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Editors' Note

The events that have been unfolding in the Middle East over the last few months are unprecedented. The leadership in each of these countries faced three strategic options: compensate without democracy, transition to democracy, or engage in repression. Looking at recent theoretical literature, Acemoglu and Johnson (2006) claim that where elites can devise least-cost strategies to co-opt or repress, they will do so. In addition, Engerman and Sokoloff (2003) argue that unequal resource ownership spawns unrepresentative political institutions. But it may be interesting to note that countries with oil wealth tend to build "hybrid" institutions, which may reflect the tendency of the state to alternate between discretion and rule-based institutions. The former are created to prevent any curtailing of state power by domestic political forces and the latter to maintain the appearance of stability to attract foreign investment into the oil sector. Institution-building motivations thus tend to diverge in different sectors of the economy (Luong & Weinthal, 2010).

In addition to having authoritarian regimes, most Arab states are rich in natural resources and seemingly rife with corruption, providing both rent-seeking opportunities for the elite and sustenance for state-patronage networks. Thus, state-funded "white elephant" projects are used to appease the masses, suggesting the "progressive substitution of public spending for statecraft" (Luong & Weinthal, 2006). At the moment, even as protestors in Yemen, Syria and Libya remain determined, the Gulf kingdoms watch uneasily and spend easily with oil-earned largesse to thwart any such movement for democracy under their watch.

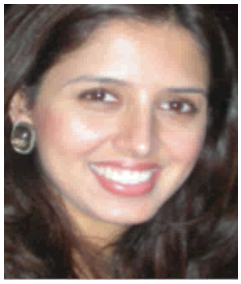
Some insight into the trans-national spread of Arab popular unrest is provided by looking at a similar spate of events in the recession-hit Europe of 1848, sparked by the protests in Sicily that paved the way for the French Revolution. Then, as now, people drew analogy from the success of their neighbors and united under a common goal, albeit based on different aspirations. Ominously however, the European phenomenon was short-lived. Once the modest common goals were achieved, ethnic and sectarian affinities soon dominated the nationalistic identity and the state cracked down harder on people where regime change had failed. In the Arab case, take for instance tribal Libya united against a common tyrant, but fractious and divided without. Or Tunisia, seemingly poised for a transition to democracy with its July elections, where few of the 44 registered parties know what they want, and instead focus on what they don't (Ben Ali).

Yet the European revolutions had a different kind of success. They made people unwilling to accept tyranny as easily as before. So too, one would hope, in the case of the "Arab Spring". However, that depends on what is desired — a clean break with the past or retribution. Revolutions are not panaceas and revolutionaries not miracle-workers. One realization cannot come soon enough, especially ahead of the Arab League summit scheduled for May: it is impossible to will the ends without willing the means.

The articles in this issue of the *Social Science and Policy Bulletin* address several important questions. In the first article, Maryam Khan explores the political roots of judicial activism in Pakistan by examining the history of public interest litigation while comparing it with similar developments in India. In the second article, Zahid Ali explains how exchange rate policies are unable to deliver international competitiveness in the long run and the policy focus should instead be on improving productivity, quality and reliability. State-building is crucial in garnering public trust and the latter, as Raza Ahmad shows, is increasingly important for bringing peace and development to FATA. And lastly, Hadia Majid analyzes household-level data to highlight that, within households, income from different sources is not pooled and parents show different spending preferences across male and female children.

The Politics of Public Interest Litigation in Pakistan in the 1990s

By Maryam Khan



In the decade-long period between 1988 and 1999, the Supreme Court of Pakistan was transformed from a device for regime legitimation into a self-preserving and autonomous (albeit highly politicized) power broker between a military-backed executive and a highly fragile and fragmented parliament. This development originated in the involvement of the apex judiciary in the political struggles of article 58(2)(b) (Siddique, 2006), and proliferated later through the jurisprudence of the Judges' Case of 1996 (which held that the Chief Justice's opinion on judicial appointments to the Supreme Court and High Courts had primacy over the President's opinion in the event of a deadlock). But these jurisprudential tools, contingent as they were at times on the vicissitudes of high political drama, rested on and were edified by an enduring substratum of judge-made and judge-led Fundamental Rights jurisprudence that enabled a more sustained avenue of judicial empowerment in the post-1990s era. This juridical Fundamental Rights movement of the 1990s came to be known as "public interest litigation" (or simply PIL) and became an additional tool in the paraphernalia of judicial activism available to judges of Constitutional Courts to exercise jurisdiction over the purely political and policy domains of representative bodies of government at opportune moments.

In situating the PIL phenomenon within the larger crisis of governance and democratization in the 1990s, the historicized view that I present below demonstrates the deep nexus between the judge-led Fundamental Rights movement and the politics of judicial power. To divorce the study of public interest from power is to deny both the political provenance of PIL and the power of the judiciary to mould larger political processes even as it is influenced by other political institutions. What follows is a preliminary effort to contextualize PIL—its merits aside—as a medium of both institutional accommodation and competition between the judiciary and the political branches of government.

Distinctive features of public interest litigation

The PIL movement in Pakistan is characterized by direct access to the Constitutional Courts, fairly relaxed rules of legal standing and procedure, creative adjudication and expansive interpretation of rights. There is also remedial flexibility and free legal aid, along with inquisitorial processes of fact-finding. At the same time PIL encompasses a vast range of issues and an equally diverse range of remedies. Examples include checking malpractices in educational institutions, affording protection to women in cases of sex offences, securing property rights for female heirs, preventing child labor and other means of child exploitation, prohibiting public hangings, directing authorities to check environmental pollution and wrongs, and generally checking misuse of authority by government officials (Shah, 1993). The Constitutional Courts have achieved this by marshalling both the elaborate set of enforceable Fundamental Rights in the 1973 Constitution and the extensive jurisdictional, procedural, investigative and remedial powers available to them in their original jurisdiction (which is devoted to constitutional rights issues, as opposed to the general appellate and advisory jurisdictions). The provisions relating to the original jurisdiction of the High Courts and the Supreme Court, though similarly worded, have been interpreted independently to allow for greater flexibility in terms of rights adjudication. The original

jurisdiction of the High Courts is contained in article 199(1)(c) of the 1973 Constitution and states

> …a High Court may, if it is satisfied that *no other adequate remedy* is provided by law, on the application of *any aggrieved person,* make an order giving such directions to any person or authority, including any Government exercising any power or performing any function in, or in relation to, any territory within the jurisdiction of that Court as may be appropriate for the *enforcement of any of the Fundamental Rights*… (emphasis added).

Fundamental rights adjudication in the High Courts, therefore, necessitates *locus standi* in the form of "any aggrieved person" who has "no other adequate remedy." On the other hand, the original jurisdiction of the Supreme Court is found in article 184(3) and provides

> Without prejudice to the provisions of Article 199, the Supreme Court shall, if it considers that a *question of public importance* with reference to the enforcement of *any of the Fundamental Rights*…is involved, have the power to make an order of the nature mentioned in the said Article (emphasis added).

Accordingly, the Supreme Court is not constrained by questions of legal standing or right to petition, though its jurisdiction is circumscribed by its own interpretation of "public importance"—presumably the only pre-condition for activating the Supreme Court's original jurisdiction. Hence, while the High Courts' jurisdiction is dependent on an aggrieved party (which has in fact been defined very broadly), the Supreme Court's jurisdiction is almost unfettered in terms of justiciability (Khan & Siddique, 2007).

The path-breaking case of the brick kiln workers in 1990 also marked the beginning of the Supreme Court's "epistolary" and *suo moto* jurisdiction. Interpreting its original jurisdiction as enabling it to take cognizance of Fundamental Rights matters of public importance on its own initiative, the Supreme Court initiated the case on the basis of a telegram addressed to the Court, drawing its attention to the plight of bonded laborers in the brick kiln industry. While enlarging the ambit of its jurisdiction, the Court commented on the novelty of *suo moto* action and explained the guidelines according to which matters of general public importance could be taken up for adjudication on the basis of an informal letter, report or news:

> It is of the utmost importance in such cases that when formulating a scheme of action, the Court must have due regard to the particular circumstances of the case, to surrounding realities including the potential for successful implementation, and the likelihood and degree of response from the agencies on whom the implementation will depend. In most cases of public interest litigation, there will be neither precedent nor settled practice to add weight and force to the vitality of the Court's action. The examples of similar cases in other countries can afford little support. The successful implementation of the orders of the Court will depend upon the particular social forces in the backdrop of local history, the prevailing economic pressures, the duration of the stages involved in the implementation, the momentum of success from stage to stage, and acceptance of the Court's action at all times by those involved in or affected by it.[1]

The Supreme Court's original jurisdiction, combined with *suo moto* powers, has obvious implications for the expansion of judicial power, as virtually no matter of constitutional importance is foreclosed from the Court's scrutiny. Under the right conditions, the Court can act fairly autonomously in assuming judicial control over issues of public importance (the interpretation of which is also in the hands of the Court). But the question remains, how did PIL, along with its various procedural and substantive tools, take root in Pakistan?

The Indian influence

Early stock-taking scholarship on PIL suggests that it was adapted in many ways from across the border in India (Menski et al., 2000). In the mid-1970's, India was witness to unprecedented judicial populism that ostensibly sought social and economic justice for the poor. The Indian Supreme Court's procedural and jurisprudential innovations revolved around the violation of constitutional rights, leading to a formidable rights discourse in favor of direct judicial access to "little Indians in large numbers."[2] These innovations included the relaxation of the standing rule and other procedural niceties; expansion of the substantive meaning of right to life to encompass broader matters of social and economic empowerment and human dignity; establishment of a novel, epistolary jurisdiction that enabled the Court to take cognizance of rights violations on the basis of letters and newspaper reports; and reinterpretation of the otherwise unenforceable Directive Principles of Policy to support and enhance the procedural and substantive innovations of this new breed of litigation. The kinds of issues that this judicial populism targeted included "freedom from indigency, ignorance and discrimination as well as the right to a healthy environment, to social security and to protection from massive financial, commercial and corporate oppression" (Bhagwati, 1987). Leading Indian legal scholars explain that this judge-induced "social action litigation" (or SAL) was an attempt by the Supreme Court to marshal "a new kind of social legitimation" in response to the "post-Emergency euphoria at the return of liberal democracy" (Baxi, 1987) (referring to Indira Gandhi's emergency rule in 1975-6), and "to increase its political power vis-à-vis other organs of government" (Sathe, 2001). From a vantage point of almost three decades after the emergence of SAL, Robinson asserts that this "new interventionism was born at a time when Parliament and the country's other representative institutions were increasingly politically fractured and viewed as abdicating their governance responsibilities" (2009). This governance vacuum enabled the Indian Supreme Court to step into the political space and expand its jurisdictional and remedial reach to a plethora of governance functions.

Almost all the jurisprudential and procedural innovations of SAL in India found resonance in the PIL movement in Pakistan through creative judicial interpretations of articles 184(3) and 199(1) of the 1973 Constitution. The manner in which judges likened their ideas and at times explicitly referred to Indian judicial pronouncements gave PIL a much "borrowed" flavor. Consider, for instance, Chief Justice Muhammad Haleem's direct reliance on a string of Indian precedents in the pioneering PIL case in Pakistan (Benazir Bhutto, 1988).[3] Or the adaptation of "little Indians in large numbers" in the Indian judgment of S. P. Gupta (1982) to "little Pakistanis in large numbers" in the seminal Pakistani case of Darshan Masih (1990). Consider also the widely recognized claim that the emphasis of early PIL cases on the issue of bonded labor was inspired heavily by the influential Indian judgment of Bandhua Mukti Morcha (1984).[4] Or, further still, that the strikingly similar fashion in which the novel *"suo moto"* doctrine was articulated and applied on both sides of the border revealed the Pakistani judiciary's close adherence to Indian jurisprudence (Menski et al., 2000).

Selective borrowings

Having said that, PIL cannot simply be considered an off-shoot of judicial populism in India, given the very selective nature of constitutional osmosis between the two countries (Khan, 2010; Siddique, 2010). The Pakistani Supreme Court has consistently rejected some Indian doctrinal innovations, like the basic structure doctrine while adopting and remolding others like PIL. The basic structure doctrine — a purely judge-made jurisprudential tool that allows the Indian Supreme Court to strike down a constitutional amendment on the pretext that it modifies the fundamental, underlying structure of the constitution — is perhaps one of the highest forms of judicial activism in terms of the extent of judicial encroachment on legislative and executive powers. Since the 1970's, challenges to constitutional amendments

presented to the Pakistani judiciary have attempted to transplant this doctrine, as articulated in India, onto the country's constitutional jurisprudence. The Constitutional Courts of Pakistan, however, have never quite found grounds for convergence with India on this issue, thus insulating constitutional amendments from substantive judicial review (Khan, 2010). The merits of this stance aside, it is highly strategic. Unlike India, the basic structure doctrine in Pakistan has in most instances been invoked in the context of challenges to *de facto* constitutional amendments by military governments, such as the Eighth Amendment and particularly article 58(2)(b). By making the Constitutional Courts arbiters of the political struggle between a popularly elected Prime Minister and an often military-backed President, such amendments have served to empower the Courts in periods of democratic transition, at the expense of representative institutions. The Courts have thus resisted the extension of judicial review powers that would only hurt their own institutional interests in the long-term.

Whither PIL: indigenous developments and the crisis of governance

Quite apart from the selective nature of constitutional borrowings from India, a number of developments in Pakistan have lent PIL a distinctly indigenous quality. To begin with, PIL was envisaged as an ideological rights-based device to "achieve democracy, tolerance, equality and social justice *according to Islam*" (emphasis added).[5] The important contribution of Islamic arguments to the advent of PIL through innovative interpretations of article 2-A (which, in 1985, made the Objectives Resolution a substantive part of the 1973 Constitution) has been thoroughly documented (Lau, 2006). Moreover, there was clearly a decade-long hiatus between India and Pakistan in the emergence of PIL. Barring some early but isolated examples of the Pakistani Supreme Court's attentive eye on developments in India, the growth of PIL as a methodical feature in Pakistani constitutional jurisprudence coincided with Zia's departure and the reinstallation of civilian government in the late 1980's. The nature and pace of PIL in Pakistan thus differed from its Indian counterpart in many significant ways, one of which was that the "development cycle" of PIL was highly accelerated in Pakistan (Menski et al., 2000).

Additionally, PIL was visibly adopted by political interests at the highest levels, with prominent politicians claiming violation of their political rights under the garb of Fundamental Rights. At one level, it is important not to over-emphasize the use of PIL as a political tool in Pakistan vis-à-vis India. Even in India, scholars observing judicial developments as early as the mid-1980s recognized that the movement was "at best an 'establishment revolution'" (Baxi, 1987). Even so, it would not be unfair to claim that Pakistan's PIL jurisprudence has a more conspicuous flavor of political elite struggle in the larger battle for democratization. Of course, the timing of PIL in Pakistan suggests some parallels with India in terms of the *triggers* for the development of social and economic rights-based constitutionalization. Like the development of SAL in India, the PIL jurisprudence of the 1990's reflected a complex mix of post-emergency judicial catharsis and an acute crisis of governance in Pakistan's political institutions. Deep political fractures existed not only between the military junta and political elite, but also amongst the different elements of the new civilian government. The constant threat and the actual implementation of article 58(2)(b) complicated matters further and created deeper fissures in governance mechanisms, providing the Constitutional Courts sufficient space to articulate an alternative narrative on governance and socio-economic justice. These parallels notwithstanding, Pakistan's variant of judicial populism is distinctive because of its political overtones, as the following examples illustrate.

The 1988 Supreme Court judgment that signaled the beginning of PIL as a judicial movement concerned Benazir Bhutto's constitutional challenge to certain provisions in electoral laws on the basis that they were *ex facie* discriminatory and thus violated her freedom of association under article 17. While striking down parts of the legislation as unconstitutional, the Court

broadened the class of persons who could approach the Supreme Court directly for rights violation. It also set a precedent for a kind of abstract judicial review of legislation on the touchstone of constitutional rights by establishing that

> [w]hen the impugned legislation by reference to its provisions is *ex facie* violative of Fundamental Rights of an individual or political parties or associations or unions, proceedings lie for the enforcement of those rights irrespective of the fact whether any prejudicial order has been passed by the Executive under the law as the Constitution treats the Fundamental Rights as superior to ordinary legislation.[6]

Another high profile and visibly politicized PIL judgment is the third article 58(2)(b) dissolution case in which the Court reinstated Sharif's government on the basis that the Fundamental Right of freedom of association included the right to form government after an electoral victory and to carry into effect the government's mandate.[7] The Judges' Case constitutes another illustration of this phenomenon, in which the Court allowed a Fundamental Rights-based challenge to allegedly unconstitutional judicial appointments on the grounds that "not only a practicing Advocate but even a member of the public is entitled to see that the three limbs of the State namely, the legislature, the Executive and the Judiciary act not in violation of any provision of the Constitution, which affect the public at large" and that "Fundamental Rights, which are enshrined in our Constitution and which also have the backing of our religion Islam, will become meaningless if there is no independent Judiciary available in the country."[8] Yet another example of a politicized PIL case concerns the validity of Justice Sajjad Ali Shah's appointment as Chief Justice, in which the Court held that the right of access to an impartial and independent tribunal was an extension of the "right to life" under article 9, and declared that "any deviation from the method prescribed under the Constitution for appointment to the high office of Chief Justice of Pakistan, would give rise to the infringement of the right of a citizen to have free, fair and equal access to an independent and impartial Court/Tribunal."[9] It is principally this politicized variety of PIL that has allowed the Supreme Court to create direct and formidable inroads into the purely political territory of the legislature and executive.

The purveyors of PIL: the Supreme Court and its Chief Justice

In addition to the governance vacuum and the judge-led creation of novel jurisprudential tools, the institutional structure of the Supreme Court also contributed to the growth of PIL and the general expansion of judicial power. Robinson's observations about the causal nexus between the institutional structure of the judiciary and judicial activism in India are equally relevant to Pakistan (2007). The hierarchical structure of judicial decision-making in Pakistan as well as the discretionary authority available to the Chief Justice has been central to the growth of judicial power. Under the 1973 Constitution, the Pakistani Supreme Court is at liberty to "make rules regulating the practice and procedure of the Court" (article 191). The Supreme Court Rules of 1980 grant the Chief Justice vast discretionary powers, which include constitution of judicial benches in the Court (subject only to a general minimum requirement of three judges per bench); nomination of judges for the *Shariat* Appellate Bench; constitution of and transfer of judges to branch registries; general docket management and assignment of cause lists; initiation of disciplinary action against Supreme Court advocates for professional misconduct; approval of the Supreme Court Registrar's duties and terms and conditions of service of other judicial staff; and sanctioning of expenditure and re-appropriation of funds within the budgetary allocation (without the prior approval or concurrence of the Ministry of Finance). In addition, Supreme Court judges as a collegium have *suo moto* powers in relation to contempt of court proceedings as well as an extensive canvas of "inherent powers" including the power to "make such orders as may be necessary for the ends of justice or to prevent

abuse of the process of the Court" (Order XXXIII, Rule 6 of the Supreme Court Rules).

As early as 1978-1979, the Court had held that it was the duty and obligation of the Chief Justice to personally preside over all important cases; that it was the undisputed privilege and duty of the Chief Justice to constitute benches for the hearing and disposal of cases coming before the apex court; and that no one had the right to demand a bench of one's own choice in view of the Chief Justice's exclusive authority. These judgments came at a time when Zia's handpicked Chief Justice, Anwarul Haq, was at the helm of affairs of the Supreme Court. The concentration of power and authority in the office of the Chief Justice made sense from the point of view of a working relationship between the executive and the Constitutional Courts. In most circumstances, it was enough for the executive to exercise influence over the Chief Justice, who would then in turn exercise his broad powers to constrain the potential for disagreement within the Supreme Court on important constitutional matters, whether in appeal or under the Court's original jurisdiction. The structural disincentives to dissent within this hierarchical system can be gauged by the evidently homogenous judgments emanating in high-profile constitutional cases with one or two dissents at the most. Chief Justices in the first half of the 1990s — Muhammad Afzal Zullah and Nasim Hasan Shah— used their powers generously to promote PIL. Starting in the mid-1990s, PIL seemed to have transformed into a visibly political tool under Chief Justice Sajjad Ali Shah with the rising polarization of Supreme Court judges through article 58(2)(b) jurisprudence. The powers of the Chief Justice to constitute benches and set up branch registries assumed much greater strategic significance at this time. For instance, in order to evade dissent in an increasingly divided bench, Chief Justice Sajjad Ali Shah constituted smaller and more selective judicial benches for cases of paramount political importance like the Judges' Case in 1996 (five), the Presidential Reference against Prime Minister Nawaz Sharif in 1996 (five), the Eighth Amendment Case in 1997 (six), and the last dissolution case against Benazir in 1997 (six). In comparison, the first three dissolution cases under article 58(2)(b) (in chronological order) had judicial benches numbering 11, 12 and 10, judges respectively.

Conclusion

From 1998 to 2004, there was a notable decline in the use of PIL (Khan & Siddique, 2007). This period coincided largely with the first half of Musharraf's rule, when the new military government was preoccupied with garnering legitimacy and consolidating political power. It was not until 2005 that PIL was resurrected and deployed in an unprecedented manner to check executive power—a subject I reserve for future discussion.

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Notes

[1]Darshan Masih alias Rehmatay v. the State, PLD 1990, SC 513.
[2]S. P. Gupta v. Union of India, A.I.R. 1982, S.C. 149.
[3]Benazir Bhutto v. Federation of Pakistan, PLD 1988, SC 416 (hereafter Benazir Bhutto (1988)).
[4]Bandhua Mukti Morcha v. Union of India A.I.R. 1984, S.C. 802.
[5]Chief Justice Muhammad Haleem in Benazir Bhutto (1988).
[6]Benazir Bhutto (1988).
[7]Mian Muhammad Nawaz Sharif v. Federation of Pakistan, PLD 1993, SC 473.
[8]Al-Jehad Trust v. Federation of Pakistan, PLD 1996, SC 324.
[9]Malik Asad Ali v. Federation of Pakistan, PLD 1998, SC 161.

The Economy and Exchange Rate Management

By Syed Zahid Ali*



In the present era of increased economic integration, exchange rate movements play a critical role in determining the behavior of both nominal and real variables such as inflation, output, employment, the balance of payments, and most importantly, economic stability. Studies such as Summers (2000), Frankel (1999), and Calvo & Reinhart (2002) have argued that the choice of appropriate exchange rate regime (especially in the case of economies with few restrictions on the capital account) is an important determinant of economic stability.[1] Notwithstanding the importance of vagaries in international capital markets, Fischer (2001) points out the link between fixed or soft pegged exchange rate regimes and various financial crises: the 1994 Mexican meltdown, the East Asian financial crisis of 1997 and the Argentine and Turkish crises of 2000. In contrast, owing to their reliance on a flexible exchange rate policy in 1998, countries such as South Africa, Mexico, and Turkey managed to avoid a similar predicament. It can therefore be argued that the choice of exchange rate regime has implications for the effectiveness of monetary and fiscal policies. For instance, in the case of an open capital account, an increase in the money supply leads to a depreciation of the local currency, which increases aggregate demand through an increase in net exports. Similarly, tight monetary policy strengthens the local currency and results in a decrease in aggregate demand, which while curbing inflation, can exacerbate the current account deficit and increase unemployment.[2]

At present, a number of less developed countries (LDCs) and emerging economies are grappling with problems of external debt and current account deficits. On average, the external debt to GDP ratio in LDCs is approximately 26 percent whereas the current account deficit to GDP ratio is between four and five percent. In the early 1990s, many Latin American and East European countries followed trade and capital liberalization policies reflective of the policy stance of the IMF, World Bank, and the U.S. Treasury as popularized by the Washington Consensus. This policy stance purported to help LDCs economies grow, focusing on tackling external debt and current account deficits. The Washington Consensus suggested a 'corner solution': developing countries must either fix their exchange rate to an international anchor currency or let it float freely. The main focus of the Consensus was on the return of these economies to market fundamentals with minimal government intervention where needed.[3] It produced mixed results. China and India, two countries that followed the Washington Consensus, have experienced rapid economic growth. However, this growth can also partly be attributed to their heavy investment in education, particularly in the fields of science and engineering.[4]

In the aftermath of the Asian financial crises of 1997-98, a number of countries endeavored to abandon their soft-peg exchange rate regimes and opted for 'corner solutions' as Williamson (2000) analyzes, under pressure from the IMF. However, even countries that retained the official tag of 'free-floating regimes' soon reverted to their pre-crisis practice of maintaining soft-pegs to the US dollar.[5] In reality, exchange rate regimes can take a number of forms: conventional fixed, soft-peg or crawling peg; the managed or independent float; and the horizontal or crawling band, etc.[6]

In the past, less developed countries followed IMF advice stipulating weak currency exchange rates and balancing of the budget through taxation to avoid external imbalances and currency crises. However, for many LDCs, a weak currency policy has neither eliminated nor even reduced the trade deficit. For instance, starting

in the 1950s, Pakistan devalued its currency by almost 1600 percent, yet the country still faces acute internal and external imbalances. In fact, the debate concerning the desirability of devaluation has spanned over 60 years. A number of theoretical and empirical studies have shown that the efficacy of devaluation depends critically on not only the stability of the system, but also the competing demand- and supply-side effects of exchange rate polices. Most studies have concluded that while currency devaluation may or may not be fruitful in the short run, it is certainly neutral in the long run.[7]

Exchange rate management and current practices

The idea of currency devaluation much practiced in the past, is once again gaining attention in both policymaking and academic circles. For example, there has been debate in Ireland to quit the Euro and adopt the Irish pound in order to acquire the power of devaluation (O'Rourke, 2009). Some central banks have used monetary instruments to defend a pre-determined or target exchange rate. In order to benefit from a weaker currency, central banks have engaged in the manipulation of exchange rates. In July 2009, for example, Chinese foreign reserves exceeded USD two trillion, with her central bank actively buying US dollars to prevent further appreciation of the Chinese yuan. At present, monetary authorities in the US are being accused of taking deliberate steps to depreciate the US dollar through so-called quantitative easing. The objective is to overcome the adverse effects of the global financial crisis. However, considering the international status of the US dollar and the fact that exchange rates are multilaterally determined, economists are skeptical of the success of this policy. Whether induced currency depreciations help depends on a number of factors. For instance, trading partners tend to align exchange rate policies, taking steps to protect their export market shares. In recent years, Japan, Britain, Brazil, India, South Africa, Thailand, and South Korea have threatened to devalue their currencies. Switzerland is one of the nations affected by recent devaluations. The Swiss National Bank (SNB) actively bought Euros between March 2009 and June 2010 to arrest further appreciation of the Swiss franc and safeguard the interests of its exporters and reduce unemployment.[8]

In the late 1990s/early 2000s, a crucial challenge to the exchange rate management debate arose, questioning the validity of the uncovered interest rate parity (UIP) condition.[9] Marey (2004) concluded that exchange rate expectations might take the form of adaptive, regressive and extrapolative (both bandwagon and distributed lag) expectations. The form of expectations is important when central banks regularly intervene in the foreign exchange market. In order to avoid exchange rate volatility, emerging economies tend to follow a soft-peg exchange rate regime (Calvo & Reinhart, 2002). This involves occasional exchange rate manipulation to achieve certain targets. Whether exchange rate manipulations deliver results largely depends on the demand- and supply-side effects of the exchange rate. For example, in case of exchange rate depreciation, the country gains competitiveness thereby increasing net exports. However, it may simultaneously cause an increase in real interest rates affecting investment and consumption negatively. Hence, the *net* effect of depreciation on aggregate demand for home country goods is ambiguous. On the other hand, supply-side effects of exchange rate depreciation are measured through changes in production costs. Many less developed countries rely heavily on imported inputs such as oil and machinery. In such a scenario, exchange rate depreciation would augment the cost of production, especially if the country has limited substitutes for imported factors of production. Another channel through which supply-side effects operate is the adjustment of prices by domestic firms in the event of changes in both exchange rate and price of foreign goods. Assuming that the firm is either a multinational or a domestic exporting firm, this makes sense. Since exchange rate variations have positive and negative impacts, the net effect invariably depends on their magnitudes and the form of exchange rate expectations.

Is there a "correct" exchange rate policy for LDCs?

Considering both the demand- and supply-side effects of exchange rates, we may draw two broad conclusions. First, a country may benefit from having an undervalued

currency if its net exports are exchange rate elastic (i.e. the Marshall-Lerner conditions are satisfied) and the exchange rate has either no or weak supply-side effects. Second, a country may profit from an overvalued currency if the exchange rate has strong supply-side effects, irrespective of whether the Marshall-Lerner conditions are satisfied (Ali & Anwar, 2010). In reality, globalization ensures the supply-side effects of exchange rate changes in all economies. Accordingly, whilst supporting a policy of overvalued exchange rates, it would be wise to consider related issues. For example, the success of an overvaluation policy adopted by a country is unambiguously contingent on the response of its trading partners. Moreover, in addition to the additional resource expenditure required to keep the exchange rate above its true market value, an overvalued exchange rate can have other undesirable consequences. Fischer (2001), for example, argues that in the event of domestic and foreign shocks, the central bank has to increase the interest rate to defend the overvalued rate, potentially harming both aggregate demand and the banking system. It can also be argued that pursuing a policy of overvalued exchange rates can lead to a speculative attack on the currency that may force the monetary authorities to devalue the affected currency, possibly resulting in a currency crisis. Keeping exchange rates below market values may not be a promising proposition either. As mentioned previously, induced depreciation would work if and only if the supply-side effects of the exchange rate are not present and the Marshall-Lerner conditions hold. Both of these conditions are unlikely to be satisfied in developing countries. Moreover, as indicated earlier, trading partners are likely to respond by devaluation and hence the net effect may only be an increase in prices and mounting speculation. If a country is actively participating in the devaluation race and exchange rate expectations are consistent with the bandwagon type (commonly observed in countries that have been affected by currency crises), then currency speculators are likely to buy out the country's foreign exchange reserves, thereby forcing currency devaluation and the onset of a balance of payment crisis. Moreover, it is possible that nominal devaluation results in real exchange rate depreciation. In this case, there is a possibility that the real exchange rate may fall below the nominal exchange rate, which may again trigger a balance of payments crisis. In 1994, Mexico faced such a situation and the currency swiftly and significantly lost value.[10] In such a case, the role of monetary policy is to forestall undue speculation and mitigate ambiguity.

Calvo & Reinhart (2002) strongly support either fixed exchange rates or a dollarization policy. However, Krugman & Obstfeld (2002) argue that balance of payments crises may also occur under a fixed exchange rate regime. Their argument revolves around the fact that the means available to a central bank to defend a fixed exchange rate are rather limited. They have shown that shocks in exchange rate expectations lead to devaluation of the currency, thereby triggering capital flight. Similarly, while analyzing the history of exchange rate regimes in Latin American countries, Frenkel & Martin (2010) note that real exchange rates have played an important role in the macroeconomic performance of these countries. Most have relied on fixed or semi-fixed exchange rate regimes to maintain price stability. This policy, however, led to excessive real exchange rate appreciation, which contributed to balance of payments and financial crises.

Conclusion and policy recommendations

Exchange rate manipulations that are aimed at achieving overvaluation, undervaluation or maintaining some desirable level with adjustments over time are examples of soft-peg regimes. This sort of a regime is strongly criticized by Fischer (2001). He argues that countries with open capital accounts practicing a soft-peg are more prone to financial crises. Furthermore, he maintains that, "soft peg systems have not proved viable over any lengthy period, especially for countries integrated or integrating into the international capital markets". Likewise, Obstfeld & Rogoff (1995) also contend that soft peg exchange rate regimes may not last long for any type of economy.[11] Frankel (1999) concludes that, "no single currency regime is a panacea, rather, my overall theme is that no single currency regime is best for all countries and that, even for a given country, it may be that no single currency regime is best for all time". It is suggested that while following a flexible

exchange rate policy is desirable in that it allows for in-built stabilization, the government may find other policies useful in addressing issues of trade deficits and unemployment.[12] For instance, a country should use efficiency, quality and reliability, rather than exchange rates, to compete globally. Similarly, finding and creating new markets could be a key to success for these countries. LDCs may also benefit from foreign collaboration, as evidenced by the successful experience of China, India, Malaysia, and more recently, Bangladesh. Many reputed international brands now have production units in such countries, creating jobs and generating sizeable foreign exchange for them. These international collaborations may go a long way in shaping these economies through technology transfer and human capital development. Lastly, considering the upward trend in food prices, it is imperative for LDCs to revive agriculture in line with modern-day science and technology. These countries have tremendous potential for earning valuable foreign exchange by exporting agriculture produce to the rest of the world.

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Notes

*This article is based on a recent unpublished study that I co-authored with Sajid Anwar, entitled *Supply-Side Effects of Exchange Rates, Exchange Rate Expectations and Induced Currency Depreciation*.

[1]The importance of the role of exchange rate policy in determining the inflation rate and other variables is not new. French economist Albert Aftalion (1874–1956), using basic statistical techniques, found that, in France, causality ran from the exchange rate to prices and from prices to money. In the case of Germany, he found that causality ran from the exchange rate to money and then from money to prices (see Nenosvsky, 2006).

[2]Ivrendi & Guloglu (2010) consider the impact of a contractionary monetary policy shock in five inflation-targeting countries. They argue that the contractionary shock results in a decrease in both price level and output, an appreciation of the exchange rate and an improvement in the trade balance. Similarly, Fischer (2001) highlights the "impossible trinity" i.e., we cannot simultaneously have free capital movement, a fixed exchange rate, and an effective monetary policy.

[3]Fixed exchange rate policies were popular before World War I, from the mid-1920s to 1931 and from 1945 to 1973 (see Krugman & Obstfeld, 2002). Today, economies mostly use floating exchange rates.

[4]For an interesting analysis of the Washington consensus, see Stiglitz (2003).

[5]See Calvo & Reinhart (2002).

[6]Under a fixed peg regime, a country adheres to a fixed nominal exchange rate relative to some other currency for the indefinite future. With a soft peg, there is no corresponding long-term commitment to a particular value for the exchange rate, but it can be fixed relative to another currency for long periods of time, with periodic devaluations and revaluations. A conventional fixed peg is a regime where a currency is pegged at a fixed rate to a major currency or a basket of currencies but is allowed to fluctuate within a narrow margin of 1 around a central rate. A horizontal band, although very much similar to the conventional fixed peg, is softer in that it allows the exchange rate to narrowly fluctuate around a formal central rate. In a crawling peg regime, currency is adjusted periodically in small amounts at a fixed rate. Similarly we can define a crawling band regime where the exchange rate band itself is allowed to change. For more details, see Tiwari (2003).

[7]See Lizondo & Montiel (1989) for a comprehensive survey of the devaluation debate.

[8]See Allen (2010).

[9]The UIP condition states that the difference in interest rates between two countries is equal to the expected change in exchange rates between the countries' currencies. If this parity does not hold, a riskless profit may be earned.

[10]See Krugman and Obstfeld (2002) chapter 17, Appendix II for more details.

[11]For an interesting discussion favoring a hard peg, see for example, Eichengreen & Hausmann (1999) and Calvo & Reinhart (2002).

[12]Gali & Monacelli (2002),and Engel (2002), among others, have shown that if sellers set prices in their own currency (a phenomenon known as producer currency pricing or PCP), central banks should allow the exchange rate to float freely and authorities should target domestic prices to minimize the overall volatility in the economy.

Towards State-Building in FATA

By Raza Ahmad



The federally administered tribal areas (FATA) of Pakistan have seen intense conflict since the US invasion of Afghanistan in 2001. FATA comprises of seven Tribal Agencies and six Frontier Regions.[1] According to the 2008-09 estimates, the total population of FATA is about 4 million. With poor governance, dire socio-economic indicators and a unique legal status, the region has become a hotbed of militant activity, spearheaded by the *Taliban* and *al-Qaeda* networks. The academia, policy-makers and media often overlook the unenviable situation of this populace which lives in abject poverty and without basic rights. Most of the population depends on subsistence agriculture with a per capita income of USD 250 per year, which is half the national per capita income, with almost 60 percent of the population living below the national poverty line.

Inadequate governance arrangements in FATA have been responsible for the gap between the Pakistani state and the people. A weak or virtually absent social contract between the state and citizenry can explain, to some extent, why insurgencies have occurred and continue to be a threat to peace and security in the region. It is beyond the scope of this article to address the issue of terrorism and therefore, it will focus on the inherent weaknesses of governance in FATA and show that state-building is the key to creating peace in the region.[2]

Patterns and structure of governance in FATA

During the 19th century, the British came up with unique political arrangements for this region, which constituted the north-western frontier of the Indian Empire. Under these arrangements, the Frontier Crime Regulations (FCR) of 1901 was introduced which governs FATA to date. FCR was ostensibly built upon local tribal customs and was enforced by tribal leaders and their constabularies. Under the Pakistani Constitution, FATA is included among the "territories" of Pakistan (Article 1). Though it has representation in the National Assembly and the Senate, FATA remains under the direct executive authority of the President (Articles 51, 59 and 247) and the President is empowered to issue regulations for the "peace and good government" of the tribal areas. Laws framed by the National Assembly do not apply to FATA, unless by executive order.

Today, FATA continues to be governed primarily through the FCR of 1901. It is administered by the Governor of Khyber-Pakhtunkhwa (KP), an agent to the President of Pakistan, under the supervision of the Ministry of States and Frontier Regions (SAFRON) in Islamabad.[3] The Political Agent (PA) is next in the command chain and his job has historically entailed maintaining peace in the assigned tribal agency via bargaining, cash gifts to *maliks* (state-recognised tribal leaders) and military force. Until 2002, decisions related to development planning were taken by the FATA section of the North Western Frontier Province (now renamed as Khyber-Pakhtunkhwa henceforth KP) Planning and Development Department (P&DD) and implemented by government line departments. A FATA Secretariat was set up in 2002 to be headed by the Secretary FATA. In 2006, the Civil Secretariat FATA was established to take over decision-making functions, with an Additional Chief Secretary, four secretaries, and several directors. Line departments of the Civil Secretariat FATA now carry out project implementation. The KP Governor's Secretariat acts as a liason between the federal and provincial governments and the Civil Secretariat FATA.

Government administration in each tribal agency falls under the purview of the PA, as supported by assistant

political agents, *tehsildars* (administrative head of a *tehsil*) and *naib tehsildars* (deputy *tehsildar*), along with members of various local police (*khassadars*) and security forces (levies or scouts). The PA oversees the working of line departments and service providers and is responsible for handling inter-tribal disputes over boundaries and natural resources, as well as regulation of trade with other agencies or settled areas.

FATA is divided into two administrative categories: 'protected' areas under the direct control of government, and 'non-protected' areas administered indirectly through local tribes. In protected areas, PAs vested with judicial powers decide criminal and civil cases. After completing the necessary inquiries and investigations, a *jirga* is constituted with the consent of disputing parties. The *jirga* hears what the parties have to say, examines evidence, conducts further inquiries where needed, and issues a verdict (which may be split or unanimous). Though the *jirga* mechanism enjoys widespread cultural acceptance, it is not immune from distortions. There are a number of requirements for a *jirga* to be held, including hospitality, which is increasingly beyond the reach of many. As a result, poor and more vulnerable segments of society often cannot afford to convene a *jirga*. There are also grievances that *jirga* decisions mostly favor the richer or more influential parties and thus reinforce the influence of elites.

The tribe, together as a *lashkar* (contingent), has historically enforced decisions. While most disputes are settled internally, more serious matters may require the convening of a larger *jirga* made up of *maliks*, elders, the PA, members of the National Assembly and Senate, and occasionally even representatives from neighboring agencies. Informal *jirgas* and *lashkars* have proven to be more effective as the decisions are taken at a more local level and their implementation is underpinned by the strong social contract between tribes. For instance, casualties in armed conflicts are compensated for through a communal support fund system.

Traditional governance structures also constitute an important element of the region's identity. Although criticized for bearing a high risk of elite capture, exclusivity towards the poor and marginalized, and lack of accountability, to some extent they have been successful in making up for the absence of modern state-led judicial instruments based in the social contract between the citizen and the state. But in recent years, the *Taliban* have killed more than 600 traditional leaders, leaving a severe vacuum of governance in the region.[4] The system has been severely weakened by conflict and can hardly fulfill its functions at present.

Civic governance mechanisms operative through civil society groups, political parties, media, and community groups have been very weak in FATA. Their capacity to develop and pursue political demands, to hold accountable public and traditional governance institutions or to contribute towards development and service delivery is limited.

People's perception of governance

Based on these unrepresentative governance arrangements, the people of FATA are extremely dissatisfied with their civic status. Recent surveys by the "Community Appraisal and Motivation Program" (CAMP, 2010) provide invaluable insights.

Concern for deteriorating "law and order" continues. In both 2010 and 2009, approximately one-third of FATA respondents identified the lack of law and order as the biggest problem facing Pakistan. In the 2009 poll, "security" remained a pressing concern for 62.9 percent respondents. Similarly, "education and schools" (56 percent) followed by "health services/hospitals" (50.7 percent) were considered the most important services that the Government of Pakistan should be providing. And while nearly one-third of respondents (30.7 percent) wanted FATA to be fully integrated into KP, 24.9 percent still wanted provincial autonomy. Those content with the current arrangement decreased from 23 percent (2008) to 21 percent (2009) and dipped even further to a low 7.9 percent in 2010. Unsurprisingly, support for the Political Parties Act of 2002 has remained consistent. Nearly 60 percent of the respondents welcomed President Zardari's announcement of a political reforms package for FATA in 2009.

Elusive reforms in FATA

Improving the governance structures for people living in FATA has long been on the federal and provincial governments' agenda.[5] In August 2009, the Government of Pakistan announced a reform package for FATA, which addressed some of the longstanding issues such as amendments to the FCR. Implementation of the publicly announced FATA reform package could potentially rebuild citizens' confidence in the state's capacity to address their concerns, improve security, and guarantee their rights as equal citizens of Pakistan. While the adoption of the reform package demonstrated the political will of the Federal Government for embracing change, its implementation has proved challenging. On the one hand, the implementation of the reforms has been put on hold (reportedly on request by the military) until the conflict subsides and the state is in control of the situation again.[6] But on the other hand, the state's limited engagement with locals under the existing governance mechanism potentially undermines its ability to control conflict in the area.

The table below provides details on the envisaged reforms and the extent of progress made thus far.

Neglected tasks of state-building

The table highlights how little progress has been made in introducing reforms despite the apparent political commitment. It is feared that the government will be perceived as either unwilling or incapable of implementing its announcements, further eroding the legitimacy of the federal government. State-building appears to be the foremost need of the people in FATA.[7] State legitimacy is a direct function of the level of efficiency and effectiveness of public service delivery. But peace-building remains an important pre-requisite

Table 1: Proposed reforms and progress

Reform	Details
Lifting restrictions on political party activity	Extending the Political Party Order (2002) to FATA. However, little or no progress has been made on implementation.
Curtailing the bureaucracy's arbitrary powers of arrest and detention	Amending FCR to limit the PA's powers of arrest and detention, including items concerning right to bail; requiring an accused person to be produced before an Assistant Political Agent (APA) within 24 hours of his or her arrest; referring the case to a *jirga* within 10 days; and ensuring that the *jirga* submits its findings to the political administration within 90 days. Under this proposal, the collective responsibility clause will be applicable only to an alleged offender's family rather than the whole tribe. However, there has been little progress in bringing about any amendments to the FCR.
Excluding women and minors from collective responsibility under the law	Extending the application of the reforms to women and children under 16 years of age.
Establishing an appellate tribunal	Establishing and enforcing the right to legal defense. Presently, the PA's judicial decisions, including arrests and punishments, cannot be appealed in any court. Furthermore, since the PA exercises both appointing and appellate power over *jirgas*, FATA's judicial system is entirely subservient to the PA. An appellate tribunal comprising a retired high court judge, a retired government official with knowledge of the law, and another official with knowledge of the tribal areas and traditions has been proposed. While providing an avenue of appeal is certainly necessary, this body's decisions cannot be appealed further.
Audits of funds received and disbursed by the Auditor-General	No progress has yet been reported on this by the FATA Secretariat.
High level committee	The government formed a high level committee in 2009 to steer FATA reforms. However, its effectiveness to articulate the reform agenda remains unclear.

for the formulation and implementation of sustainable policies. Similarly, providing political representation and democratic rights to the people of FATA alone will not be enough to eliminate systemic weaknesses of governance in the region. Together with such entitlements, its executive set-up must also be given effective crime-fighting ability along with an efficient justice system. The executive must also possess the additional capacity for undertaking tasks related to service delivery, budgeting, complaints redressal and the like. Further, widespread corruption within the governance process needs to be tackled. The next section highlights some key reform areas that the government needs to consider to ensure that the pending task of state-building in FATA is achieved.

Guaranteeing full citizenship and democratic rights: Full citizenship and democratic rights (comparable to those in other provinces of Pakistan) need to be guaranteed to people living in FATA. Given that the Constitution of Pakistan empowers the President to introduce changes in the administrative status, informal and formal governance institutions need to be rebuilt and their capacity strengthened. It is important that Parliament carefully weigh the option of FATA's representation in the provincial assembly as part of KP or as a separate province.[8]

Improving public administration: Due to the conflict in FATA, it is crucial that competence in critical areas within the public administration be strengthened, especially with respect to basic service delivery and post-conflict reconstruction. While this emergency capacity is enhanced, efforts must be made to selectively transform these functional areas through modest improvements in administrative procedures and IT. Further, it is vital to make the formal institutional arrangements responsive to communities. Rebuilding trust in formal institutions needs to be seen both as a process, as well as an outcome, in these efforts.[9]

Establishing an institutional crime-fighting structure: Alleviating the lack of an institutional crime-fighting structure in FATA requires a multi-pronged effort, targeting the military presence in the region and establishing a potent police force. Army operations in the region must be followed by a smooth handover of administration to civilians and representatives of the local population, together with compensation for collateral damages and economic opportunity costs. Currently, there are 23500 *khassadars* — locally recruited tribal levies — that are poorly trained, and lack authority. The Levy Force regulation (2010) requires full implementation in order to modernize the region's security force, expanding its duties beyond counter-terrorism to policing, patrolling and crime-fighting. Further, the *lashkars* formed to ward off the threat of indigenous militants need to be handled with care, as these anti-*Taliban* elements are being systematically targeted by the militants. The government needs to fulfill its end of the bargain and provide these informal security units with a protective environment in the context of overarching state-based support.

Implementing a formal justice system: The lack of a formal justice system and the draconian FCR has resulted in the erosion of public confidence in the state. This situation is exacerbated by, what may at times, be perceived as partiality of *jirgas* (which have recently been weakened as noted above). The lack of independence, impartiality, and the inability to appeal within the informal justice network in FATA plays into the hands of the militants who have used this historical weakness to garner support amongst the populace through speedy and arbitrary forms of public punishment. Irregularities in the disposal of appeals against *jirga* decisions need to be examined. There also remains a critical need for a full-time appellate tribunal and an extension of the Ombudsman's jurisdiction to FATA.

Jirga reform: For effective counter-radicalization and reconciliation, *jirgas* could play an important role. *Jirga* reform and synchronization with the Pakistani Constitution and formal governance structures would entail the strengthening of village *jirgas*. Establishing cluster organizations at the union council level will be necessary to involve *jirgas* in development and peace-building activities.

Strengthening the formal accountability institutions: Corruption in FATA, as studies reveal, is more widespread than in KP. The PA's office is surrounded by institutionalized 'irregularities'. Tackling corruption in FATA would require strengthening the formal accountability institutions, as well as working with informal institutions such as *jirgas*. It would be useful to employ the traditional accountability and grievance redress mechanisms that work along tribal, sub-tribal or neighborhood networks.

Improving technichal capacity: There is limited technical capacity within the directorates and departments of the Civil Secretariat FATA. Already, most offices find it difficult to meet their targets for assigned development responsibilities. The agency revenues that relate to the PA's authority to collect funds are deposited and spent at the sole discretion of the PA. The Auditor General of Pakistan does not audit the utilization of these funds. It is important as envisioned by the reform package, that the PA's office and its revenue generation be made transparent and open to scrutiny.

Strengthening civil society institutions: State-building will also require the need to strengthen civil society institutions in order to build trust and social capital. Civil society has been disrupted due to violence targetting *jirga* leaders, NGO activists and other prominent personalities. Formal and informal civil society institutions have, by and large, ceased to function. An effective civil society is the key to citizen empowerment and inclusion in the governance process. In the absence of a functioning and relatively harmonious civil society, the legitimacy and stability of political institutions is likely to be short-term and fragile. As part of state-building efforts, civil society organizations need to be encouraged and provided with programmatic support.

Conclusion

The Government of Pakistan has already announced an ambitious reform package for FATA. It may not be comprehensive but it is a step forward. The critical need is to implement it. It is true that continued conflict in the region could make universal implementation infeasible. Nevertheless, a phased approach may be adopted whereby those agencies where counter-militancy operations are not underway be sites for full implementation. The Parliament needs to re-open the debate on FATA, amend the FCR and improve its justice and security apparatus on an emergency basis. If the Pakistani state does not enhance its legitimacy among the people of FATA, further erosion of public trust might make the task of state-building even more challenging, if not impossible.

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Notes

[1]The Tribal Agencies include Bajaur, Mohmand, Khyber, Orakzai, Kurram, North Waziristan and South Waziristan. The Frontier Regions are F.R. Bannu, F.R. Dera Ismail Khan, F.R. Kohat, F.R. Lakki, F.R. Peshawar and F.R. Tank.

[2]By governance the paper refers to the political, economic and administrative authority to manage the affairs of a nation or political territory. It is the sum total of processes and institutions through which citizens exercise their legal rights and obligations, articulate their interests and mediate their differences.

[3]Historically, the role of the Governor, through the Political Agents (PA), was to disburse the tribal allowances that had been agreed upon in treaties with tribal leaders, ensuring that the tribes fulfilled their responsibilities.

[4]International Crisis Group (2009) *Pakistan: Countering Militancy in FATA,* Crisis Group, Asia Report No 178 (2009).

[5]Two major political parties — Pakistan People's Party and the Awami National Party — comprising the ruling coalitions in Islamabad and KP highlight FATA reform as a priority in their respective manifestos.

[6]Based on media reports and interviews conducted by the author between July-August, 2010 .

[7]OECD defines it as "an endogenous process to enhance capacity, institutions and legitimacy of the state, driven by state-society relations. Positive state building processes involve reciprocal relations between a state that delivers services for its people and social and political groups who constructively engage with their state."(2008).

[8]A representative opinion survey in FATA reveals that almost a quarter of the sample (23.9 percent) are unsure whether FATA should be integrated into the province (single highest answer mentioned), while 21.8 percent believe the present *status quo* should be preserved. Only a year ago, 34 percent of the population perferred full integration of FATA into the KP province (Shinwari, 2009). This rapid change in opinion might indicate a high degree of uncertainty among the people on how they wish to be ruled in the future.

[9]Government of Pakistan and the United Nations (with the support of other development partners) prepared a Post-Crisis Needs Assessment (PCNA) framework in 2010. It outlines a broad roadmap for the development of the region and should be implemented as a matter of urgency.

Do Parents Spend Equally on their Sons and Daughters?

By Hadia Majid



The intra-household allocation of resources between parents and children remains a matter of debate within the economic literature. The question of how much is spent by which parent and on which child can have far-reaching implications not only on the extent of human capital formation in the economy, but also on the outcome of any successful policy initiative. Yet it is almost impossible to *a priori* determine whether mothers as compared to fathers will spend more on their daughters, or if mothers and fathers give precedence to son-related expenditures and subsequently pool total household resources. Essentially it becomes an empirical question, with results varying not only by country but also in accordance with income sources under consideration.

Income pooling by mothers and fathers is viewed as a manifestation of the unitary model within the household decision-making literature (Bourguignon, Browning, & Chiappori, 1993; Thomas, 1990). This model considers the household a single unit, usually with an altruistic 'dictator' who controls income and makes decisions for the entire household, usually keeping the benefit of individual members in mind (Becker, 1974). In contrast, under the collective model of decision-making, individual members make their spending decisions in isolation, such that mothers and fathers do not allocate their income in the same manner (Burton & Phipps, 1998; Lundberg, Pollak & Wales, 1997).

This article tests the unitary and collective models of decision-making by examining the allocation of labor and non-labor income on specific products, namely education and clothing, for both sons and daughters. In total, four distinct categories of educational and clothing expenditure across boys and girls, are examined. The analysis serves a dual purpose: to highlight spending differences between mothers and fathers while also considering child gender.

The focus on these particular children's goods is driven by two factors. First, the products, particularly education, relate directly to child welfare outcomes and their analysis is important from a policy perspective. Insight into which parent is more concerned with child-care and how income source factors into the decision-making process is needed to propose effective child welfare policies. Studies such as this can help determine the appropriateness of recent policy trends that target mothers in conditional cash transfers, labor market overhauls and asset redistribution policies. Second, clothing and education are likely to represent very different investment motives for the parents. Relative to investment in children's clothing, spending on education has a greater probability of having a lasting influence on the household's future income stream. It is possible then that parents have different decision-making processes (collective vs. unitary) for these different variables and it would be interesting to compare the two.[1] While the literature generally tends to support the rejection of parental pooling of resources, when it comes to spending on children, the issue may become quite complex.

On the one hand it may be argued that children represent important long-term investments for the entire household in terms of future income streams. In this case we should expect to find both husbands and wives acting in cohesion with regard to child consumption products in line with the unitary model. On the other hand, existing literature indicates that mothers generally tend to spend more on child welfare, discriminating particularly in favor of daughter. This indicates that

parents may well have differing preferences based on the gender of the child.[2] Such evidence points towards the suitability of the collective model. A further point to consider is the nature of the product under study. Certain categories of consumption products could be deemed more influential for a child's long-term earning capabilities, and by extension, the future income stream of the household. These include spending on health, food and education, making it more likely for parents to behave as a single unit in their purchase. Other categories such as clothing and toys may have less of an impact on a child's earning abilities, thereby increasing the probability of parents having separate preferences on their expenditure. Thus, this article disaggregates child consumption products into clothing and education for boys and girls, and investigates the likelihood of income pooling for each category.

Data

The data source used is the 2005 round of the Mexican Family Life Survey.[3] The four independent variables refer to questions regarding household expenditure in the last 12 months on education and clothing across boys and girls. These were then expressed as fractions of total household expenditure on all consumption products.[4] Income variables were divided into four categories for mothers and fathers: earned/labor income, unearned/non-labor income, assets and *Oportunidades* income.[5]

The sample was made up of 2,685 households and a total of 16,543 individuals were surveyed, of which 33 percent lived in urban, 44 percent in rural and the rest in semi-urban areas. It is worth noting that only three percent of sampled household heads were identified as mothers.

A summary analysis of key household characteristics showed that household expenditure on boys' education and clothing (as a fraction of total household expenditure) was greater than that for girls'. Furthermore, more was spent on education than clothing across gender. Also, on average, fathers brought in more labor income, while mothers had greater average asset ownership. Finally, yearly average non-labor income for either parent tended to be significantly lower than labor income. Both mothers and fathers had roughly the same average educational level, although the standard deviation for mothers was approximately twice as large as that for fathers.

Results

The results indicate that both mothers and fathers tend to spend more on children's products relative to all other household expenditures as their earned income increases. On the other hand, unearned income is not allocated in the same manner as earned income, with parents substituting away from educational spending as unearned income source improves. In fact, testing showed that fathers do not pool the different sources of non-labor income, nor do they combine earned income with non-labor income for each of the four categories of goods. This result also holds for mothers.

A particularly interesting finding is that while father's asset valuation has negative effects on girls' total and boys' clothing expenditures, mother's asset valuation has positive effects on all four categories, with a positive and significant difference between spending on clothing and education. It may well be argued that the improvement in spending on children's goods due to greater asset valuation is driven by the connection between asset ownership and the mother's status within the household. If asset valuation is considered a wealth indicator, then the greater the asset valuation of the mother, the higher her bargaining position within the household. Lastly, father's *Oportunidades* income is seen to have a negative effect on all four categories of consumption products as well as a negative effect for the mother on all but girls' clothing. This result is unexpected as *Oportunidades* income is particularly aimed at improving educational outcomes of the household. The fact that expenditure on children as a fraction of total household expenditure is actually declining in *Oportunidades* income merits further investigation, but could primarily be construed as misuse of the transfer.

It is also discovered that as fathers become more educated, spending on all children's goods increases. While this result also holds for maternal expenditure on children's education, in the case of mothers,the effect is negative and significant for boys' clothing. A more educated parent may show greater appreciation of the importance of children's education, from both an investment perspective and for the child's general well-being.

There exists a similar result for father's age— positive and significant effects for all four categories. On the other hand, as the mother ages, spending on children's goods actually declines. This could signify the importance of separate spheres of activity for mothers and fathers within the household. Thus, as the father ages and his earning horizon declines, households invest more heavily in children as the expected role of children as primary bread winners assumes importance. Yet as the mother ages, her ability to do housework declines. Children must then dedicate more of their time to household chores than education, resulting in decreased spending on education. One caveat is that the current study does not include interactive terms of mother's age and the four income categories. It could well be that the negative effect of mother's age is stronger for earned income, but not for unearned or asset income. In that case, the tendency for household level income-smoothing in light of the shortened earning horizon could apply to both mothers and fathers.

It is interesting to note that while both male- and female-headed households spend on girls' education, the latter have a greater intensity of spending. They are also more likely to spend greater amounts on boys' education, despite commanding significantly lower amounts of family income as compared to male-headed households. Finally, while semi-urban households (as compared to urban) spend less on girls' education and children's clothing, their rural counterparts spend less on education. This could be due to the inaccessibility of schools in rural areas relative to urban locales. The inclination, however, of rural households to spend more on children's clothing relative to their urban counterparts seems strange, especially given that rural households generally have lower levels of labor/non-labor income. One plausible explanation is that markets in rural areas are more likely to be remote. Market thinness would then drive up prices. Thus, any clothing purchases made by rural households would command a greater fraction of total household spending as compared to urban households.

Income Sources and Pooling

While informative, the above-mentioned results are not directly relevant to the question of income pooling. Specific tests were performed to investigate if parents exhibit varying preferences regarding labor/non-labor income expenditure on children's products. The tests were done at two levels. In the first instance specific categories were tested, for e.g. whether mothers and fathers pooled their respective labor incomes. Additional tests were also performed on all income sources to ascertain whether mothers and fathers pooled incomes irrespective of source, when making their spending decisions. The results of these tests are given below.

Table 1 shows that parents do not pool income received from the four distinct categories for the consumption of goods under investigation. Earlier it was hypothesized that parents were more likely to view educational expenditures on children as important, long-term investments into the household's future income stream and thus pool income for this category of consumption spending as opposed to clothing. Furthermore, in light of previous empirical evidence the decision-making process was anticipated to differ due to the gender of both the child and parent. However, it is seen that parents adhere to the collective model of decision-making regardless of consumption category or child gender.

Interestingly, testing of the individual income categories does reveal some distinction based on the consumption product and the gender of both the parent and the child. In short we find that while parents pool asset income, they only do so for boys' education. Also, parents pool *Oportunidades* income for boys' and unearned income for girls' clothing. Surprisingly, parents do not

Table 1: Do parents pool income?

	Test	Specific Category	All Income
Boys' Education	Parents pool earned	No	No
	Parents pool unearned	No	
	Parents pool assets	Yes	
	Parents pool *Oportunidades*	No	
Girls' Education	Parents pool earned	No	No
	Parents pool unearned	Yes	
	Parents pool assets	No	
	Parents pool *Oportunidades*	Yes	
Boys' Clothing	Parents pool earned	No	No
	Parents pool unearned	No	
	Parents pool assets	No	
	Parents pool *Oportunidades*	Yes	
Girls' Clothing	Parents pool earned	No	No
	Parents pool unearned	Yes	
	Parents pool assets	No	
	Parents pool *Oportunidades*	No	

pool their earned or asset incomes for girls' education.

The fact that parents do not pool their asset income for girls' education, but do so for boys' education, may be indicative of Mexican societal norms that view the male as the primary bread-winner of the household (Pagan & Sanchez, 2001). The average asset income for Mexican households tends to be substantially larger than income from any other source. Thus, the expenditure from this significant income source on boys' education (and thereby their future earning capacity) is probably viewed as a critical investment in the household's future earnings. Therefore, it comes as no surprise that parents tend to pool their asset income for this category.

Household emphasis on girls' clothing is probably a phenomenon shared across most cultures. It is telling however that by and large parents exhibit differing preferences for spending on children's clothing with only *Oportunidades* and unearned income (which on average tend to be a lot lower than earned and asset income).

Examining the relative significance of income effects across categories, we find that fathers tend to spend more of their earned income on girls' clothing as compared to boys'. Moreover, the difference in spending using unearned income source with regard to boys' and girls' education is significant. Similarly, mothers dedicate more resources from their assets towards girls' clothing compared to the other three consumption products. Perhaps the most interesting statistic however, is that with respect to girls' education, the effect of the mother's asset income is significantly greater than the effect of the father's earned income. The reason for this may again lie in the relationship between women's asset ownership and their status within the household. It seems then that there is greater parental investment into girls' products as well as greater spending by mothers than fathers.

Policy Implications

Policies aimed at improving child welfare have tended to focus on improving income sources for the mother. The results presented show that the mother's earned income has a significant and positive effect only with regard to spending on girls' education. If the policy objective is in fact to improve educational outcomes for the female child, expanding labor market access and opportunities for women seems appropriate. However, asset redistribution in favor of mothers should be

adopted if policy-makers wish to see both larger and more extensive gender-neutral welfare effects.

The primary issue with regard to any redistributive or income policy revolves around the question of access vs. control — ownership of assets does not necessarily translate into decision-making authority with regard to their use or sale (Kantor, 2003). This, along with the high general cost of labor market and asset redistributive policies has led to a rise in conditional cash transfer programs. However, as shown in this article, such programs may be prone to misuse.

Conclusion

This article tested income pooling for four categories of child consumption products: boys' and girls' education as well as clothing. Looking across categories we found differences in expenditure levels between boys' and girls' products and the tendency of mothers to spend more than fathers.

On the one hand, where parents tended to pool their asset income for boys' education, mothers spent more than fathers on girls' education. They were also prone to invest more in clothing for girls than boys. The result for boys' education may be driven by continued cultural norms that consider men as the main source of income within the household. The results with respect to girls and mothers, on the other hand, may be explained by considering that although Mexican society today is still largely patriarchal with men being the primary decision-makers, the roles of men and women have also witnessed a greater degree of overlap in the past few years (Katz & Correia, 2001). Furthermore, urban and rural areas have seen greater female labor-force participation in recent years (Pagan & Sanchez, 2001). As mothers earn more labor income, their bargaining power within the household is likely to rise; the same holds true with regard to asset ownership. Mothers may then be more likely to invest in their daughters in order to improve their earning capacity, allowing them to enter any future contract (marriage or otherwise) at an advantage. Thus, the results seem to represent the transitory nature of Mexican society where, although society remains largely male-dominated, there is also an increasing tendency to invest in daughters as women become active decision-makers within the household.

Hadia Majid is a PhD candidate at Ohio State University. This article stems from her dissertation research. Please send comments, feedback and suggestions at majid.5@osu.edu

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Notes

[1]This article assumes away altruistic spending motives on the

parents' part. Thus, parents are believed to be investing in children to secure future earnings for the household.

[2]See for example, Duflo (2000).

[3]This round was the second in a series of longitudinal, nationwide representative surveys conducted in rural, urban and semi-urban areas (the first was conducted in 2002) and contains social, economic and demographic information at the individual, household and community level.

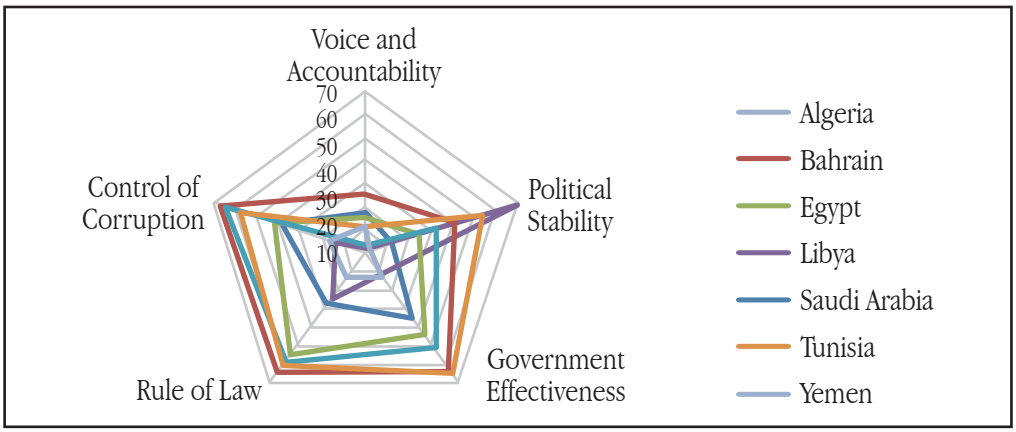
[4]It is important to note that total household expenditure has been adjusted for self-cultivation. The income variables were constructed from individual level questions on labor and non-labor earnings in the last 12 months.

[5]Unearned/non-labor income included earnings from indemnities, retirement, life insurance and property income, while the asset category incorporated livestock, domestic electric appliances and transport vehicles. *Oportunidades* is a Mexican governmental sponsored conditional cash transfer program intended to provide households the means for human capital formation (such as spending on education).

Revealing Facts: The Arab Awakening

The quality of governance in a country is an important indicator of the strength of its institutions. According to governance indicators developed by the Worldwide Governance Indicators (WGI) project, the Middle East region does not perform well relative to countries with comparable per capita incomes.

Figure 1: Governance Indicators—Regional Comparison (2009)

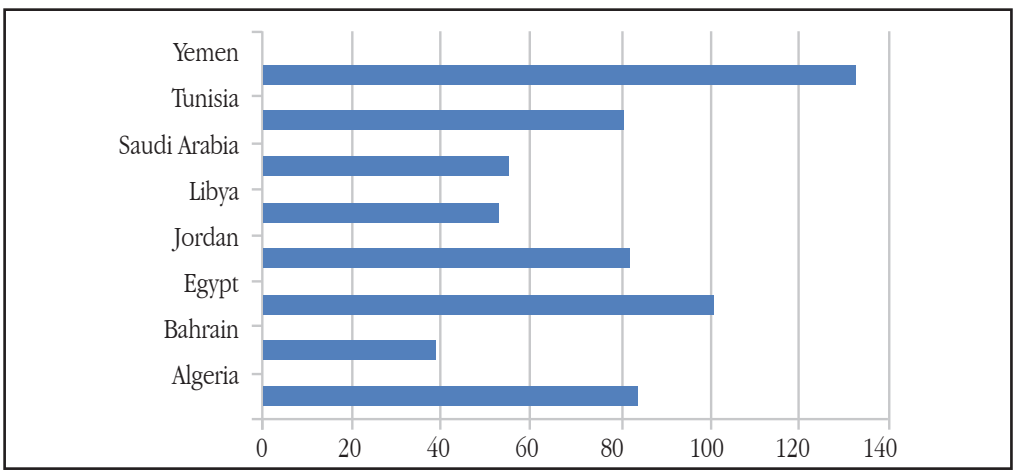


N.B. Percentile Ranks (0-100) indicate the percentage of countries worldwide that rate below the selected country. Higher values indicate better governance.

Source: World Bank Worldwide Governance Indicators (2009). Available at<http://info.worldbank.org/governance/wgi/index.asp>

It is unlikely that the unrest being witnessed in the Middle East could have been predicted despite the poor governance record seen above. Countries facing mass protests have ranged from those which score high in terms of political stability to ones which do not, indicating that different factors may have been at play. Apart from the obvious "Arab" connection between these countries, could there be other similarities?

Figure 2: HDI Rankings

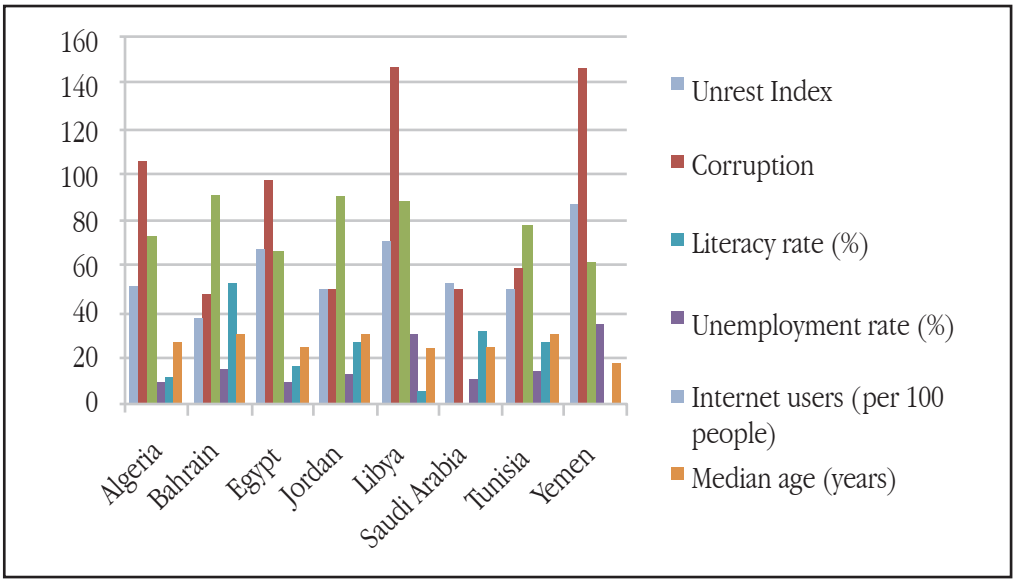


N.B. A value of 1 indicates the highest HDI value relative to the other 182 countries. A rank of 183 indicates the lowest HDI value.

Source: UNDP Human Development Report (2010). Available at <http://hdr.undp.org/en/statistics/>

It seems that most countries currently facing dissent have much to achieve in the areas of education and health. While many of these countries may fall into the middle-income category, their standards of living are rather low. This is apparent from the fact that, according to HDI, only Bahrain ranked within the top fifty countries in the World.

Figure 3: Potential for Revolution—Relevant social indicators



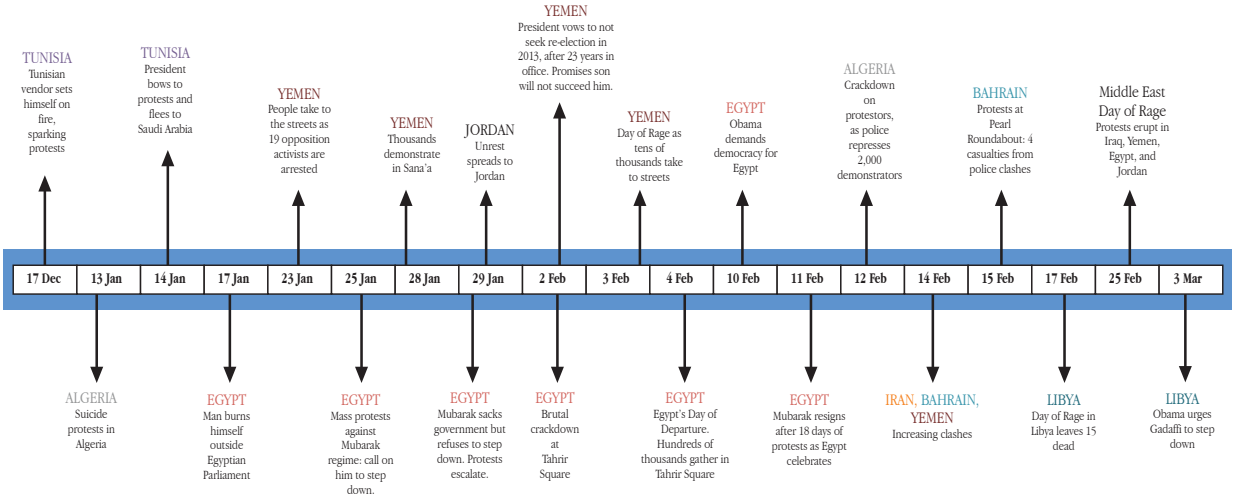
N.B. Unrest Index (100% = most unstable) as compiled by The Economist, April 2011 and "Corruption" as country rank for 178 countries

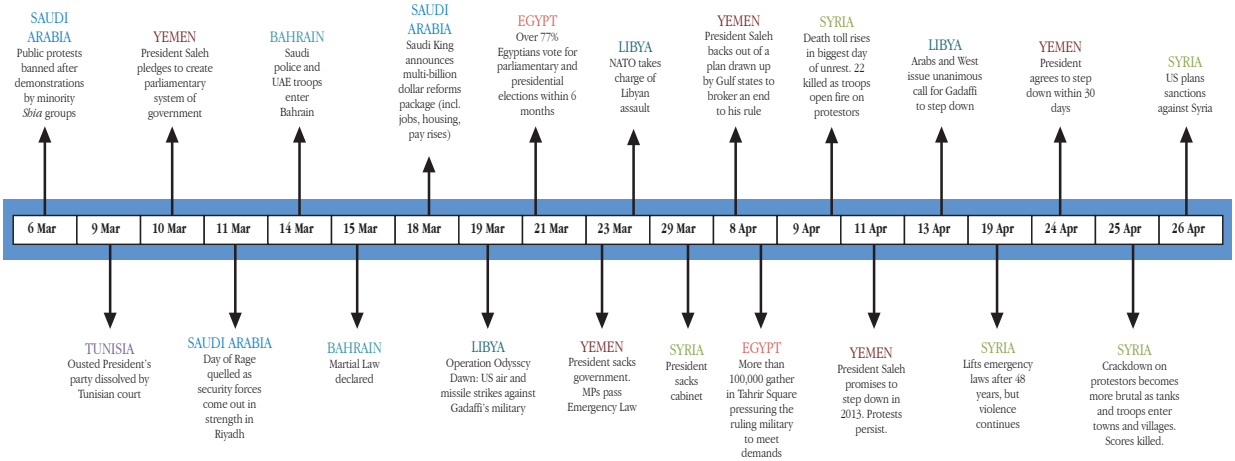
Source: BBC News (2010). Available at <http://www.bbc.co.uk/news/world-12482293/>; CIA World Factbook; World Bank Data; UNDP Human Development Indicators; UNESCO Institute of Statistics

Based on the above figure, it would appear that younger nations characterized by rampant corruption and a large fraction of under-employed or unemployed populations — populations that are wired into a global awareness — are more likely to be hotbeds of unrest than others.

Timeline of Events

The timeline below depicts the salient events that have unfolded in the Middle Eastern countries facing the prospects of revolution. As the battle rages on in Libya and protests escalate in Syria, it will be interesting to see where the "Arab Spring" leads.





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