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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.

In this Issue

Editors' Note 1

Contours of the Monetary Policy Framework 2
Hamza Ali Malik

Security, Legitimacy and State Capacity: The "Middle Eastern" Nature of Pakistan's Crisis 6
Mushtaq H. Khan

Inequality, Institutions and Economic mobility: Reexamining the Growth-Poverty Nexus 11
Ali Cheema and *Muhammad Farooq Naseer*

Research Notes 18

Editors' Note

These are exciting times for social sciences in general and for economics in particular. The recent economic and financial crisis has largely caught the field of economics by surprise. A pertinent question is, "Is the language of traditional economic paradigm sufficiently rich to raise relevant questions?" The traditional economic paradigm is centered on the assumption that people are emotionless geniuses. This simplistic view prevents the creation of a sufficiently rich "language" in which relevant questions about what it means to be human can be raised. Accepting the fact that people have emotions and limited reasoning ability enriches the language of economics by creating room for a meaningful dialog between economics and allied social sciences. Such a dialog is essential for collective human progress.

The central objective of the *Social Science* and *Policy Bulletin* is to make progress towards creation of such a language by initiating a dialog between economics and allied social sciences. Often, the creation of a right language is all that is needed. Two of the most perplexing philosophical questions, "Is truth a broader concept than provability?" and "Do observables have an existence independent of observers?" were endlessly debated for centuries before the right language was created to resolve them. The first one was resolved through the language of Gödel's incompleteness theorem and the second one was resolved through an empirical translation and discovery of Bell's theorem. The resolution of these questions is an interdisciplinary triumph of philosophy and the hard sciences. The soft sciences are in urgent need of a similar interdisciplinary triumph. Perhaps, economics, anthropology, psychology, sociology, and other social sciences need to come together for a similar triumph. Of course, such a development will have a direct impact on the condition of human societies. Social sciences need to create a common language in which the central questions of human progress can be addressed. Such a language cannot be created within narrow disciplinary confines. An interdisciplinary approach is required. The *Social Science* and *Policy Bulletin* is aimed at facilitating such an interdisciplinary dialog.

This issue of the Bulletin contains three articles in addition to the updated faculty research notes. In the first article, Hamza Malik provides an account of the process through which the State Bank of Pakistan arrives at monetary policy decisions and describes the various tools which are at its disposal. We hope that his article would help increase understanding of the country's monetary policy framework. Mushtaq Khan, in his article, argues that the capacity of a state to deliver public services such as security often depends critically on its legitimacy, which may not always be acquired by simply winning an election. In particular, he looks at the tough foreign policy choices faced by Pakistan and the emerging security discourse generated by foreign powers' interests in the region. He draws a parallel with the Middle East to argue that Pakistan should carefully analyze all its options before adopting a policy position. The third article by Ali Cheema and Farooq Naseer examines household welfare over three generations in order to determine if the fruits of economic growth were being shared among the different strata of the village economy. Using educational attainment as a proxy for economic mobility, they find significant divergence in mobility between the different socioeconomic groups and across different village institutions.

Contours of the Monetary Policy Framework

By Hamza Ali Malik



A lot has been said and written about the monetary policy of the State Bank of Pakistan (SBP) over the last few years. Some commentators have criticized the monetary policy decisions while others have acknowledged their prudence. Overall, such discussions are very healthy and bode well for a better understanding of the role of monetary policy in Pakistan's economy and reflect SBP's efforts to be more transparent and accountable. The purpose of writing this note is not to defend SBP's monetary policy stance; that is the job of the *Monetary Policy Statement* issued by the SBP six times a year. The objective here is to explain, in as simple terms as possible, the monetary policy framework of the State Bank to remove ambiguities and mis-conceptions and improve its understanding among keen observers.

First and foremost it is important to understand that central banks all over the world are essentially creatures of the central government and Pakistan is no exception. A central bank can only be autonomous within a government and that monetary and fiscal issues cannot be entirely divorced from each other. Effective coordination between the central bank (SBP) and fiscal authority (Ministry of Finance (MoF)) is the key in understanding central bank's performance and the role of its monetary policy in the economy. In this context, I will state upfront that SBP is an autonomous organization and monetary policy is formulated independently under the umbrella of the State Bank of Pakistan Act.

The ultimate target of monetary policy of SBP is to achieve price stability without prejudice to economic growth. The targets of average CPI inflation and real GDP growth are set by the Government and announced prior to the beginning of a fiscal year. Monetary policy actions - current as well as expected - affect these goal variables, with a lag, through adjustment in aggregate demand induced by changes in interest rate and broad money expansion. Adjustment in aggregate demand relative to the production capacity of the economy, determined by a host of structural variables such as availability of energy, productivity, and socio-political stability, affect the general price level and thus the inflation rate in the economy. The expectations of future inflation and the ability of SBP to influence and manage them also play a critical role in affecting current inflation dynamics. Thus, by construct, monetary policy formulation is a forward looking phenomenon and forecasting the behavior of key macroeconomic variables, in particular inflation, is an integral part of SBP's monetary policy framework.

The announced targets for CPI inflation and GDP growth provide a basis for setting an indicative target for broad money (M2) expansion, which serves as an intermediate target for a fiscal year. Broad money is chosen as an intermediate target because availability of money in the system helps to determine the level of aggregate demand in the economy. Whether M2 should be an intermediate target or not is a useful debate, however, it is beyond the scope of this note. Apart from its strong relationship with CPI inflation over the long run, a practical reason for its use as an intermediate target is that monetary accounts are compiled by the SBP on a weekly basis, whereas the information on other macroeconomic variables and sectors becomes available with a considerable lag. The balance of payments and inflation

data are compiled on monthly basis with a one month lag; the fiscal accounts are available on quarterly basis with a lag of three to four months; and the real sector GDP data is released only once a year.

Available information on the components of broad money - the net foreign assets (NFA) and the net domestic assets (NDA) of the banking system - and their projections for the next fiscal year are used in understanding and analyzing interactions of the monetary sector with the real, fiscal and external sectors of the economy. This helps in assessing demand pressures in the economy relative to its productive capacity. For example, NFA is essentially determined by developments in the balance of payments and reserve accumulation/depletion. If a decline in the NFA is observed that could mean that the import bill is larger than the export revenues and the financial flows are not sufficient to cover the difference, causing foreign exchange reserve and NFA contraction. Thus, looking at the weekly NFA data and its projections for the year, updated regularly, gives SBP a fairly good idea as to how the external sector developments will influence the broad money expansion and thus the inflation and growth targets of the government.

NDA is composed of the credit extended by the banking system to the government (for budgetary support as well as commodity operations) and the non-government sector (private sector and public sector enterprises) and the (net) other items. Trends in government borrowings from the SBP and scheduled banks and official external flows (from the balance of payments), along with their projections, serve as leading indicators of the fiscal position. Similarly, credit extended to the private sector contains some indications regarding the performance of the real sector. If, for example, government borrowing is continuously increasing, SBP can assess its likely impact on the projected broad money expansion and the inflation and growth targets.

Thus, projections of equilibrium money growth - SBP's intermediate target - have to be consistent with not only projected inflation path and likely real GDP outcome but also projections of the external account and the announced federal budget. Deviations in external accounts (due to global shocks) and federal budget (due to fiscal mismanagement or an unforeseen shock) can and do affect money growth projections and the rest of the monetary policy framework.

At the cost of some digression, it would be useful to briefly discuss the issue of government borrowing from SBP. In some discussions, commentators have equated government borrowing from SBP as a sign of SBP's weakness and a limitation of its autonomy. This shows lack of understanding of monetary policy parameters and functioning of financial system and the tendency to jump to wrong conclusions. Government borrows from the SBP for cash flow purposes; the timing of government expenditure and revenues or financing from other sources is generally not in sync with each other. There is nothing wrong with this practice. The problem arises when the government continues to borrow unabatedly, as she did in FY08 and Q1-FY09. SBP has raised this issue of excessive borrowing in writing to the Ministry of Finance (MoF), in meetings at the highest level, and in its Monetary Policy Statements (MPS) and other reports. Particularly, during the last three years, SBP has been publicly highlighting the need to restrain excessive government borrowing as it creates numerous problems for the effectiveness of monetary policy of the SBP. Apart from causing inflation, it complicates liquidity management, dilutes the monetary policy stance, puts pressure on foreign exchange reserves, and hurts the private sector credit growth. Moreover, it creates a sense of complacency on the part of the fiscal authority that rather than adopting prudent fiscal measures, it can rely on the easily available funds.

In the July 2007 MPS, for example, SBP, in consultation with the MoF, decided and formally communicated the

limits on government borrowing from the SBP for FY08. Given SBP's monetary policy framework, government was not only disallowed to borrow from SBP but was required to retire its debt of Rs62.3 billion by the end of June 2008. Unfortunately, the government did not adhere to its commitments and borrowed Rs688 billion during FY08. It is no surprise, therefore, that the trajectory of key important macroeconomic variables, such as inflation and foreign exchange reserves, was adversely affected resulting in significant deviations in the monetary policy framework. The natural question that arises here is why then SBP did not enforce its recommendations by 'bouncing government's cheques'. The reason is that it is not a practical solution and would only result in creating systemic risk for the financial sector and loss of public confidence over its institutions.

The solution lies in reforming the fiscal policy and its debt operations and enhancing cooperation and interaction with the SBP to ensure consistency between monetary and fiscal policies. Failure to do so will only result in less than optimal policy outcomes. The Monetary and Fiscal Coordination Board (MFCB) established in 1994 and chaired by the Minister of Finance, is an example of such coordination efforts. Unfortunately, rather than having quarterly meetings to review the economy and adjust policies in a coordinated manner, this Board has met on average only twice in a fiscal year since 1995. The last meeting was held in May 2007. Nonetheless, the SBP and MoF officials do interact with each other to resolve issues of mutual interest. On its part, SBP continues to do its assessment of developments in the economy, in relation to its targets, communicate the necessary actions required from other policy institutions, and take its monetary policy decisions independently.

Let us now continue with the description of the monetary policy framework. After assessing the actual trends of NFA and NDA, their underlying interactions with the rest of the economy, and their projections and likely impact on ultimate targets, change in the monetary policy stance is signaled through adjustment in the policy discount rate. Importantly, not only the current behavior of economic variables is affected by a monetary policy decision but also the expected path is influenced via many channels.

The change in the policy discount rate is complemented by appropriate liquidity management mainly through Open Market Operations (OMOs) and if required changes in the Cash Reserve Requirement (CRR) and Statutory Liquid Reserve requirement (SLR) are also made. The effects of these measures are transmitted to the economy mainly through changes in the numerous market interest rates, starting with the overnight money market repo rate, which serves as the operational target of monetary policy. The policy discount rate (SBP's overnight reverse repo rate) serves as the effective ceiling, while the repo rate on the new overnight facility (SBP's repo rate) provides a binding floor to its downward movement. Thus, the movement of overnight money market repo rate is restricted within this 'corridor'. Effective control of this rate through calibrated liquidity management ensures smooth functioning of the money market and helps in influencing other market interest rates in a desired manner. This new operational framework, which came into effect on 17 August 2009, will not only reduce the volatility in the overnight money market repo rate but is also expected to improve liquidity management, enhance market signaling, strengthen monetary policy transmission mechanism, and increase the effectiveness of monetary policy in fostering price stability.

Prior to the adoption of this new explicit operational target, SBP had already transferred the decision of setting the T-bill cut-off rate in the fortnightly primary T-bill auctions to the MoF. The rationale for doing so was to increase the transparency of monetary policy formulation process and to separate liquidity management from debt management. The former is the responsibility of the SBP while the later pertains to fiscal operations and is the responsibility of the MoF. This, along with the

advance announcement (for the upcoming quarter) by the MoF of T-bill auction targets (indicating its required borrowing from the scheduled banks), has helped in separating debt management from liquidity management and bodes well for a better understanding of the monetary policy framework.

Despite SBP's clear communication of the rationale of this decision, some commentators have asserted that SBP compromised its authority over monetary policy by handing over this power. In fact, SBP deliberately transferred this responsibility to clearly communicate to the market that cut-off decisions in T-bill auctions should, and were taken purely on debt management considerations and did not reflect monetary policy stance. This difference could only be made clear by separating debt and monetary management and was not possible with SBP deciding both the policy discount rate and auction cutoff rates.

Employing the framework highlight above, the draft of the Monetary Policy Statement (MPS), which summarizes all the relevant information, analysis, and projections, is prepared by the Monetary Policy Department of SBP. The draft is then circulated among SBP's relevant senior management, including governor, to initiate debate and to get their feedback and suggestions. The officials then hold meeting(s) with the governor and discuss the policy proposal(s) based on the analysis in the draft MPS to build consensus on the appropriate monetary policy stance. After discussion and finalization of the proposed policy measures, draft MPS is presented in the sub-committee of the SBP's Central Board of Directors on Monetary and Credit Policies. Effective 29 September 2009, this sub-committee has been replaced with a new nine member Monetary Policy Committee (MPC) that has external experts as members in addition to SBP staff and Board representatives.

In addition to the Governor State Bank of Pakistan, Syed Salim Raza, and Deputy Governor, Yaseen Anwar, three SBP executives—Riaz Riazuddin (economic advisor), Asad Qureshi (executive director, financial markets and reserve management), and Hamza Ali Malik (director, monetary policy department) — are the internal members. Board of Directors of SBP are represented by Mirza Qamar Beg and Tariq Sayeed Saigol while Hafiz Pasha and Shahid Kardar have joined as external members. After approval from the MPC, the same is presented in the meeting of the SBP's Central Board of Directors for its final approval, where the Secretary Finance represents the government. To harmonize the constitution of MPC with the legal framework of SBP and make it fully independent, amendments in the SBP Act have already been submitted for the legislative process. Until their enactment, the MPC will seek approval of its recommendations from the Board of Directors of the SBP.

After this process and approval of the monetary policy decision, the Governor usually holds a press conference and announces the policy to the general public. From July 2009 onwards, only the July and January MPS will be issued through a press conference of the governor; on the other four occasions (last weeks of the months of September, November, March, and May) only a short press release will be issued. SBP staff and Governor then explain the policy stance further through interviews on the media. The MPS and monetary policy decisions are posted on SBP's website for general dissemination and one hard copies of the MPS are circulated among academics, financial analysts, senior bankers, and business community representatives.

The State Bank firmly believes that implementing a coherent strategy for monetary policy may not be enough if the elements of the strategy are not sufficiently well communicated or understood, and if the responsibility for the outcomes of the monetary policy stance is not clearly delineated. This relatively non-technical essay was a step in this direction.

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Security, Legitimacy and State Capacity: The "Middle Eastern" Nature of Pakistan's Crisis

By Mushtaq H. Khan



Pakistan is not just facing a challenge of economic recovery in the context of a global recession, it is clearly facing a more dangerous challenge of re-asserting the legitimacy and sovereignty of its state. The crises in Middle Eastern countries like Egypt, Palestine and Lebanon (not to speak of Iraq and Afghanistan) should tell us why state capacity building can backfire if vital issues of legitimacy are ignored. Legitimacy requires that state elites have goals which are shared by significant social constituencies and these goals are furthered by state-building strategies followed by the elite. There are many inter-related issues here of institutional capacity and economic development but I will focus only on how regional competition can interact with internal political processes to affect the legitimacy of state elites and even the state itself.

A significant proportion of progressive individuals within Pakistan accept the broad contours of the new Indo-US assessment of the crisis in Pakistan. According to this assessment, the existential threat to Pakistan now comes from internal Islamist forces rather than India. The current crisis has its origins in the security doctrine espoused by parts of the state's military establishment, which patronized these irregular Islamist forces to counter India's superiority in conventional weapons, especially in Kashmir. But the traditional rivalry with India, the argument goes, is no longer relevant as India is fast emerging as a global power and Pakistan should work with India for the region's prosperity (a corollary being that the US should work through India to establish peace and a pro-US market order). With the threat from India removed, Pakistan's defense strategy should therefore re-focus on fighting the various internal insurgencies. Eventually, the viability of the Pakistani state rests on good governance and making use of foreign aid inflows to improve service delivery to the poor.

If the general thrust of this argument is true, then Pakistan's security crisis would be a self-made crisis which is, at best, a product of inertia in its security strategy which now needs to be fundamentally recast. From this perspective, the only problem standing in the way would appear to be a prejudiced public opinion against the US and India. If so, $1.5 billion a year may help persuade the Pakistani electorate to let this readjustment take place and everyone will be a winner.

While some people may reject the above argument simply because of a genuine prejudice against India and the USA, there are actually significant problems with this analysis. And unless the secular state elite are sure that this policy will deliver, they are taking an enormous risk with their own legitimacy and perhaps the long-run stability of Pakistan. On balance I think the prescribed strategy is unlikely to work for Pakistan because, under this doctrine, the delivery of strategic security to Pakistan depends on India being able to act in benign ways that may not be possible for her. Because many groups in Pakistan may be opposing these strategies for the wrong reasons, it is vital to explain why the strategy does not make sense in terms of a progressive agenda, and even why it is not in the interest of the US, particularly if failure will also undermine the legitimacy of secular politics in a strategic ally.

Parallels with the Middle East

The foreign policy of United States has been based for a number of years on working through regionally dominant powers as allies and has ignored the fact that many of its allies face severe internal strategic problems that constrain their choices. The dominant power may not act in a benign way towards its neighbors, not just due to human weaknesses, ambitions and greed (which may also be real) but because significant structural reasons may prevent the dominant power from behaving in this way. By structural, I mean factors which have to do with the balance of interests and organizations within that country which are difficult to change without substantial political reorganization.

Nowhere is this clearer than in the case of Israel-Palestine conflict. The rise of Islamism in the Middle East is directly related to the limitations of this strategy, especially so in Palestine, where the secular Fatah movement was historically very strong and a very large proportion of the population has always been secular, and where the secular movement made a significant national compromise in 1994 by accepting a two-state solution which accepted Israel's dominance and offered only 22% of Palestine to the Palestinians. The policy (and with it Fatah) collapsed, as demonstrated in the outcomes of the 2006 elections and the Gaza takeover in 2007, because no one foresaw the possibility that Israel would be unwilling to deliver *even this* after the Palestinians had accepted Israel's security agenda. And Israel was unable to deliver because that required significant compromises in terms of internal politics which it was unwilling and unable to deliver voluntarily.

When the ruling elites get tied into a foreign policy commitment they cannot deliver, a very likely outcome is that political movements critical of current dominant classes gain ground dramatically. The same foreign policy impasse with Israel has not only virtually destroyed the secular leadership in Palestine, it has meant that free elections in once secular Egypt are likely to bring the Islamic Brotherhood to power and in once almost-European Lebanon, Hezbollah is now recognized as a significant power broker that wins large numbers of votes in free elections. The Middle Eastern parallels with Pakistan should give secular forces pause for thought. Traditionally religious parties in Pakistan have gotten a smaller share of votes than in neighboring India or Bangladesh. This may not be true in the future.

Here I will touch upon a related question that warrants a much longer discussion than is possible here, that is, the opposition to ruling groups is always couched in a language that can mobilize mass support. In Muslim countries, this has often taken the form of middle and lower middle class critics of the ruling groups claiming that the leadership has betrayed Islam and its values. In most cases, these criticisms should be seen not as theological criticisms but as part of the mobilization strategies of middle and lower middle class groups. In India, groups from the same classes mobilize on caste, linguistic and ethnic grounds to criticize those who are ruling them. India has generally been more successful in absorbing these classes into the ruling groups through the distribution of significant political rents and allowing rapid and significant upward mobility for the leadership of these groups.

Pakistan is similar to Middle Eastern countries in that this absorption process has been relatively slow compared to the growing aspirations of those below. This is partly a problem caused by a bigger gap between rulers and their critics in Pakistan (compared to India and Bangladesh). But a significant part of the problem is that if a growing number of intermediate class critics are opposing the foreign policy of the elites, and if the elites are dependent on the foreign policy rents (aid) attached to these policies, the incorporation of the lower middle classes into the dominant coalition is structurally blocked. Very rapidly, a foreign policy critique can then become a rallying cry for broader movements of the excluded intermediate classes. This has happened in Palestine, Egypt and Southern Lebanon. I can see this

slowly happening in Pakistan. Once the process starts, the fate of the ruling groups depends on whether they can rapidly get out of the failed foreign policy bind, or if the foreign policy actually delivers success. If Pakistan's rulers stay on course with their foreign policy, the country's future is likely going to depend a lot on whether this policy can deliver.

Therefore, the success of Pakistan's current military strategy depends on a number of factors. It depends on whether a Karzai-type regime can consolidate in Afghanistan at all. The Taliban, for all their many failings, were the first indigenous movement in Afghanistan that cut across tribal lines to consolidate power across much of the territory of Afghanistan. Karzai with all his foreign support is nowhere near to establishing control over the country, and the situation appears to be getting worse. Leaving this question aside for the moment, success for Pakistan also depends on whether the broad framework of a pax-Americana in South Asia with India as the dominant US ally can be a workable equilibrium strategy.

India's Structural Limitations

India's policy-makers have worked hard to establish India as the primary US ally in the region, explicitly using the Israel model and participating in an Israeli alliance of their own. Like Israel, India has managed to evade international treaties on vital areas like nuclear weapons and yet gain access to US technology in these sensitive areas. Like Israel, India has achieved global recognition as the “only democracy in the region” despite significant shortcomings in the substance of these claims. Clearly, India's strategic goals and internal problems are very different except that it sees itself, like Israel, as the dominant US ally in the region. But there are also parallels. India's regional policy is driven by its own internal problems and politics that are in a different way structural. India has to keep together a continental sized collection of disparate nationalities and has done so by making the option of secession prohibitively costly. The state has also created a feel-good factor for Indian elites by demonstrating that smaller regional countries have to recognize Indian hegemony.

The Indian state does look stable compared to its neighbors and its ruling elite is much more self-confident. But in terms of actual internal insurgencies, violence and political divisions, India has always been more fragmented internally than any of its neighbors. Allowing secession or even substantial regional autonomy can be potentially seriously de-stabilizing for India. Therefore, whatever the US thinks, India is likely to keep talking about Kashmir, but is unlikely to be able to strategically deliver real autonomy, let alone independence, even at substantial economic cost to itself. There are strong internal tendencies for fragmentation within India which takes the form of carving up new states out of existing ones. These are intensely contested within India as we can see in the recent mobilizations to create a state of Telengana and Gorkhaland. However, Kashmir is different in that the issue here is not about creating a new state within India but giving one state substantially different powers and real autonomy.

In fact, Kashmir formally already has special status under Article 370 of the Indian constitution. On paper, apart from core issues like foreign affairs, defense and communication, the Indian parliament needs the permission of the Jammu and Kashmir state assembly to pass orders on any other issue and J&K is also allowed to have its own constitution and flag. But most of these constitutional powers were suspended in the 1950s by Nehru. The Indian establishment obviously feared and still fears that the exercise of these rights could strengthen demands for further autonomy or semi-sovereignty and other states could demand the same status as Kashmir. Some tribal areas like Arunachal Pradesh and Nagaland also have special status, and while these do not affect Pakistan, tensions in the North-East with China are increasing. If India granted Kashmir the exercise of these powers, how could it deny Nagaland and Arunachal, and then how could it resist demands from Tamil Nadu or Punjab? Progress in the direction of Kashmiri autonomy is not likely to be rapid if it happens at all.

India's internal problems also have a bearing on its own Afghan strategy. One way of containing Pakistan's potential support for Kashmir has been to engage in an encirclement of Pakistan from Afghanistan. India has therefore had an Afghan strategy from the 1950s with its own clients in that country, with close relationships with the Afghan king and with the communists. India's Karzai strategy has to be seen in that historic perspective. Afghanistan is currently the biggest recipient of Indian aid, with almost two billion dollars being granted by India, a country which is itself very poor on a per capita basis. This strategy makes sense for India because the intention is to create pressure on Pakistan on its western flank to keep it from interfering in Kashmir. If India's Afghan strategy was simply a post-Taliban strategy to build leverage to get Pakistan to accept the security realignment required by the US-Indian coalition we would expect this leverage to end once Pakistan signs up to the Indo-US security analysis that we began with. If, on the other hand, the impetus for encircling Pakistan is coming from internal political imperatives within India, it will continue. The fact that India has had an Afghan strategy virtually since 1947 suggests that it is likely to continue. Clearly the Obama administration has understood that an escalating Indian presence in Afghanistan is not helpful. But there is no credible way in which the US can guarantee to Pakistan that a full victory over the Taliban will not result in a significant Indian re-entry into Afghanistan. This means that the political elite in Pakistan are not only likely to face growing opposition and pressure from its intermediate classes, it is also likely to face opposition within sections of Pakistan's own security apparatus who may be less than convinced that a full victory over the Taliban will enhance Pakistan's security.

The difficult choices facing Pakistan

The implication of this analysis is that even if Pakistan were to accept its second-rate status in South Asia and carry out the recommended security doctrine changes, this does not necessarily lead to a stable equilibrium. The ongoing conflict in Kashmir (and other parts of India) will continue. Whatever Pakistan does, the Kashmir problem (and other internal problems within India) will not go away. The 'Middle Eastern' problem that can emerge for Pakistan is that India and the US will therefore continue to be dissatisfied with Pakistani steps to root out all militants. The danger here can be seen again with reference to Fatah in Palestine, though we are not suggesting the situations are identical. The Fatah leadership, dependent on foreign rents, accepted the discourse that if they took steps against the militants, the security of Israel could be assured and the Palestinians would then get a hearing. This resulted in significant violence against Palestinians being tolerated by and even being committed by Fatah. But the structural nature of the occupation meant that violence against Israel could not be reduced to zero and the occupation continued. Every time there was an incidence of violence, the continuation of rents to Fatah required even harsher steps by them, which only inspired even more attacks against Israel. This vicious cycle resulted in a dramatic loss of legitimacy for the secular leadership and Hamas transformed itself from a fringe party to an election victor. Very similar processes have transformed Egypt from the country of Nasser to its present state. While no two situations are identical, the seeping of elite legitimacy in Pakistan is clear to see, as is the growing violence against Pakistanis by the Pakistan state and its US allies and more violence in general as the social order comes under strain. At the same time more and more intermediate class movements are beginning to align their opposition under the banner of a betrayal of Islam.

The paradox here is clearly that these developments are not necessarily in India's interests and certainly not in the interests of the USA. It is clearly not in India's interests to have Pakistan collapse entirely because no one in India wants a large influx of Muslim refugees pouring into India. Nor is it in India's interest that secular parties should lose their legitimacy in Pakistan. Does India not realize the danger? Unfortunately, strong countries have a tendency to overestimate what they can achieve

through force and strength. Israel is arguably a lot less secure today than it would have been if it had been relatively weaker to begin with and had been forced to find a political compromise earlier. The USA too is a lot less secure after the fiascos in Iraq and Afghanistan. India's imperative of responding to its internal problems by constraining and blaming its neighbors has always been there, but it has become more dangerous as India has been recognized as a regional superpower and the closest regional ally of the USA. This makes it less likely that India will recognize its internal problems and more likely that it will blame outsiders and put pressure on them in attempts to solve its internal problems. This is the real danger for Pakistan and for the region as a whole.

It is in this context that the current Pakistan security strategy needs to be evaluated. India's new status means that Pakistan's attempts, most notably under Musharraf, to bring to the fore a discussion of root causes has failed. The US Government is not willing to confront India on the fundamental issues. While Pakistan's strategic arguments have to become much more sophisticated to counter the simplistic analyses dominating the international media, this by itself will not make an immediate change. Once again, the Middle Eastern parallel offers some insights. Fatah's crisis in Palestine was not just a product of Israel and the USA but also its own addiction to massive aid rents.

Here are some important lessons for Pakistan. Its leaders are more likely to achieve respect internationally and within their own country, and to re-connect with their own intermediate classes if they have the courage to say no to some of the rents and the security discourse that goes with it. This may paradoxically make it easier for the Pakistan state to take steps against egregious terrorists while giving it the moral stature to explain the nature of India's internal problems. Its traditional alliance with China now needs to be re-established as the cornerstone of its foreign policy to give it the foreign policy space to counter the pressure that would undoubtedly be forthcoming from India and the USA. The alternative is that the rents of the Pakistani elites will remain dependent on playing a game that takes it increasingly in the direction of fighting a war with its own people for benefits that are not likely to materialize. On its present course, the country is likely to see an upsurge of internal violence and a strengthening of intermediate class movements led by Islamists. The Pakistan state fighting its own people will not stabilize Afghanistan or make the Kashmir problem go away as those have internal structural causes. But what it will do is delegitimize the Pakistani secular leadership and in the worst case scenario, the social order may unravel. Ironically, as this happens (if the experience of Fatah is anything to go by), the Pakistani leadership will be blamed for not doing enough. The consequences of Pakistan's progressives getting this wrong can not be counted in a few billions of dollars.

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Inequality, Institutions and Economic mobility: Reexamining the Growth-Poverty Nexus

By Ali Cheema and Muhammad Farooq Naseer





Sixty-two years after independence, human development and poverty reduction remain central concerns of policymaking in Pakistan. These concerns remain salient despite the fact that Pakistan's long-run per capita growth rate has been far from stagnant. Its fifty year per capita GDP growth rate is 2.2% making it one of the fastest growers in the region. During the same period Pakistan emerged as the third largest recipient of official development assistance in the world. In spite of its reasonable growth performance and easy access to official development assistance, Pakistan's human development indicators remain very poor relative to its income-level and compared to other countries at similar income levels (Easterly 2003). Furthermore, measured poverty incidence has fluctuated widely over the years and there appears to be no sign of a trend decline.

Why has Pakistan failed to deliver sustained poverty reduction and improvements in human development for the wider citizenry in spite of its reasonable growth performance and access to large amounts of official development assistance? We argue that historic inequalities such as deprivation of assets among landless rural households and unequal labour market opportunities are important underlying factors explaining this failure. We also argue that such historic inequalities are affected by the structure of village institutions. Overcoming the distortions associated with historic asset deprivations is essential for the institutionalization of economic democracy in Pakistan. It is important to realize that democratic governance will remain weak unless the foundations of economic democracy are strengthened in Pakistan. In spite of their importance, historic asset deprivations and institutions have received little recognition in the debate on poverty[1] and within Pakistan's evolving policy framework on social protection and poverty reduction.

Growth without human development: the Conventional View

The conventional view blames two features of Pakistan's economic structure for its failure to achieve sustained poverty reduction and human development (Planning Commission 2008). Of these, a failure to sustain high growth rates amid the boom and bust growth cycles is argued to be the primary cause of the country's poor human development and poverty indicators. This view suggests that human development and sustained poverty reduction are not possible without sustained long-term growth. Causal factors underlying these boom and bust cycles remain poorly identified because of a paucity of applied research[2].

The high degree of clustering of household consumption expenditure around the poverty line is usually identified as the second important factor underlying Pakistan's inability to achieve sustained poverty reduction and human development (Arif 2006, McCulloch and Baulch 1999, del Ninno et. al. 2006). Research on poverty dynamics in Pakistan suggests that because of the phenomenon of clustering there is a high degree of churning of households into and out of poverty. The problem is not one of low average incomes but the fluctuations in household income, which exposes households to repeated episodes of poverty (McCulloch and Baulch 1999, Villanger 2003, World Bank 2002). According to this view, factors responsible for large

fluctuations in household income, such as weather and employment shocks, cause people to remain vulnerable to repeated episodes of poverty. Boom and bust growth cycles would then cause large estimated reversals in poverty incidence[3] because they cause fluctuations in income and employment.

The conventional view thus identifies sustained growth as the primary driver for poverty reduction and human development. In addition, it acknowledges the need to create public programmes and interventions that insure low income households from the vagaries of income and employment fluctuations that cause them to remain vulnerable to poverty. The recently revived democratic governments in the Center and Punjab province have implemented social protection programmes that are designed to create social safety nets primarily through unconditional income transfers. The social protection policy framework underlying these programmes is largely based on the National Social Protection Strategy (Barrientos 2006) developed during the tenure of the previous regime.

Poverty and economic mobility[4]

Sustained growth is undoubtedly a necessary pre-condition for sustained poverty reduction and human development for a host of reasons. The fundamental question, however, is whether growth alone is sufficient? It is not easy to provide direct evidence on this question; however, one way to answer it is to estimate the degree of relative economic mobility that growth promises in different contexts. The poverty reduction impact of sustained growth will be larger in contexts where poor, low-income and socially marginalized households are provided opportunity to benefit from its dividends.

Put another way, we are interested in analyzing whether the economic conditions of households that have historically occupied different rungs of the socio-economic hierarchy are converging together or diverging over time. Sustained differences in the capacity of different households to exploit market opportunities will indicate that there is a persistent element to poverty in addition to the transient effect of various shocks. Divergence in the economic outcomes of different households will also indicate that the foundations of economic democracy remain weak in Pakistan and that interventions need to be designed that go beyond the standard safety-nets approach to poverty reduction.

The LUMS Sargodha Village and Household Survey (SVHS) allows us to provide estimates on the degree of inter-generational economic mobility between households that have historically occupied different positions within rural Punjab's social structure. SVHS is a district representative survey that was conducted in 35 villages in Sargodha district over the period Nov 2007-March 2008. Sargodha district was chosen because it contains an interesting mix of Crown Estates (canal colony villages) and Proprietary Estates (old proprietary villages) that were settled with different village institutions and had considerable variation in their socio-economic structure. Furthermore, Sargodha seems appropriate for our purposes as it is neither considered an underdeveloped district nor one of the highly developed districts of Punjab.

Educational attainment for a household across three generations is the main indicator used to measure economic mobility at the household level. It is not only an important correlate of poverty but an essential component of human welfare in its own right. A detailed family roster was fielded as part of the household survey that allows us to construct a long-run pseudo-panel, which we use to measure economic mobility across different types of households.

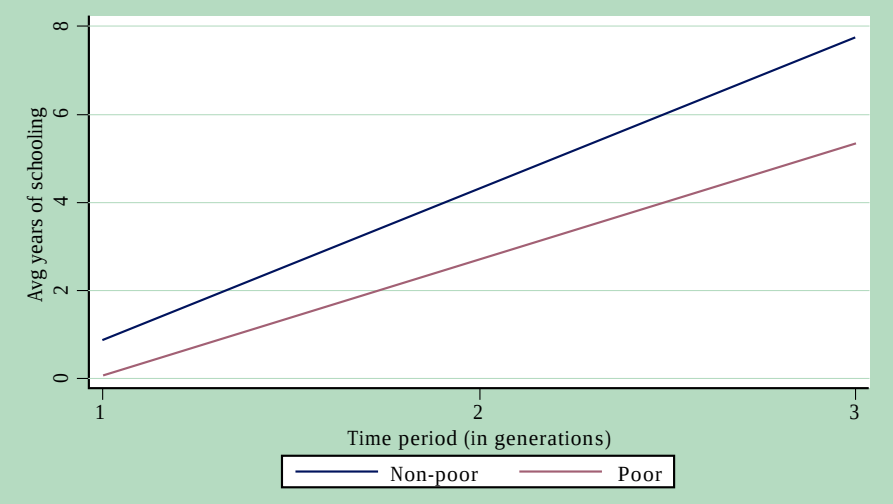
The SVHS data is used to identify poor and non-poor households based on a consumption poverty measure that uses the official Planning Commission poverty line. Figure 1 plots average educational attainment with poverty status to see whether inter-generational mobility is correlated with the current poverty status. It shows

that there is greater economic mobility among households that are currently non-poor and the rate of change in education is statistically different between the two groups. On average, non-poor households add roughly one more year to the increase in education per generation than poor households. Low levels of intergenerational mobility may be an important reason underlying the finding that almost two-thirds of Pakistan's population is vulnerable to an episode of poverty, which is a much larger proportion than the number of households in poverty at given point in time (del Ninno et. al. 2006). While we do not make claims about the direction of causality here: whether it is greater mobility that allows households to escape poverty or vice versa, the graph clearly shows that reasonable long-run growth and easy access to official development assistance has offered different prospects to poor and non-poor households. This divergence in prospects is worsening the divide between haves and have-nots in rural Sargodha!

Historic inequalities and mobility

The findings are starker if we estimate the difference in occupied different rungs of the rural socio-economic hierarchy. As our interest is in historic social position we use the colonial classification[5] of kinship groups in Sargodha to categorize households into historically landholding[6] social groups located at the top of the rural social hierarchy; artisanal groups in the middle; and the historically depressed social groups[7] located at the bottom. The latter two groups belong to the historic non-proprietary population. The SVHS household is correlated with the current poverty status. It shows

Figure 1. Mobility by Poverty Status



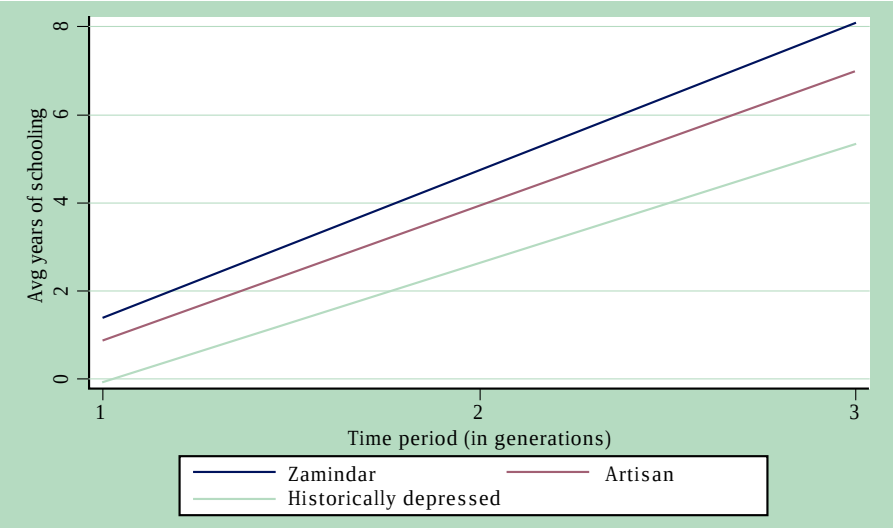
Note: T = 3 refers to the generation of the current household head; T = 2 is the father's generation and T = 1 is the grandfather's generation.
Source: Cheema and Naseer (forthcoming)

census allows us to identify the historic position of existing households based on their kinship and lineage group status. The household survey data allows us to compare economic mobility across different historic social groups because it is a representative sample of households belonging to these groups. While interpreting the findings it is important to recognize that the current social and economic position of households may have nothing to do with their historic position.

We find considerable divergence in educational attainment between households belonging to different historic social groups (Figure 2). The rate of increase of educational attainment is highly correlated with the historic social position occupied by the household's ancestors and we find that the difference in education attainment is diverging across the generations. This divergence in educational attainment is interesting and we are not aware of any prior work that attempts to quantify or explain such phenomena in the Pakistani context. It may partly be explained by the fact that information on a household's social group (quom) identity is not collected in the Population Census or other large household surveys.

The difference is starkest between the historically depressed social groups and the rest (Table 1). We find that there is a huge gap in the educational attainment of the social groups whose members traditionally worked in menial occupations compared to the non-depressed social groups. The astonishing finding is that the current generation of the historically depressed households has an educational attainment that was achieved by the father's generation in the other social groups. In short, historically depressed households have fallen a generation behind in terms of educational attainment in rural Sargodha! It appears that sixty-two years of reasonable growth and aid dividends have not achieved the promise made to the wider citizenry at the time of independence. Economic democracy remains far from being realized and economic immobility continues

Figure 2. Mobility by Social Group



Note: T = 3 refers to the generation of the current household head; T = 2 is the father's generation and T = 1 is the grandfather's generation.
Source: Cheema and Naseer (forthcoming)

to underlie the poor human development and poverty in the district.

Village institutions and mobility

We also find that historic village institutions and socio-economic structures affect intergenerational economic mobility. The benefit of working in Sargodha district is that we can analyze the impact of two distinct types of village-level institutions and socio-economic structures. Compared to Crown Estates (or Lower Jhelum canal colony villages), Proprietary Estates (or old settled villages) were settled with larger land inequality. The latter had greater reliance on landless tenancy, their governance was monopolized by village proprietary families, and they gave weak residential rights to non-proprietors. To the extent that initial economic inequality and socially hierarchical village institutions are negatively correlated with inter-generational economic mobility, we would expect mobility to be lower in proprietary villages.

We test for the impact of village institutions and social structures on economic mobility by running quantile regressions of educational attainment within each social group separately for the two village types. We find considerable divergence in educational attainment between households belonging to different historic social groups in both types of villages. However, we find that change in educational attainment is higher across all social groups in canal colony villages as compared to the proprietary villages. This suggests that villages with greater historic inequality, a larger proportion of landless, and a more hierarchical social structure tend to have much lower economic mobility. This reinforces the concern that historic deprivations continue to impact the fortunes of the current generation, in particular their ability to benefit from economic growth.

Table 1: Average Schooling (controlling for household heterogeneity)

Dependent variable: years of schooling	Other social groups	Historically depressed groups
Current generation, t = 3	6.77** (31.3)	2.92** (7.53)
Father generation, t = 2	3.43** (15.8)	0.59 (1.52)
Constant	0.70** (4.59)	0.00 (0.00)
Household fixed effects	Yes	Yes
Model F-statistic	489.7	31.7
N	1284	198

Note: + denotes significance at 10%, * at 5%, and ** at 1%; t-statistics reported in parentheses.
Source: Cheema and Naseer (forthcoming)

Accounting for divergence in education

The divergence in educational attainment across generations between historic social groups is puzzling. The fact that most people from the 'grandfather's generation' were illiterate is hardly surprising given the under-investment in school provision during the colonial-era and the lack of returns to education in traditional occupations. However, there has been a massive increase in school provision in Sargodha since the eighties. With the establishment of government schools in each village or union council, charging minimum tuition fees, such divergence within each village may not be entirely driven by the direct cost of schooling.

While the analysis here is meant to establish stylized facts rather than offer causal explanations, an initial hypothesis for explaining divergence in education can be proffered in terms of labor market segmentation. If the returns to education differ markedly across occupations and there is labor market segmentation in that some occupations, with high returns to education, are not available to every member of the village then it might be optimal for people that are shut out of those occupations to invest less in the education of their children. Of course, there could be other reasons for low educational attainment of these groups such as low pre-school human capital, lack of access to quality schools or liquidity constraints. The search for a complete explanation must await further research, however, we do find that among artisans and the historically depressed there is tremendous persistence of occupation in low return unskilled daily labour and there is very low diversification in other occupations across the three generations. This is not true for historically landholding social groups where the decline in agriculture as an occupation across the generations has in large part been offset by diversification into salaried employment, professions and business. It is important for future research to identify and explain the causes underlying the persistence in occupations among the artisan and historically depressed social groups. However, we do find that persistence of low-return unskilled daily labour among the non-propertied social groups is which higher in proprietary villages.

Conclusion

The evidence on intergenerational economic mobility suggests that in districts like Sargodha, Pakistan's post-independence economic experience has delivered limited economic mobility for marginalized social groups. The consequence of economic immobility is that the current generations of different households appear to reside in different centuries, while being physically located in the same district and in the same rural locality. This does not bode well for economic democracy and less so for a cohesive and stable Pakistan that is at peace with itself.

The relative economic immobility of these groups persists in spite of the country's reasonable long-run growth performance; its ability to access development aid and foreign assistance; and large-scale post-independence public investment in schooling. The reason for poor human development and persistent poverty is not the low rates of economic growth and investment per se nor is it an exploitative global order but it lies in the structure of village institutions and the markets for labour, credit and education. Failures in these markets that are causing poor human development need to be better researched. The need for this research cannot be emphasized enough as Pakistan is set to embark on another round of development financed by large inflows of foreign official development assistance. What is clear is that there is a persistent and non-transient element to poor human development and poverty in districts like Sargodha. This is a consequence of under-investment in the acquisition of human capital by households and their inability to diversify occupations. It is time that Pakistan's social protection and poverty reduction policy framework moves beyond emphasizing the creation of social safety nets and begins to focus instead on designing policies, programmes and regulations that create equal opportunities for the different social groups to share in the dividends of growth by investing in critical assets and by exploiting employment opportunities that promise upward economic mobility.

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Notes

[1] Notable exceptions include Gazdar (2005) and World Bank (2002).

[2] Haque (2006) emphasizes the role of poor governance, distorted property rights and underdeveloped markets as factors explaining Pakistan's failure to sustain high growth rates. Nabi (2008) highlights macro imbalances as an important cause for Pakistan's stop-start growth.

[3] Pakistan's Economic Survey 2008-09 reports a fall in poverty incidence by approximately 8 percentage points between 1998-99 and 2005-06, which coincides with the recent high growth episode.

[4] The findings used in this article draw on Cheema and Naseer (forthcoming).

[5] The classification is provided in detail in the Sargodha District Gazetteers (various issues).

[6] Landholding social groups comprise of both landowners and tenants.

[7] Colonial sources classify this group as menials and place them at the bottom of the rural social hierarchy.

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, Sociology/Anthropology and Law. The research notes collected below thematically organize their latest work and highlight its policy relevance.

Macroeconomics, Trade 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 economies of India, Pakistan 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.

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 project focuses on the effects of FDI on host country's welfare in terms of gains from trade when firms are characterized by heterogeneity in their productivities. He showed that firms tend to order themselves in terms of increasing productivity so least productive firms engage in domestic markets whereas medium productive firms export and most productive firms engage in FDI. 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. Separately, he has also been interested in researching the relationship between income inequality and growth via technological progress.

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. Analyzing 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.

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 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.

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 Asia 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 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*.

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. Currently, he expands his research by finding a general situation in which the sender can successfully manipulate its information through the news media. He 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. 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. By introducing hierarchy into his model, he has explained how the endogenous power system affects the hierarchy structure.

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. His recent research involves the derivation of a new options pricing formula based on the assumption that investors are coarse thinkers. Coarse thinking is the idea that people tend to put situations into categories and then use the same model of inference while evaluating co-categorized situations. The new formula termed the behavioral Black-Scholes formula provides an explanation for the implied volatility skew puzzle in equity index options. His past research revealed that coarse 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. 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 effectively run a monetary policy. Also, he has looked at how badla financing creates microstructure rents, concentrating de facto power in the hands of a few powerful brokers and hence stalling the process of reforms in the stock exchanges of Pakistan. According to his suggestion, all institutions in the stock exchanges of Pakistan (governing as well as financing) must be changed simultaneously through the establishment of a new stock exchange called the National Stock Exchange of 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. He 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 earlier work attempted to evaluate the impact of government policy on various outcomes of interest. For instance, he examined the impact on learning outcomes of a recent schooling reform, which established that child-friendly classrooms tended to improve student performance in language as well as mathematics. Similarly, he evaluated a community based sanitation program for its effectiveness in improving sanitation practices and lowering disease incidence. In his latest research conducted in collaboration with Ali Cheema, Farooq Naseer has explored the causes and institutional constraints underlying the continuing deprivation of historically landless households. Based on a random sample of households from Sargodha district, they establish that households belonging to the different strata of the rural society have had a very different profile of educational attainment over the last three generations and their initial differences have widened over time. The above poverty analysis has been used to inform public policy by providing input in the formulation of the Tenth

Five-year Plan and also by the Government of Punjab, Planning and Development Department.

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 on smallholder efficiency by employing stochastic production frontier and technical inefficiency effects model. Psychological and somatic symptoms were 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 their research suggest that 12% of farmers wee 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 the annual loss to Pakistan's dairy sector due to 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 improved 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. In addition to his usual research and teaching activities, Mushtaq Khan is also a member of the working group on 'Institutions for Development' of the *Panel of Economists*.

Political Science

Mohammad Waseem is part of the team for a joint research project "Religion and Development" sponsored by DFID. As the country coordinator of this project, four research reports have been produced under him, two of which he authored himself: *Religion, Governance and Politics in Pakistan*, and *Dilemmas of Pride and Pain: Sectarian Conflict and Conflict Transformation in Pakistan*. He is also working on his new book "Political Conflict in Pakistan" that seeks to explore the genesis and pattern of development of conflict in the state and society of Pakistan, and its multiple forms, including ethnic, religious, federalist and linguistic conflicts. In a recent paper on affirmative action policies and social justice in Pakistan, he concludes that these policies are potentially non-disruptive of the power structure and non-revolutionary in their content as well as direction, and affirmative action is there to stay as a progressive input in a social and political framework that remains wedded to status quo in all other fields of public policy. His latest research also includes a comparative analysis of ombudsman in Asian countries.

Ejaz Akram's area of research offers an interdisciplinary overlap in the fields of Politics, Religion and Philosophy. Most of current research looks at the interface of religion and politics in three arenas: Interfaith and Civilizational dialogue to include Islam-West, Muslim-Christian, and Hindu-Muslim relations; Transnationalism (regionalism) and Globalization; Environmentalism, the study of human ecology and philosophies of nature. The first cluster involves research whose origins lie in histories of different civilizations and their theological systems, which has led to certain type of philosophical and political thinking. This cluster leads to two areas of focus: the politics of Abrahamic religions worldwide, and South Asia, the home of two great religious traditions namely Islam and Hinduism. Ideals of all these civilizations lend plenty of opportunity to shape the realities that can lead to mutual acceptance, coexistence or at least tolerance. The second arena of Ejaz Akram's research deals with politics of the

Muslim world by judging the character of regionalist aspirations and its attendant institutions and how globalization provides opportunity to achieve closer cooperation but also discourages and disrupts such cooperation. Most importantly, the last arena of Ejaz Akram's research looks at developmental modernism and its relationship with secularism that has a causal nexus with global environmental insecurity. All three clusters of research are employed that pull together the normative and the empirical in an effort towards a "green" theory of political peace, mutual co-existence, and sustainability.

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.

Magid Shihade's research interests are modernity and violence, and knowledge production as a form of resistance. His early research focused on communal violence among Arabs in Israel, and how state's origin, history, and policies have shaped identities of its Arab citizens. The research is linked to larger question of state-society relations, group conflicts, and how modernity has helped to shape them. Shihade's research is knowledge production, especially the work of Ibn Khaldoun, which aims at challenging so many binaries since the age of modernity that has impacted our universities, societies and cultures both in the West and the rest. The work on Ibn Khaldoun is also an attempt to democratize knowledge and knowledge production by challenging the monopoly on knowledge of any culture or geographic region. Shihade's current research is concerned with global conflicts and violence within states, inter-states, and global conflicts. It is an attempt to study the ways in which states, modernity, and the modern global system have shaped these processes. It is also an attempt to address injustices, inequality, and the forms of domination and exclusion that are at work all over the world, and to understand their effects on many places around the world. In part, this project aims at studying the structures of power, and hegemonic forces that lead to undemocratic societies and states.

Sociology and Anthropology

Sadaf Ahmad's previous research has focused on gender based violence and has involved an investigation of people's belief in rape myths, its sources and social consequences, an exploration of sexual harassment in Pakistan, and an assessment of the feasibility of projects instituted by development organizations to work on the issue of gender based violence. Gender and religion has been another area of Sadaf Ahmad's research. Her last research project *Transforming Faith: The Story of Al-Huda and Islamic Revivalism Among Urban Pakistani Women* was an attempt to understand how its techniques of expansion and pedagogies of persuasion have allowed Al-Huda, an Islamic school for women established in Islamabad in the early 1990s, to turn into a social movement. This work illustrates the manner in which Al-Huda aims to create subjects with a unitary

consciousness by propagating a particular kind of hegemonic religious discourse among them and highlights the multiple reasons urban Pakistani women have for engaging with and internalizing such a discourse. Sadaf Ahmad's current work involves exploring multiple frameworks of gender justice in Pakistan. She is also planning on conducting research on religious minorities in Pakistan, more specifically the Buddhist community, in the future.

Ali Khan's research has revolved around child and forced labour in South Asia. His book with Oxford University Press, *Representing Children*, examines the representations of working children in the media and in the development discourse and how this has influenced the structure of various international projects to eradicate child labour. The book also adopts an ethnographic approach to the question of why children work and thereby reveals the importance of micro level factors in the decision making process of families and children. Ali Khan has also undertaken considerable research on the issue of forced labour in sectors of Pakistan's economy including brick making, carpet weaving and mining. His chapter on "Recruitment and Wage Systems" has recently been published by Lynn Reidel Press. The thrust of his work lies in trying to reveal the complexity and multi-faceted nature of bonded labour relations. He is currently completing a chapter on the history of bonded labour in Pakistan and on media depictions of child labourers in Pakistan. Ali Khan's other ongoing project is as series editor for a six-book project for the Oxford University Press on Anthropology and Sociology in Pakistan covering the areas of migration, religion, education, bonded labour, gender and urban issues. The book on migration was released last year. The ones on gender, education and religion are due this year.

Livia Holden's research examines the process of social ordering through structured communication, and especially the legal discourse within extra-systemic networks. Her research focuses on state, non-state law, and mixed sources of law and their implications with human rights and governance. She carries out extensive and longitudinal fieldwork in South Asia, in Southern Italy and in California with a specific stress on collaborative approaches. At present she is extending her fieldwork area to Pakistan regarding forum shopping strategies and legal discourse related with property rights, diaspora and socio-legal expertise, and lawyering practices. Moreover, Livia has investigated matrimonial remedies among Hindus in South Asia and in the context of South Asian migration in the USA and the UK. Her publication included family law, criminal law, lawyers praxis, traditional jurisdiction and custom and focused on the reception of Anglo-Saxon law by the Indian legal system, on the dynamics between state- and non-state law regarding dispute settlement in rural Central India, and on the effects of social engineering policies and political agendas on the practices of Hindu matrimonial remedies. She has also co-authored a variety of collaborative projects striving for accountability vis-à-vis informants. Livia is currently investigating socio-legal expertise in transnational case law within the context of South Asian Diaspora, and the fee regimes within lawyering practices. She is also envisioning collaborative research on property rights among Muslim communities in India and Pakistan. All her research grounds on ethnographic fieldwork.

Anjum Alvi's main area of anthropological research is South Asia, with particular emphasis on the Muslim Punjab. Her publications deal with kinship, exploring this analytical field from different angles, like the structure and ritual of marriage, the concept of the gift, and rites of passage. This work leads her to the discussion of the concept of the person and self in the Muslim Punjab as well as to the comparison of Punjabi patterns of kinship with those of other areas of South Asia, resulting in different publications. Her ongoing research is multi-disciplinary, taking regard of theological as well as philosophical thoughts. A central concern is the argument for a place of ethics in Anthropology. Discussing the theoretical perspective of ethics

in anthropology she deals with the concept of freedom and morality particularly with reference to the work of Pope John Paul II and main philosophical perspectives of the 20th century. This multidisciplinary approach also informs her research on the concept of brother-sister relationship in the Muslim Punjab within the context of South Asia as well as her work on the concept of Muslim veiling in the Punjab which she discusses as a value in relation to the global debates on this topic. An article on the concept of the veil is currently under consideration. Finally, she works on transformations of the meanings of exchange relations within South Asia, and she explores the ethical nature of the gift as well as philosophical implications associated with it.

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 & 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 & 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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