knowing accurately how many supporters they have in each subgroup, and on these supporters being ready to obey their leaders' directions about how to vote.

Thus, in the contest for power, SNTV favors factions that have supporters who will obey their leaders' coordinating directives about how to vote. So SNTV tends to reinforce the power of corporate or tribal leaders who exercise authority in patron-client relationships. Democratic elections are supposed to be opportunities for people to choose their leaders, but this basic function of democracy is undermined when SNTV compels voting blocs to identify their coordinating leadership before the election.

These coordination problems under SNTV become more severe when the number of seats being allocated is

larger. So the problems of SNTV may have significantly contributed to the decision in 2005 to decrease the size of the local union councils from 21 to 13.

This bias against less-organized groups of voters can be eliminated by changing to a proportional representation system in which people vote for an entire party list, so that the list that is endorsed by the most voters will always get the most seats. But if people can only vote for a party list, then there is no electoral competition between members of the same party list (as the party's leadership decides how the party's seats are allocated among its listed candidates). For intra-party democracy, it may be better to use an electoral system in which people can vote both for a party and for individual candidates within the party's list. Under such an open-list proportional-representation system, seats are allocated to each party in proportion to the total number of voters who support it, and then the seats of each party are given to those candidates in its list who get the most individual votes.

In the open-list proportional-representation system that is used in Brazil, for example, a voter must name one candidate on one party's list. So the Brazilian system looks very similar to SNTV, in that each voter expresses a preference for just one individual candidate. But in the Brazilian open-list system, a party's supporters can make independent uncoordinated choices among the candidates in the party's list without affecting the total number of seats that the party gets. So the Brazilian open-list system seems a clear improvement over the single non-transferable vote system that has been used in Pakistan's local-council elections (and in Afghanistan's national-assembly elections). When a voter can support only one individual politician, however, the voter becomes dependent on this politician to represent the voter's interests. Thus, like SNTV, the Brazilian rule of voting for only one individual candidate can reinforce patron-client relationships of political dependency.

The unique-dependency problem can be solved by allowing each voter to express approval for any number of candidates in the party list that he supports. Under such an approval-voting open-list system, after each party gets seats in proportion to the number of voters who support it, then the party's seats are allocated to its candidates who were approved by the largest numbers of party supporters. In contrast to the Brazilian single-vote system, which encourages each candidate to cultivate a small bloc of voters who look exclusively to him for representation, this approval-voting system encourages all candidates in a party list to cultivate good reputations for representing all of their party's supporters. Thus, allowing voters to approve as many candidates as they want in their chosen party list can help reduce narrow dependency on patron-client relationships.

I have argued that competitive local democracy can provide the basis for strengthening national political parties. Any political party must rely on the efforts of its local agents to build popular support in their communities, and these local agents must be motivated by an understanding that their long-term career rewards in the party will depend on some effective measure of their service. Approval-voting open-list elections can provide a particularly effective way for a party to measure the breadth of support that each of its local candidates has helped to bring to the party.

We have focused on local council elections because they can provide the primary route for thousands of local leaders to enter democratic politics, thus lowering political entry barriers and strengthening the entire democratic system. The significance of these local councils has been reduced, however, by the current system of giving executive authority to a local union nazim (or mayor) who is separately elected (in a joint ticket with the assistant naib nazim). When one local official's election matters so much more than all the others, the basis of local democracy becomes narrower. So to strengthen the local base of democracy, it may be better to give local councils the power to select their local nazim, instead of having nazims separately elected.

That is, the arguments for parliamentary democracy should be applied not only to national and provincial governments but also to local governments at all levels, including the local union governments as well as the larger units of local government at the tehsil and district levels. At the district level of government, under the current rules, the district council is formed by the nazims of all local unions within the district, plus a small number of other representatives elected by the union councilors. This system of constituting district governments from union governments seems well designed to encourage cooperation between the different levels of local government. Certainly, a district nazim should have a strong incentive to maintain cooperative relationships with the local union nazims when they are members of the district council that elects him.

But to provide a way of identifying popular local leaders in larger districts, a district council should also include some representatives who are elected at large by the voters of the whole district, using the approval-voting open-list proportional representation system. With an average of about 60 union nazims in a district, about 15 at-large representatives might be appropriate. Even if these at-large representatives constituted only 20% of the district council, they could make a vital contribution to district politics, as representatives with broad approval from voters throughout the district. It would be natural to suggest that the district nazim should be chosen by the district council from among these at-large representatives. Then the position of at-large representative in a district council could become an important step in the ladder of democratic advancement (between local union councils and provincial assemblies) for politicians who earn the trust of voters in the district.

Conclusions

Democracy in Pakistan faces formidable challenges. Intervals of military rule have ended with recognition that effective stable government must be based on civilian political organizations that are widely trusted by the voters. Now many areas of Pakistan are threatened by violent guerrilla forces, and such insurgencies can be defeated only by effective cooperation between national military forces and local political leaders who are trusted by their communities. The nation urgently needs its political parties to develop broad networks of national and local leaders who have earned the trust of voters throughout the nation. Successful democracy requires a flexible system of strong competitive parties and a plentiful supply of candidates who have good reputations for responsible public service. I have suggested electing local councils by a system of open-list proportional representation with approval voting, as a mechanism for inducing parties to strengthen their base of local democratic leadership in all communities. Such local democratic leadership should become a primary source of candidates who can advance democratically to higher offices, after first proving their ability to earn popular approval at the local level. Pakistan's federal structure can be its greatest asset for building a strong democracy, when provincial and local governments are structured to reduce entry barriers into politics and to develop the nation's supply of responsible democratic leadership.

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Notes

[1] This paper has been profoundly influenced and improved by comments and suggestions from Adnan Khan, Ali Cheema, and Asim Khwaja. The author gratefully acknowledges their help but accepts all responsibility for any errors that remain. A broader analysis of Pakistan's constitution is also available at http://home.uchicago.edu/~rmyerson/research/lahore.pdf

[2] Robert Michels, Political Parties: A Sociological Study of Oligarchic Tendencies in Modern Democracy (NY: Hearst, 1915).

Continued on p. 20

Microfinance 911: The Underlying Causes of the Present Crisis

By Aqdas Afzal



From October 2008 onwards, the microfinance sector in Pakistan (MF, hereafter) has been facing a crisis some key microcredit providers in the sector are facing enormous difficulty in collecting payments on their microloans. Not only are MF clients refusing to repay their loans, in some areas, loan officers have also been attacked by angry members of the community.

Until a few months ago, MFIs could do no wrong. MFIs tirelessly kept apprising the public about MF's "success" in poverty alleviation. Moreover, MFIs have been touting their stellar recovery rates as the basis for charging 20-25% interest (fixed balance) on their microloans with effective rates of interest in the vicinity of 37%. The sector even grabbed the attention of the Pakistani Prime Minister who, while meeting with a delegation from the MF sector on April 15, 2009, said "[m]icro-credit is the best way of reaching out to the marginalized and the forgotten and can change the destinies of the have-nots of the country" (Daily Times, 2009). The MF sector also figured very largely in the imagination of Pakistan watchers abroad. Nicholas Kristof of the New York Times recently wrote about the success of MF in a special Times issue titled "Saving the World's Women."

Against the backdrop of such apparent success, it is extremely important to understand as to what has gone wrong with the MF sector because if the present crisis is not handled properly, it could seriously jeopardize the sector's future growth. The purpose of this article is to try and highlight the underlying causes behind the recovery crisis in the MF sector instead of merely looking at the symptomatic factors, which fail to properly account for the current situation.

As such, there has been very little work done towards understanding the real causes behind the present MF crisis in Pakistan. According to the MFIs, the recent crisis has been brought about by the changes in the political system (structure). It is argued that, with the change of political regime from a soft-authoritarian (Wade, 1990) model to a quasi-vibrant democracy, vested interests have been increasingly able to use activism to serve their nefarious ends.

According to this argument, the current crisis developed in large part due to the un-solicited and ill-advised interference from the elected representatives who made public pronouncements about writing off outstanding microloans. But to argue that the entire MF crisis is simply driven by political patronage is facile and does not attempt to look deeper beyond the symptoms.

Sub-prime microloans

The similarities between the ongoing sub-prime lending crisis in the US and the present MF crisis in Pakistan are particularly instructive in understanding the present problem and in proffering possible solutions.

Although the U.S. financial crisis has been attributed to many different factors, the general consensus is that the present recession was started in no small measure by the sub-prime lending to customers with less-than-perfect credit. In two separate studies on the financial crisis, Bierne and Bianco suggest that this was largely due to the deregulation in the mortgage markets and attendant tax reform, which made higher-cost borrowing attractive, as well as the availability of a large a

mount of credit. Furthermore, to increase the size of their existent mortgage portfolios, many lending agencies consciously relaxed their underwriting standards; home mortgages were also bundled into innovative financial products and sold in secondary markets. In this way, there emerged a gulf between those who were underwriting loans and those who were responsible for collecting on them, further fuelling the trend towards relaxed underwriting standards. During 2006 and 2007, clients with low credit ratings who had been offered such sub-prime lending began to default. Sparking off a chain reaction, this created problems for clients who had banked on refinancing their mortgages as the value of these clients' homes depreciated.

A cursory investigation into the number of active loans shows that the growth in MF sector was defying trends. True, the Pakistani economy grew at a respectable pace between 2002 and 2008 averaging around 6.34% per annum. However, the magnitude of growth in microloans was fuelled, in large part, by the increased availability of subsidized funds (credit) from apex institutions like the Pakistan Poverty Alleviation Fund (PPAF), rather than the demand of microloans as well as the large differential between cost of funds and the price that was being charged by MFIs at a rate of 20% (fixed balance). Figure 1 shows how subsidized funds from PPAF alone increased exponentially in a matter of few years.

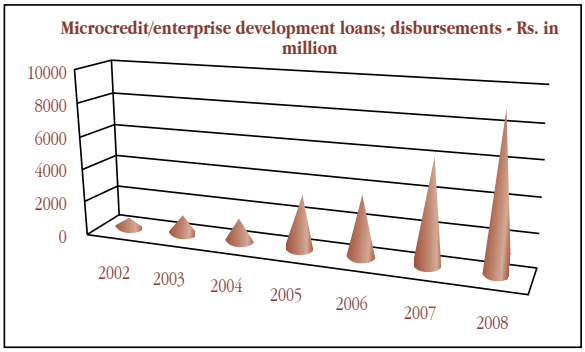


Figure 1: Growth of MF funds from PPAF, Source: PPAF website

This led to a de facto relaxation, in the sense that in a single-minded focus on increasing the client base, MFIs seem to have provided short shrift to due diligence and Know Your Customer (KYC) protocols. Staffed with accountants in senior decision-making positions, many of the leading MFIs made a fundamental error in turning a blind eye towards due diligence and comprehensive client screening in favour of portfolio growth. Customer service was grossly neglected, as evidenced by the lack of a customer service department in most MFIs and client attrition rates (ratio of exiting clients) became very high, especially among mature clients.

Albert O. Hirschman wrote in his seminal book *Exit, Voice and Loyalty* that a decline in an organization can be captured by two main indicators: exit and voice. In other words, when clients become dissatisfied with the deteriorating quality of goods or services being proffered by an organization, they usually respond by either protesting or exiting. As mentioned earlier, the channels for client protest were already non-existent in the MFI sector - there were no customer service departments that would log and analyze client complaints. Therefore, a rising number of client exits should have raised a number of flags for the MFIs. However, the MFIs were so focused on portfolio growth that they ignored client exists at their own peril. MFI field managers were able to compensate for exiting clients by feverishly adding new clients. In a sense, under pressure from their top bosses to expand the client base, the MF field managers started making sub-prime microloans. With mature clients exiting and new clients joining, without due diligence, the portfolio quality eroded at a rapid speed and the present crisis was lurking just around the corner.

Credit is not enough

In addition to sub-prime lending, the reluctance of the MF sector in providing business development services (BDS) to MF clients also contributed to the present crisis.

In the context of MF, BDS are usually those services that assist clients in maximizing the return on their micro enterprise. Unless clients are provided BDS - which includes programs like financial literacy, advising on enterprise selection, diversification and technical know-how on how to make

the microenterprise profitable - it will be highly unlikely that poor MF clients will be able to turn up a profit of 25% in the very first year of entrepreneurial activity with the interest charged on microloans varying between 20-24%.

In the absence of BDS, could it be the case that the main motivation behind obtaining microloans is to use that money for immediate consumption? According to the UNDP report (2000) "the hard-core poor, having few assets, are reluctant to take on the risks of credit, and when they do, it is usually for emergencies and consumption, not for production."

MFIs that specifically provide microloans to women do, perhaps, improve women's stature within their households. This is a positive contribution. But, the impact of many microloans stops with empowerment. Empowerment in women's status and a tangible value addition in the quality of life MF clients are two completely different things. There is a real possibility that women who obtain microloans merely end up being a source of borrowed money for the men in their family, who use microloans for non-productive activities.

The fact that the nature of microloans is fungible exacerbates this problem. For instance, if a particular MF client falsely claims that she/he needs a microloan for starting a microenterprise, what checks can a MFI bring into effect in order to stop the microloans being diverted towards consumption purposes? In the absence of BDS, the short answer is none. Against the backdrop of no BDS, touting the odd case of success in international periodicals might be helpful for the MFI's image building, but it shall not assist in making tangible value addition in the lives of MF clients or in averting crises.

An ideal use of BDS in improving the quality of lives of MF clients is being done by the Bangladesh Rural Advancement Committee (BRAC) since 1972. BRAC, under the leadership of Mr. Fazle Abid, has developed integrated sector-specific enterprise development services for illiterate women. For instance, these services provide MF clients with the following: credit; training in improved techniques; improved breeds and technologies; technical assistance; necessary inputs; monitoring and problem solving; marketing of finished goods. According to a study by Halder in 2003, the overall income levels of MF clients who had received training through BDS were significantly higher than that of those who has not received training.

New clients for microcredit

In the last few years, there has been increased competition, and along with it, increased overlap in the sector. In order to cut down on market research which would have enabled the MFIs to enter virgin territory, a lot of the new MFIs simply located themselves in the same communities which were being serviced by the old players. While increased competition often leads to improved service quality, it created its own set of problems in this context. Ideally, those borrowers who were clients of older MFIs should not have been able to simultaneously obtain new microloans from other MFIs. MFIs' field teams, however, under pressure to continually bring new clients, often simply gave out loans to the existing clients of the older MFIs. Such credit overlapping created myriad problems by increasing the debt of already leveraged households.

However, the problem is more complicated than a simple lack of due diligence, which might be erroneously inferred from the above. The fact that there was not, and still is not, a joint customer data base with information on the borrowers of different MFIs certainly compounded the difficulty. As the MF sector expanded through the entry of new MFIs, MF clients could use their microloans as veritable credit lines, using the loan obtained from MFI B to service the loan they had obtained from MFI A and so on. Eventually, the situation came to a head as the MF sector reached saturation locally in terms of both how many new microloans it could give out and in terms of new MFI entrants into the market. As a result new microloans, which were being used to revolve credit by some MF clients,

were not available any more. This put pressure on clients who had used their microloans for consumption and led to default.

Concluding recommendations

In conclusion, even though access to subsidized funding is extremely important for the growth of the MF sector, donor organizations must ensure that the MFIs, under any circumstances, relax their underwriting standards in order to expand. Donor agencies, PPAF, for instance, must track the performance and impact of their subsidized funds rigorously instead of only examining financial statements. In addition, regulators like the Securities and Exchange Commission of Pakistan (SECP) and the State Bank, regulator for MFIs and microfinance banks (MFBs) respectively, must ensure that MFIs and MFBs invest in building excellent customer care departments as these are essential in raising early warning flags. This would require a paradigm shift as the orientation of the sector would have to turn inward towards the clients as opposed to being outward towards the external stakeholders, at the moment. In addition, MFIs and MFBs should be encouraged to develop integrated and effective business development services (BDS) in order assist clients in putting microloans towards profitable uses. Finally, the MF sector should support the efforts to develop a centralized data base, like a Consumer Credit Bureau, which allows them to determine the credit history of old borrowers and prevent microloan duplication.

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The Sceptical Economist

By Khalid Mir



It comes as no great surprise given Amartya Sen's vast body of original and insightful work that he should be considered a modern-day sage and one of the finest public intellectuals of our times. What does, however, remain somewhat inexplicable is why so few of his ideas have filtered down to mainstream economics both in terms of how it is taught at the university level and in terms of the content of standard economics textbooks. That may be a consequence of the reluctance of academic economists who have heavily invested their time and effort in a particular framework to be open to new ideas, or it may be a result of the close intertwining of the dominant liberal political tradition and the picture of human beings, homo economicus, in the discipline. Be that as it may, the current economic crisis has acted as a catalyst for a rethink of the nature, scope, and relevance of economic theory with a keener interest than ever being shown in the different perspectives that had been floating around the edge of the mainstream (viz., behavioural, experimental, and evolutionary approaches).

Underlying this skepticism towards the mainstream is not just dissatisfaction with what some see as an overly abstract, formal, and technical approach but, also, a much deeper suspicion: namely, that economists' approach to human behaviour has, with their simple models and rigid conceptual framework, often been a spectacularly narrow one, an approach that is merely a limited fragment of the whole. In fact, economic historian David Colander has recently commented, echoing the thoughts of Richard Thaler and Albert Hirschman before him, that we may be entering an age in which the fundamental assumptions of economic theory-rationality, self-interest, and equilibrium-are challenged and where we recognize that economics is the study of bright (but not infinitely bright) agents in poor-informational environments.

No economist, I believe, has done more in furthering our understanding of the limitations of the neo-classical framework than Harvard University Professor, Amartya Sen. He has written on poverty, inequality, famines and entitlements, social choice, as well as on issues relating to identity. His contribution in each area has been significant-both in terms of enhancing our theoretical understanding of the issues and in terms of policy relevance. However, it is arguably his concentration on foundational issues and, in particular, his striking attempt to open up the possibility of realignment between ethics and economics-that may ultimately prove to be not only the most illuminating but also the most far-reaching in its import on economic thought.

It is impossible to summarize the breadth and brilliance of Sen's work so I shall consign myself to the relatively easier task of saying why I think he is a thinker whose ideas the more reflective economists and social scientists can, indeed must, engage with.

Ethics and Economics

In 1987 Sen wrote a profound book entitled 'On Ethics and Economics' that reminded economists who were unaware of their own tradition that the origins of economics, or at least one of the origins, lay in moral philosophy (or what might loosely be called political economy). It is worth recalling that it was only around the 1930s, or possibly the early 1900s if we include Pareto's work, that economics made some headway in

purging itself of psychological content and ethical considerations or what some thinkers, perhaps taking the lead from the logical positivists, called "metaphysical nonsense". This development is famously encapsulated in Lionel Robbins' words:

"[I]t does not seem logically possible to associate the two studies [ethics and economics] in any form but mere juxtaposition".[1]

From here it was not a huge step to argue that the theory of utility which underpinned consumer behaviour need not say anything about the nature of one's preferences; in fact, utility is primarily seen as a mere representation of preferences whose relevant features were their structure (certain formal conditions such as consistency and completeness) rather than their substance-ethical or otherwise. Sen's observations here are acute: not only should we be aware of the plural nature of the substantive theories of utility (is it happiness, desire-fulfillment, or pleasure?) but in practice, the tendency to assume that utility is both one's welfare and the maximand in choice behaviour leads to the unlikely conclusion that one always sets out to maximize one's welfare. This seems unreasonable because we may have limited cognitive capacities and foresight, or we may have limited information, time, and experience to make a sound evaluation of what is good for us; and even if do know what is good, we may still prefer what is bad, or lack the will to choose the good.

The problem arises, in part, because we have "wanton preferences", whereas Sen points us to the importance of having reasons for choice, a position that opens up the debate again about whether we desire something because it is good, or whether something is good because we desire it. A theory that takes preferences as given, can ultimately say little about the nature of preference formation or change, and implies a particularly thin concept of rationality.

Rational, Self-interested individuals

The ambivalence of utility theory to the substance of our preferences-what Sen calls a "remarkable inexactness of content"-has, in practice, been overlooked by economists insisting that the "first principle"[2] of economics is actually self-interest. And this, along with rationality, goes up to form the core components of what we usually take to underlie economic behaviour. Sen aims not to abandon economic theory but to enrich it so that we can have a deeper, more realistic, and more pluralistic notion of economic behaviour, and in this sense it is correct to say he has initiated a "second stage of classical theory".

In terms of self-interest, Sen's main point is that it is unreasonable to assume that we are exclusively guided by our self-interest since to do so would mean jettisoning a vast array of distinct ethical thinking and words. Why should we, for example, think of altruism, sympathy, commitment, a sense of duty, fairness, and trust, as merely veiled forms of our own interest? And why should we think of kindness as somehow suspect? Even if we do often behave in self-interested ways it does not follow that we ought to, and it is in this context that we can be especially thankful to Amartya Sen for his rehabilitation of Adam Smith's ideas; to wit: the latter's insistence that an excessive focus on "self-love" (self-interest) may, if not curtailed by manners, codes of conduct, and imagination lead to self-deception and unhappiness. In fact, the Adam Smith who could write: "without the mediation of the other, we have no determinate moral selves. . .we do not have a moral self outside of the human community" is, as Sen repeatedly informs us in his writings, far removed from the caricature that some economists have helped in drawing.

One way in which economists have usually justified this "first principle" has been to conflate it with rationality, as if to say: since we ought to be rational we ought to be self-interested (or, since we are rational, and since it is rational by definition to be self-interested, it follows that we are, in reality, self-interested). This instrumental view of rationality is, in fact, the dominant one in economic thinking. Sen's trenchant critique of it highlights not only the famous result of the Prisoner's Dilemma (that two people interacting with one another

may, perversely, actually be worse-off if they both act in a self-interested way) but also the possibility that we may, at times, make "counter-preferential" choices by going against our own self-interests. In fact, his claim is even more bold and controversial than it first appears since what he seems to be saying is that for certain forms of ethical behaviour (such as commitment, say) we may actually be going against not only our own interests but our self-goals by taking into consideration other people's goals.

In short, his critique leads us to ask not just if an agent who is devoted to maximizing his self-interest is a sort of "rational fool," lacking somewhat in the freedom to think even, but whether the discipline's commitment to methodological individualism does not, both in theory and practice, lead to a neglect of our genuine sociality and make a self with broader and deeper attachments seem an anomaly.

We do not need to concern ourselves with the other main view of rationality that underpins the neo-classical framework, the internal consistency view, since it is, as Sen rightly notes, quite bizarre. Suffice it to say, an approach that tries to disentangle the act of choice from the reasons for choice, whether they be ethical or not, is open to the charge that it is attempting to do the impossible in explaining behaviour without reference to anything but behaviour.

To summarize this part of the discussion we could say that Sen's views of rational choice theory are fundamentally in line with the aims of his whole project of opening up the most central economic concepts to a plural reading, and thereby making space for ethical terms and considerations in economic thought. It is clear that the notion of rationality that he champions is a defensible one, much closer to our ordinary language notions than the formalized, axiomatic ones of economic theory. And the importance of such an undertaking can hardly be denied. As Sen says, "[i]t is important to reclaim for humanity the ground that has been taken from it by various arbitrarily narrow formulations of rationality."

Welfare Economics

Amartya Sen's work has reached a fairly wide audience in no small part as a consequence of his critique of utilitarianism, the dominant tradition in welfare economics, and his pioneering of another perspective which he called the "capability approach." The arguments against utilitarianism are fairly well rehearsed and do not need to be elaborated upon in detail here. But it is worth commenting that one of the most important aspects of that critique is that the standard approach seriously neglects important values such as freedom and rights, values that have traditionally been thought of largely, but not exclusively, as important in their own right, independently of their consequences for welfare.

His main aim is, I think, not to offer an internal critique of that tradition since that would be to accept a person's utility as the relevant feature that needs to be looked at when assessing how well they're doing and how well a society is doing. Such a critique might quite reasonably ask how a society's welfare (utility) can be aggregated from individual welfare (utility) when our view of utility as a mere mapping of preferences seems to limit the possibility of inter-personal comparisons. It might also question whether what we are left with-the notion of Pareto efficiency-is not, with its lack of concern for distribution, really a rather poor way of assessing a policy, an institution, or the state of a society. As Sen pointedly remarks with regard to the limitations of such a notion, "a state can be Pareto optimal with some in extreme misery and others rolling in luxury."

Sen's main line of attack is to suggest that when evaluating the opportunities an individual and a society has, the relevant "evaluative space" should be a person's capabilities and not her utility, as it is under the welfarist views of utilitarianism and pareto efficiency. What we should ultimately be concerned about is, he argues, the variety of things people can actually do and be, and not simply the mental satisfaction they may derive in fulfilling their desires. Such an approach views advancement, then, as the expansion of one's capability set-the range

of things we can do and have reason to value- and could, quite naturally, include desire-fulfillment or happiness as one of the important elements in that set.

As with his work on rationality, the importance of both freedom and reason-as well as the interplay between them-come to the fore in the capability approach. For what the standard (utilitarian) approach so painfully misses out on is a consideration of different types of freedoms -process and opportunities freedoms. To the extent that we assess welfare in terms of outcomes irrespective of how we achieved them there seems to be a serious neglect of the value of choice in itself, the process aspect of freedom; and to the extent that we evaluate welfare in terms of the best option amongst a set of options then we ignore the value of having a range of valuable opportunities. Of course, we can acknowledge that freedom and well-being will often go together, but just because two variables move in the same direction, it does not necessarily mean they are not distinct objects of consideration. In any case, as Barry Schwarz notes, it is not at all clear that as modern societies progress they will avoid facing a "paradox of choice," whereby greater freedom and well-being do not go hand in hand. More is not always better, and this seems especially true if 'more' leads to greater inequalities since, as much of the recent work on happiness indicates, inequalities are one of the chief reasons why reported happiness levels are stagnating in developed countries.

Another failing of the utilitarian approach-and one that is perhaps more directly pertinent to developing countries like Pakistan-is that it takes no account of the possibility that people may adapt to their circumstances and report levels of utility or well-being that are in stark contrast to their objective conditions. As Sen remarks, "the utility calculus can be deeply unfair to those who are persistently deprived" and this has profound consequences for how we assess the welfare of women, minorities, the undernourished, and the most oppressed people in a hierarchical society, since those people may eventually come to terms with, or be encouraged to come to terms with, their own deprivation, viewing it as part of the 'natural order' or of their individual fate.

Conclusion

We are faced by a myriad of pressing problems: ageing populations with little or no access to health care, poverty and stark inequalities, social and economic injustice and the potential of environmental catastrophe. If economics is going to have anything meaningful to say on these issues then it will, I would suggest, have to start thinking out of the box. Already, the rapidly emerging field of behavioral economics is confirming what most of us instinctively felt was correct but was denied by large parts of mainstream economic theory: that we often get important decisions wrong, sometimes follow the herd, can be myopic, are swayed in our decisions by norms and our emotions.

But if we are going to think seriously about issues like the allocation of resources over time, about equality, fairness and global justice, then we need to go further and re-engage with ethics, for it is hard to imagine that these issues can be adequately addressed conceptually if economics is armed only with ideas like efficiency and an empty concept of 'the good'.

Ultimately, what may be needed is a paradigm shift, a fresh way of asking questions. So, for example, it may well be that the environmental problem is a market failure, a consequence of the lack of adequately defined property rights, a poor incentive structure or inappropriate discounting, but we could-and should-be asking whether it is also, or primarily, an ethical failing, a reneging of our responsibilities-both to non-human beings and to future generations.

Amartya Sen's work is as good a guide as any in pointing us away from economics' traditional "commodity fetishism" and towards both a broader and richer understanding of human flourishing and to the importance of having the freedom to envisage and work towards the types of lives we might want to live. He has consistently and clearly advocated the need to take values and the evaluative process back into the heart of economic theory as can be evinced by his stressing the ability, the fundamental human ability, to reassess

our preferences and form what he calls "meta-preferences." And in studying his reassessment of economic theory we may be led to a view that has a wider, more pluralistic notion of our motivations and our different evaluative standards, a more capacious understanding of the self and of rationality. Perhaps the type of economics we do ultimately reflects the type of individuals we think we are, and ought to be. In that sense it could be argued that no-one does economics better than Professor Amartya Sen.

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Notes

1 Robbins, L., (1935), An Essay on the Nature and Significance of Economic Science, Macmillan, London.

2 The term is from Edgeworth (1881): "The first principle of economics is that every agent is actuated only by self-interest". See Bowles, S. (1998), Endogenous Preferences: The Cultural Consequences of Markets and Other Institutions, Journal of Economic Literature, 36,1.

Research Notes

Several faculty members at the School of Humanities, Social Sciences and Law (SHSSL) at LUMS are actively involved in research in the fields of Economics, Political Science and Law. The research notes collected below thematically organize their latest work and highlight its policy relevance.

Macroeconomics and Economic Growth

Syed Zahid Ali has been working on exchange rate, taxes, and interest rate policies. Using non-stochastic models in continuous time, he checks the proposition that if the system is stable then currency devaluation cannot both contract employment and worsen the balance of payments of the country. Other models by Zahid Ali examine how the supply-side effects of the exchange rate and taxes interact to complicate the effects of currency devaluation, using first stochastic models in continuous time and later in discrete time. He has also worked (with Sajid Anwar) on testing the productivity bias hypothesis using data from the latest version of Penn World tables for the three South Asian economics of India, Paksistan and Sri Lanka. Currently, his work involves models that incorporate forward-looking variables, backed by micro foundations, using which he is attempting to analyze issues such as the correct exchange rate and interest rate policies for less developed countries.

In the same field, **Antonio Marasco** has conducted a study (co-authored with Ehsan Choudhri and Farhan Hameed) which uses a dynamic general equilibrium model to explore the macroeconomic and the welfare effects of a large increase in FDI, such as that experienced recently by a number of emerging economies. A second ongoing project focuses on the effects of FDI on host country's welfare in the context of a trade model with monopolistic competition and firms characterized by heterogeneity in their productivities. Empirically, Antonio has tested the link between FDI and growth. In one article, he has tested the relationship in the presence of economic integration, while in another he studies the role played by technology. Both of these are ongoing projects, and he plans to rerun them after collection of newer and more complete data. Separately, he has also been interested in researching the relationship between income inequality and growth via technological progress.

Ijaz Nabi's latest research focuses on economic growth, income distribution and poverty reduction. Between 1990 and 2007, South Asia, led by India, saw rapid economic growth and impressive poverty reduction. His on-going research assesses the quality of that growth in view of the fact that it is driven in all countries, with varying degree, by remittances and rapid increase in consumption. The impact on the economic structure of South Asian is being examined in order to asses whether there is a shift of labor towards higher productivity, higher wage employment that would sustain growth and improved living standards over a longer period of time. The principal findings indicate that growth in South Asia is driven by the services sector, which in most countries, comprises activities are largely non-traded and have relatively low labor productivity. Ijaz Nabi's research further points out that ongoing global financial crisis and a sharp reduction in the price of oil have impacted the economies (the US and the oil rich middle-east) where remittances to South Asia originate; this could have far reaching consequences for South Asia and constitutes a major vulnerability that needs to be better understood and managed. Ijaz is currently advising the government; he is a member of the Prime Minister's Economic Advisory Council as well as the Planning Commission's Panel of Economists.

Efficiency, Agriculture and the Rural Economy

Abid Burki and **Mushtaq Khan** together conducted research on milk supply chain networks and the efficiency of smallholder dairy producers

in Pakistan. Their paper examines the effect of major depression on the technical efficiency of dairy farms by using data of 800 smallholder commercial dairy producers from rural Punjab. It studies the impact of rural milk supply chain, known as milk district, on smallholder efficiency by employing stochastic production frontier and technical inefficiency effects model Psychological and somatic symptoms are recorded using WHO's Self Reporting Questionnaire (SRQ-20) and an index of depression is constructed by using a random effects binary response model. The results of this research suggest that 12% of farmers were suffering from major depression while 31% respondents had mild depressive disorders. Major depression was significantly related to decrements in technical efficiency; dairy output of farmers suffering from major depression significantly dropped due to technical inefficiency. The paper also calculates annual loss to Pakistan's economy due to major depression. Dr. Burki has also carried out research regarding Pakistan's banking sector. His recent paper, coauthored with Shabbir Ahmad of the International Islamic University, examines the impact of bank governance changes on bank performance by taking unbalanced panel data of Pakistan from 1991 to 2005. The findings of this paper suggest that, in general, financial reforms improve banking sector performance. The winners from the governance change were the privatized banks and private banks selected for M&A, whose post-governance-change efficiency levels have enabled them to exploit new profit making opportunities.

Dr. Mushtaq Khan is a member of the Working Group on Institutions for Development of the Panel of Economists set up to produce a Medium Term Plan for Pakistan.

Political Economy, Governance and Social Protection

Ali Cheema's research work can be broadly classified into two themes: (a) Descriptive work on poverty, social and income mobility and village and district-level development outcomes; and (b) governance, institutions and political economy. His paper, "Geography of Poverty: Evidence from the Punjab," co-authored with Manasa Patnam and Lyyla Khalid is the first paper to provide robust statistical estimates of poverty and development indicators across Punjab's thirty-five districts. Another paper makes use of a unique panel data-set on development outcomes in the district and measures the degree of convergence in development outcomes across villages between 1961 and 1998 and further attempts to explain the considerable divergence found. Dr. Cheema has used this work to inform the design of poverty alleviation and social protection strategies that he has worked on as part of the Planning Commission's Panel of Economists and as part of the Chief Minister Punjab's Economic Advisory Council. His work on institutions and political economy analyzes the manner in which state institutions and local village-institutions impact development outcomes. Ali Cheema's paper (with Shandana Mohmand and Asjad Naqvi), "Bringing Government Closer to the People: Who Gains Who Loses?," analyzes the extent to which decentralization at the union-level results in elite capture of public service delivery. Finally, his paper (with Bilal Siddiqi) "Colonial Village Institutions, path dependence and public good provision" estimates the extent to which development outcomes at the village-level are affected by initial socio-economic inequality within the social structure of villages.

Miguel Loureiro is one of the founding members of Research and Information Systems for Earthquakes in Pakistan (RISEPAK). Presently, Miguel is a doctoral candidate at the University of Sussex, looking at the impact of the 2005 earthquake on social institutions and value systems in Pakistan-administered Kashmir. In his latest papers, he assesses the resilience of informal social protection mechanisms in Pakistan, and problematises the concept of "community" in rural Pakistan. He has also started revisiting notions of social stratification within South Asian Muslims.

Muhammad Farooq Naseer has worked on various issues of economic development ranging from the economics of education and health, social capital, farm efficiency and political economy. His latest work attempts to evaluate the impact of government policy on certain outcomes of interest. For instance, he and his co-authors examined the impact of recent schooling reform under a public-private partnership on learning outcomes. Their research established that child-friendly classrooms tended to improve student performance in languages as well as mathematics. Furthermore, in work currently in progress, he is attempting to determine the effectiveness of a community-led sanitation program in improving rural hygiene and health in two union councils in the period 2007-08. It is anticipated that this program will be expanded nationwide. Hence it is crucially important to learn the lessons from this pilot through a rigorous impact evaluation before scaling up program coverage.

Game Theory and Behavioral Finance

Hanjoon Michael Jung's previous research in this field has looked at the general role of news media as a means of information transmission. He already showed that in a conflict situation, by using news media, the sender can influence receivers' decision-making process. He has also worked on modeling hierarchy based on endogenous power system. In this model, powerful players can raise their status to publicly establish their power and wealth. His current research extends the game introduced by Crawford and Sobel (1982) and introduces a new concept of "Complete Equilibrium" to deal with the situation in which the receiver has systematically wrong beliefs about the sender's signal. He situates the new concept of "complete equilibrium" in comparison to the concepts of "perfect" and "Nash" equilibria and through his research, develops a system that allows general games to be solved using the Bayesian Inference.

Hammad Siddiqi's research is in the area of behavioral economics and finance. He has shown that a behavioral bias called the lure of choice aggregates to the market level, hence directly affects prices and allocations. This bias can potentially explain a few puzzles in financial markets including the closed-end mutual fund paradox. Currently, he is looking at how analogy based thinking or coarse thinking explains a few puzzling results in industrial organization He shows that such thinking can explain the collusive outcome in a Bertrand competition with increasing marginal costs. Furthermore, he has shown that the two main aspects of coarse thinking, that is, transference and framing, are present in an experimental options market. He is also developing a framework for asset pricing in which ambiguity plays a central role, showing how ambiguity makes agents infra-marginal or price insensitive with important implications for market volatility and existence of market equilibrium. On the policy side, Hammad's work involves the issue of Hawala, whereby he explores how interactions between formal banking and informal Hawala greatly diminish the ability of the state bank to affectly run a monetary policy. Also, he has looked at how badla financing creates microstructure rents, concentrating the de facto power in the hands of a few powerful brokers and hence stalling the process of reforms in the stock exchanges of Pakistan.

Trade, Economic Geography and Public Economics

Turab Hussain's research interests have ranged from migration theory and policy, poverty and rural development to trade and development. His research on migration employs the extended family framework instead of the standard Harris-Todaro model, whereby the family rather than the individual is treated as the relevant decision making unit for migration. The policy implications of his research indicate that developmental policy may lead to counter-productive results; urban employment subsidies may increase the pull factors of migration, hence leading to greater unemployment in the long run. Similarly, rural subsidies or lump sum transfers to rural households may, counter-intuitively, make migration more attractive by reducing the costs

of migration. In another paper, Turab Hussain explores how the rate of migration may not be positively related to the degree of networks present at the destination; using an extended family framework, it is shown that a greater number of previous migrants may crowd out opportunities for new ones, hence reducing migration incentives.

Anjum Nasim's research interests include macroeconomic policy, international trade and public finance. His recent research, co-authored with Sajal Lahiri at Southern Illinois University, specifically examines the potential for the reform of sales tax and tariffs in Pakistan. The research looks at whether tariff revenue should be substituted by consumption tax revenue and at whether tariffs on intermediate and final goods should be altered. Analysing welfare effects, the research concludes that replacing tariffs on intermediate goods with increased consumption tax would be welfare reducing. Also, optimal tax and tariff calculations indicate that Effective Rates of Protection in Pakistan can be lowered by decreasing tariffs on final goods and raising them on intermediate goods. Another recent paper by Anjum Nasim and Sajal Lahiri develops a trade-theoretic model to calculate the optimal level of rebate provided by the Government of Pakistan; it concludes that as the Government becomes less revenue constrained, national welfare would be boosted by increasing the rebates given to the exporting sector.

Political Science

Shandana Mohmand's research is focused on the empirical analysis of the impact of decentralization, colonial village land settlement histories and village-level informal institutions on voting behaviour, socio-economic inequality and the politics of public service delivery in rural Punjab, Pakistan. The bulk of her current work concentrates on informal local governance structures and non-state political actors at the village level in Punjab. Her paper (with Ali Cheema and Manasa Patnam), "Colonial Proprietary Elites and Institutions: Persistence of De Facto Political Control" finds that the historical control of de jure political and economic power is a precursor of de facto political control by non-state actors in Punjabi villages today. Shandana's PhD thesis attempts to analyse voting behaviour in rural Punjab by laying out a model for household-level voting motives in unequal and clientelistic settings, and uses primary data to come up with measures for this variable.

Rasul Bakhsh Rais's current research focuses on the relationship between the tribe and the state in Pakistan's Western borderland. According to his research, there is a dialectical relationship between the tribe and the state. Both of them represent an authority structure, institutions, leadership and rules to govern local populations. While the modern notion of national sovereignty and territorial control would require assimilation of the tribe into the larger national community, the tribe and its chieftain would strive to maintain their autonomy, traditions, and political arrangements. The ethos and structural needs of the two to survive, and for the state to expand, come into clash. The research therefore raises the issue of how to go about assimilation or integration of tribal regions without provoking conflict. One of the central questions of Rasul Bakhsh's research is whether the Pakistani state pursued a well-designed, elaborate and consistent policy of effecting social change through modernization process in the western borderlands, or has it relied on the colonial framework of "separation" and indirect control? The focus is how the three international systems-British colonial, Cold War, and American hegemonic have defined and redefined dynamics and interactive process between the tribes and Pakistani state.

Professor **Mohammad Waseem** has been coordinating research on Religion and Development (RaD) sponsored by DFID-University of Birmingham. Waseem is the team leader of one of the research components - dealing with the role of faith communities in conflict transformation and long-term development. He has conducted field research in Jhang district. This component deals with resettlement and rehabilitation of communities after the sectarian conflict that exacerbated tensions between Shi'as and Sunnis. This project would bring out policy implications for official and non-official initiatives in this

regard. In addition, Dr. Waseem is working on his new book "Political Conflict in Pakistan". This book deals with ethnic, religious, linguistic, constitutional, electoral and civil-military conflicts.

Law and Policy

Asad Farooq is carrying out research that is premised on the contextual approaches to law and law-doing. Much of this work has been tied to ongoing engagements with social movements. During his thesis work, he was engaged with peasant communities struggling for land rights in Malawi, whilst researching on the implications of dominant discourses of governance for the social majorities, and examining languages and forms of resistance to these. It represents a study in both legal imperialism and the decolonizing of law. Similarly he has worked on developing a jurisprudence of 'People's Law' whilst engaged with communities of resistance on land and water rights struggles in Pakistan. The latter has also involved (dis)engagements with inspection processes both at the World Bank and the Asian Development Bank. More recently his work is developing into the examination of 'the indigenous' as a 'new' political subjectivity.

Sikander Shah's area of research relates to Public International Law and is focused on state sovereignty and territoriality, use of force, self-determination, global terrorism, human rights, WTO laws and corporate governance. His most recent work is forthcoming in the American Journal of International Law and the Vermont Law Review. He is currently a Research Scholar at the University of Michigan Law School working on public international law issues most relevant to Pakistan. In particular, his work focuses on the legality of the US Drone Attacks on Pakistan under the international law of armed conflict and on determining the impact of the international law of sovereignty and statehood on classical Islam as well as on Islamic revivalist movements.

Osama Siddique has been closely involved in research as well as policy work. His recent research includes a book written about the Presidential power to dissolve assemblies under the Pakistani Constitution and its discontents; articles exploring the use of Blasphemy Law in Pakistan, the State liability and remedies for victims of defective construction in Pakistan as well as on the crisis of legal education in Pakistan and key areas of reform; and various book chapters on the liberation of juvenile prisoners and on legal issues surrounding corporate governance. Osama has also been continuing justice sector policy consultancy work since 2004 as the 'Law and Justice Reform Specialist' for the Asian Development Bank on legal education reform; the main aim of this initiative is to extend financial and technical support to the most promising public and private law colleges in the country in order to bring about improvements in the areas of curricular reform, legal teaching and research. Additional law and policy reform projects involving his participation in advisory capacity have involved work on, inter alia, delay reduction in courts, legal bar reform initiatives, drafting of new laws and legal amendments in the areas of consumer protection laws, ombudsman laws, the civil and the criminal procedure codes, as well as institutional capacity building projects for provision of free legal aid and setting up of judicial training institutes.

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[3] Rules that restrict MNAs' ability to change party affiliation, as in Article 63A of Pakistan's Constitution, can be barriers against the entry of new parties, and thus weaken democratic competition, if they prevent MNAs from endorsing new parties for upcoming elections.

[4] David Galula, Counterinsurgency Warfare (Praeger, 1964), page 136.

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