

# **The Political Economy of Growth Without Development: A Case Study of Pakistan**

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William Easterly<sup>1</sup>

Development Research Group

World Bank

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**Abstract:** Political economy models of growth and public service provision stress the incentives of the elite under high inequality to under-invest in the human capital of the majority. Other political economy models stress that ethnic divisions will lead to low public goods provision. This paper examines Pakistan as a case study of these two propositions. Pakistan has had respectable per capita growth over 1950-99, intensive involvement by donors and international agencies (\$58 billion in foreign aid), and has a well-educated and high-achieving elite and Diaspora. Yet Pakistan systematically underperforms on most social and political indicators -- education, health, sanitation, fertility, gender equality, corruption, political instability and violence, and democracy -- for its level of income. It systematically under-performs on improvements in these indicators for its rate of GDP per capita growth over time. I call this pattern "growth without development." Large inequalities exist between men and women, between urban and rural areas, and between regions. The donor- and government-supported Social Action Program that sought to address these lags in the last 8 years has failed. This follows a long history of failed government and aid programs to address social lags. While foreign aid and government programs may have contributed to overall economic growth, they were an egregious failure at promoting social and institutional development under the circumstances of elite domination and ethnic division.

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*Introduction and literature review*

Pakistan is an intriguing paradox. It has a well-educated and entrepreneurial Diaspora who thrive as small business owners in industrial economies, skilled workers in Gulf States, and as high officials in international organizations. The professional elite within Pakistan is at a similar level to those in the industrialized world. Pakistan benefited from \$58 billion of foreign development assistance (in 1995 dollars over 1960-98), 22 adjustment loans from the IMF and the World Bank (not counting the adjustment loan each is making in the years 2000-2001), a lucrative Cold War alliance with the United States, and multiple government development programs. Pakistan is the third largest recipient of official development assistance in the world over 1960-98 (India and Egypt are 1 and 2). If it had invested all the official development assistance from 1960 to 1998 at a real rate of 6%, it would have a stock of assets equal to \$239 billion in 1998, many times the current external debt. The World Bank alone provided \$20 billion in loans from 1952 to 1999 (in 1995 dollars). Pakistan is blessed with fertile cropland watered by rivers that flow down from the Himalayas; it inherited the world's largest irrigation system from the British at independence. It has even had per capita growth – on average 2.2 percent per year from 1950 to 1999. Pakistan's tripling of its per capita income over this period, and the concomitant poverty reduction, was an important achievement while many low income countries were stagnating. Pakistan's PPP per capita income was higher than a third of the world's countries by 1999.

Yet after all this, social indicators like infant mortality and female primary and secondary enrollment are among the worst in the world in Pakistan. Female literacy ranges from 41% in urban Sindh to 3% in rural Northwest Frontier Province and Balochistan, with a nationwide average of 29%. Despite a major effort to increase services under a donor-supported 8-year long campaign called the Social Action Program, Pakistan is only spending \$2 per capita on health. In contrast, the government is able to find the money for big-ticket items like nuclear weapons and

the \$1.2 billion six-lane expressway between Lahore and Islamabad (with traffic less than 10 percent of capacity). Pakistan is also more corrupt, more politically unstable and violent, less respectful of human rights, and less democratic than the benchmark for its level of income.

One possible consequence of the imbalance between Pakistan's growth and its other aspects of development is that growth itself has now decelerated sharply, with a decline of 4 percentage points in the permanent component of GDP growth by the end of the 90s compared to its peak in the 1980s (figure 1). At the end of the 90s, the permanent component of GDP per capita growth is estimated to be near zero.

Several recent political economy models could shed light on Pakistan's growth without development. The dominance by an elite who does not support human capital investment in the masses is a theme in several theoretical models in the political economy and growth literature. In the most relevant model for this paper, Bourguignon and Verdier 1999 argue that an "oligarchy" will oppose widespread education because educated peoples are more likely to demand political power, i.e. democracy. Even if the country is already "democratic", more educated peoples will be more likely to be politically active and thus more likely to vote for a redistribution of income and power away from the "oligarchy." Hence, the oligarchy will resist mass education even in a democratic society. Acemoglu and Robinson 1998 also features an equilibrium with concentration of power among the elite and low human capital accumulation among the majority. Gradstein and Justman 1997 in related work find that the same conditions (such as inequality) that work against democracy also work against publicly-funded education.

Galor and Moav 2000 have a story that relates investment in schooling by the elite to factor endowments. At an early stage of development when labor and land are abundant and capital is scarce, there will be a low return to investing in mass education. This is assuming that skill is complementary to physical capital but not complementary to land. In a point very important for the Pakistani case, they note that large landowners would have little incentive to tax themselves to pay for schooling for the masses. As development proceeds and physical capital

rises, the return to skills increase and industrial capitalists would be willing to invest in mass education so as to gain a skilled labor force to complement their physical capital. Pakistan appears stuck at the early stage of development where land is abundant relative to physical capital and ownership of the land is highly concentrated.

As far as the low human capital of women, Galor and Weil 1996 have a model in which factor endowments again determine education choices. If physical capital increases, the importance of "brain" vs. "brawn" rises, and women's relative wages rise. This induces them to substitute education and labor force participation for child-rearing, lowering fertility which in turn feeds back into more physical capital per capita. The economy may have multiple equilibria - one with high fertility, low women's education, physical capital scarcity and low output per capita, and another with low fertility, high women's education, and high output per capita. Pakistan appears stuck in the first equilibria. We also could imagine a political economy model of the gender gap that was a variant of the Bourguignon and Verdier 1999 theory. A male power elite could decide to keep women uneducated so that women do not have the skills necessary to petition for more equal treatment.

The second type of political economy approach stresses the link between ethnic fractionalization and poor public service and institutional outcomes. Alesina, Baqir, and Easterly 1999 find that more ethnically diverse US cities and counties devote less resources to education and other public goods than more ethnically homogeneous cities and counties. Easterly and Levine 1997 found that ethnically diverse countries invest in less schooling and infrastructure. Goldin and Katz 1999 find lower public support for higher education in states with more religious - ethnic heterogeneity. Goldin and Katz 1997 likewise find lower high school graduation rates in states that had higher religious-ethnic diversity. Miguel 1999 likewise finds lower primary school funding in more ethnically diverse districts in Kenya.

Political economy approaches also link ethnic diversity to poor institutions. Mauro 1995 and La Porta, Lopez de Silanes, Shleifer and Vishny 1998 find that ethnic diversity predicts

corruption and poor quality of government services. Alesina, Baqir, and Easterly 2000 find a link from ethnic diversity to bloated government payrolls in US cities. Easterly, Ritzen, and Woolcock 2001 find that high inequality and high ethnic diversity both predict poor quality institutions.

Pakistan's social backwardness for its level of income is an interesting case study of these predictions. Scholars argue that Pakistan has both elite domination and ethnic diversity. A case study approach can yield detailed insights in addition to what can be derived from cross-country regressions.

The study of Pakistan's social backwardness is itself not new. It has been noted in just about every one of the copious books and reports written by Pakistani economists, outside scholars, and international organizations (referenced below). This paper will go further by documenting in much more detail the social (and importantly, the institutional) lag, by studying its evolution over time, by examining intra-country patterns, by reviewing the past history of government and aid programs to correct the social lag, and by analyzing the political economy of the social lag.<sup>2</sup>

#### *Income without development*

Pakistan's social backwardness is all the more startling because not only is it low relative to income, but it is low after years of excessive public spending that led to a very high public debt to GDP ratio (101 percent of GDP in 2000).<sup>3</sup> Pakistan's high public debt (figure 2) and social backwardness may have contributed to poor creditworthiness ratings by international credit risk agencies, even compared to other countries of similar income levels (Table 1). This in turn may have contributed to Pakistan's poor record at attracting private capital in the 1990s (Table 1 again).

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<sup>2</sup> A recent example of analyzing growth without development is the self-explanatory article "Poverty reduction without human development in Pakistan" by Joeques et al. 2000.

<sup>3</sup> Government of Pakistan 2001

Table 1: Coefficient on Pakistan dummy in regression of indicators of private financial creditworthiness on per capita income		
<i>Variable</i>	<i>Coefficient</i>	<i>T-statistic</i>
<i>Euromoney</i> Creditworthiness rating (1-5 scale) 1998	-0.52	-7.05
<i>International Country Risk Guide</i> (1-5 scale) 1998	-0.76	-8.51
<i>Institutional Investor</i> (1-5 scale) 1998	-0.20	-2.59
Foreign direct investment/GDP (%), 1990s	-1.58	-3.36
Gross private capital inflows/GDP (%), 1990s	-4.23	-3.96

Pakistan has poor health, education, and fertility indicators for its level of per capita income.<sup>4</sup> Table 2 shows the lag in health indicators in Pakistan. Compared to other countries at this income, Pakistan has 36 percent lower births attended by trained personnel, 11 percentage points higher babies born with low birthweight, 42 percent lower health spending per capita, 1.6 percent of GDP less in public health spending, 27 excess infant deaths per thousand, 19 excess child deaths per thousand, and 23 percentage points less share of population with access to sanitation.

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<sup>4</sup> Most of the differentials described here remain significant if one controls for a "South Asia effect" or a "Muslim effect." It is also possible that PPP per capita income (the concept used here) is overestimated for Pakistan, although that seems less credible given that there has been a three-fold increase in income over the last half century according to independently estimated growth statistics.

Table 2: Coefficient on Pakistan dummy in health indicator regressions ( <i>t-statistic below coefficient</i> )	
variable	Controlling for per capita income for matching time period
births attended by trained personnel, 98	-36.537
	-18.54
Percent low birthweight 1990s	11.630
	17.62
log(health spending per capita PPP\$ 90s)	-0.558
	-8.13
public health spending as percent of gdp 96	-1.616
	-7.38
infant mortality 98	27.430
	11.55
Under-5 mortality 1998	18.954
	3.91
hospital beds per 1000 90s	-1.568
	-8.64
percent of population with access to sanitation 90s	-23.732
	-10.43
percent of rural population with access to sanitation 90s	-25.071
	-8.86
percent of urban population with access to sanitation 90s	-17.232
	-7.33

Table 3 shows the lag in education indicators. Relative to other countries at its level of income, Pakistan has 20 percentage points fewer of its elementary school age children enrolled in primary school. This gap is explained entirely by the 40 percentage points fewer of elementary school age girls who attend primary school. Similarly, the 14 percentage point shortfall in secondary enrollment is explained mainly by a 20 percentage point shortfall for females. Tertiary enrollment is also abnormally small, although equally split between males and females.

Twenty-four percentage points more of Pakistan's population is illiterate than is normal for a country of its income level, reflect excess illiteracy of 32 percentage points for females and 16 percentage points for males. Public spending on education is 1.4 percentage points lower than

the benchmark for income level. There are nearly 5 additional students per teacher in Pakistani schools than what its income level would predict.

Table 3: Coefficient on Pakistan dummy in education indicator regressions ( <i>t-statistic below coefficient</i> )	
variable	Controlling for per capita income for matching time period
gross primary enrollment 90s	-20.843
	-7.87
female	-40.502
	-14.36
male	-2.194
	-0.84
gross secondary enrollment 90s	-13.602
	-9.72
female	-20.471
	-13.43
male	-9.030
	-6.20
gross tertiary enrollment 90s	-5.644
	-9.09
female	-5.543
	-7.91
male	-5.590
	-9.07
illiteracy rate 90s	24.420
	13.64
female	32.177
	15.73
male	16.294
	10.30
Daily newspapers per 1000 people, 1995	-14.079
	-2.46
public spending on education as percent of GDP, 1990s	-1.367
	-7.55
pupil teacher ratio 1989-97	4.629
	3.67

Demographic indicators are also out of line in Pakistan. Although population growth is not unusually high for Pakistan's income level, there is excess fertility of 0.6 childbirths per woman. Twenty-one percentage points fewer married women of childbearing age use contraceptives than is typical for a country of Pakistan's income level. Pakistan is more rural than the typical country of its development level (Table 4). Finally, there is the well-known phenomenon of "missing women", which is also present throughout South Asia and China. Pakistan has a lower female proportion of population than normal -- presumably reflecting the consequences of various forms of gender discrimination.<sup>5</sup> Girls between the ages of 1 and 4 had a 66 percent higher death rate than boys in the 1990s.<sup>6</sup>

Table 4: Coefficient on Pakistan dummy in demographic regressions ( <i>t-statistic below coefficient</i> )	
variable	Controlling for per capita income for matching time period
population growth, 1997	0.144
	0.81
contraceptive prevalence	-21.023
	-12.87
fertility 1998	0.628
	6.83
urbanization, 1997	-5.142
	-4.03
female proportion of population, 99	-2.058
	-21.30

Another indicator of a society's development is the quality of its institutions. Table 5 shows Pakistan's performance relative to its income level on a number of governance indicators. Pakistan fares worse on all six dimensions of governance measured by Kaufmann et al. 1999b: less government effectiveness, more graft, more political instability and violence, more regulatory burden, less rule of law, and less democratic voice and accountability. Other independent assessments give a similar picture of Pakistan's poor governance. Compared to other countries of

<sup>5</sup> See World Bank 2001

<sup>6</sup> Tinker 1998, p. 6

its income level, it is less democratic according to Freedom House. (Which is interesting, because these ratings were done when Pakistan did have an elected government in power.)

Pakistan has more abuses of human rights than other countries of its income level according to the Humana Institute. The 1998 US State Department Report on Human Rights cited examples such as a death sentence for blasphemy imposed on a Christian and a Shi'a Muslim (although these have so far not been carried out). According to the same report "police committed numerous extrajudicial killings and tortured, abused, and raped citizens."

The Pakistani government spends 3.3 percentage points of GDP more on defense than other countries of its income level. It is interesting that the overspending on defense is roughly equal to the sum of the underspending on health and education as percent of GDP (see below for a political economy explanation of this pattern). The statistics in table 5 may help explain the poor social performance, but they in turn need to be explained by fundamental political economy factors.

Table 5: Coefficient on Pakistan dummy in governance regressions ( <i>t-statistic below coefficient</i> )	
variable	Controlling for per capita income for matching time period
<i>Governance as of 1997-98 Kaufmann et al. indicators (ranging from approximately -2.5 to 2.5, a positive number indicating a better outcome)</i>	
Government effectiveness	-0.471
	-6.82
Graft	-0.454
	-7.24
Political instability and violence	-0.257
	-2.80
Regulatory Burden	-0.146
	-2.21
Rule of Law	-0.446
	-6.43
Voice and Accountability	-0.274
	-3.74
<i>Other political indicators for longer periods</i>	
Freedom House Political Liberties 1972-98 (from 1 for best to 7 for worst)	-0.468
	-2.86
Humana Institute Human Rights Index (from 0 to worst to 100 for best) average of 1986 and 1992	-13.785
	-6.93
Defense spending/GDP 1972-98	3.313
	8.55

### *Underdevelopment Across Regions and Classes*

Although the national averages of indicators are informative, they conceal significant regional and urban/rural inequality. The lag of rural areas is very important, as 64 percent of Pakistan's population lives there. Figure 3 shows the rural/urban variation in net primary enrollment rates, ranging in Sindh for example from 24 percent for rural girls to 62 percent for urban girls.<sup>7</sup> Figure 4 also shows that the gender gaps in primary enrollment vary across regions, with both rural and urban gender gaps smaller in Punjab than in other regions.

<sup>7</sup> The source of all the regional urban/rural by gender data is the 1998/99 Pakistan Integrated Household Survey (PIHS).

Figure 4 shows similar variation in secondary school enrollment across regions and across the urban/rural divide. Nine percent of rural Sindhi girls are enrolled in middle school, in contrast to 47 percent of urban girls in Sindh. Balochistan and NWFP also show low rural enrollment for girls, while the gender and rural/urban gaps are somewhat less pronounced in Punjab.

Figure 5 shows that contraceptive prevalence is lower in NWFP and Balochistan than other provinces. Similarly Figure 5 shows that attendance of trained personnel at childbirth is much lower in rural areas.<sup>8</sup> Punjab had a better urban/rural balance than the other provinces.

Figure 7 shows gaps of 40 percentage points across regions in rural access to sanitation (in this case drainage). Five percent of rural residents of Balochistan have access to drainage.

How does the social lag relate to poverty within Pakistan? Not surprisingly, material poverty is connected to the other social gaps documented in this paper. The illiterate, especially the rural illiterate, have a far higher poverty rate than the more educated (figure 7.5). The causation here no doubt runs in both directions, but the picture is consistent with one of an educated elite who do not wish to invest in the human capital of the majority.

Data on educational attainment shows further evidence for this story. The education gap between the rich elite and the poor majority is startling. Table 6 shows various education statistics on Pakistan by income level, using data on household surveys from Filmer 2001. There is a gap of 9 years in median educational attainment between the richest 20 percent and the poorest 40 percent, which is close to being the highest in the world for Filmer's sample. The typical member of the poorest 40 percent has NO schooling. The shortfall of Pakistani educational enrollment is explained – in the numerical sense -- by the lower class being shut out of education.

The class gap interacts with the gender gap, so that two-thirds of rich males have attained 9<sup>th</sup> grade compared to 2 out of every 100 poor females. (Rich and poor are again defined

as richest 20 percent and poorest 40 percent.) These gaps appear at every level of educational attainment, not just 9<sup>th</sup> grade. In fact, the gender/class gap is even larger for attainment of 1<sup>st</sup> grade (Table 6). The idea of dominance by a rich male elite is definitely borne out by the data.

	richest 20 percent	poorest 40 percent
Median grade attained 15-19 year olds	9	0
	Rich male	Poor female
Percent of 15-19 year olds who attained grade 9	61%	2%
	Rich male	Poor female
Percent of 15-19 year olds who attained grade 1	92%	12%
<i>Source: Filmer 2001</i>		

### *Growth without development*

How did Pakistan wind up with such low levels of social well-being for its income level? Could this have reflected simply poor initial conditions, such as might have been due to under-investment in the social sector under British colonial rule? In this section, I consider two exercises. First, I consider countries that were at the same income level as Pakistan at the beginning of the period and compare the subsequent evolution of per capita income and social indicators. I generally find that Pakistan grew much more than other low income countries (which in itself is an impressive accomplishment), but unfortunately achieved the same or less social progress. Second, I consider countries that grew at about the same rate as Pakistan, regardless of initial income level, and compare indices of per capita income and social indicators

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<sup>8</sup> The PIHS data seem to imply a higher national average for attendance at childbirth than was apparent from the cross-country data used for Table 1. Perhaps this is due to a broader definition of what are "trained personnel".

with the initial year set to equal unity. I find that other moderate growers achieved more social progress than Pakistan for a given amount of growth.

Figures 8 and 9 illustrate these two approaches for per capita income and infant mortality. Figure 8 shows that Pakistan had about the same infant mortality rate as other countries of its income level in 1960.<sup>9</sup> Over the succeeding four decades, Pakistan grew much more rapidly than other low income countries, but had less improvement in infant mortality. Figure 9 shows indices (with 1960=1.0) of per capita income and infant mortality for the control group that had the same growth rate as Pakistan.<sup>10</sup> In the moderate growth control group, infant mortality declined by 73 percent from 1960 to 1998. In Pakistan, the same amount of growth resulted in a decline in infant mortality of 43 percent.

Figures 10 and 11 illustrate the same approaches for female illiteracy. Figure 10 shows that Pakistan already had higher female illiteracy at the same initial income level as the control group (the starting point for this data is 1970). Over the next three decades, income grew more in Pakistan, but female illiteracy improved less. Figure 11a shows indices for per capita income and female illiteracy (1970=1.0) for the control group that had the same growth rate as Pakistan. The moderate growth control group achieved a reduction of female illiteracy of about 60 percent, while the same amount of growth in Pakistan yielded a decline in female illiteracy of about 20 percent. The gap between female and male illiteracy actually increased with rising per capita income in Pakistan, while it declined sharply in other comparably growing countries (Figure 11b).

### *The Social Action Program*

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<sup>9</sup> In all of the control groups of "income level at same level ", I take the third of the sample ordered by income centered around Pakistan in the initial year. I then plot the median income and infant mortality for that group of countries over the succeeding decades. Pakistan is always at the same level of income as the control group at the beginning of the period by construction.

<sup>10</sup> Again, I choose the control group as the third of the sample ordered by growth centered around Pakistan. I then plot the index of per capita income and infant mortality, set to 1 in the initial year. By construction, the index of per capita income will reach the same point at the end of the period in the control group as in Pakistan.

The slow record of improvement in social indicators is particularly disappointing because for the past eight years the government and international donors have been making a concerted effort to improve them. This effort, known as the Social Action Program (SAP), has cost \$8 billion over 1993-98, 25 percent of which was put up by foreign donors. The program aimed at improving outcomes in health, education, family planning, and rural water supply and sanitation.

The data seem to indicate that the Social Action Program failed. Primary school enrollment has actually declined slightly over the 1990s. The total net primary enrollment rate fell to 40 per cent in 1998-99 from around 46 per cent in 1990-91. The share of the private sector in primary schooling has risen significantly, reflecting parents' discontent with the quality of government schools. Net secondary enrollment remained static at about 16 percent in the 1990s. The rural/urban gap for middle school enrollment increased during the decade as a result of modestly increasing rates in urban areas and declining rates in rural areas.

Infant mortality did decline, as we saw in figures 9 and 10, but by a smaller amount than with countries with comparable initial income or growth. Expanding immunization was a major goal of the SAP with a target of universal coverage (over 90 per cent) by the end of 1990s. This goal was not reached, as less than 50 per cent of 1 year olds were fully immunized by the end of the decade. Between 40 and 50 percent of health clinics reported stock-outs of at least two essential medicines in the most recent quarter at the time of the 1999 survey.

Contraceptive prevalence increased from 7% in 1990-91 to 17% in 1998-99. Fertility is declining in both rural and urban areas. The percentage of deliveries conducted by qualified personnel in Pakistan increased from 45 percent in 1990-91 to 61 percent in 1998-99. The share of pregnant women visiting a health facility for pre-natal consultations has increased slightly over the 1990s, though it remains less than one third of all pregnant women and the increase is only in urban areas. On the other hand, the percentage of women receiving a tetanus toxoid vaccination

decreased in both Punjab and Sindh in the 1990s, with a greater fall in rural areas.<sup>11</sup> The percentage of rural households connected to a drainage system decreased from 37 percent in 1990-91 to 33 percent in 1998-99.

The Social Action Program monitored compliance with guidelines for recruitment, procurement, absenteeism, and site selection. In 1998-99, compliance with the guidelines ranged from 81 percent for site selection, to 62 percent for recruitment, to 50 percent for procurement. The compliance rate on absenteeism was only 30 percent.

The Social Action Program aimed at increasing government spending on the social sectors. This objective failed, as the government first increased slightly then decreased the amount spent on SAP (Table 7).

1992/93	1.70
1993/94	1.72
1994/95	1.88
1995/96	2.05
1996/97	2.35
1997/98	1.69
1998/99	1.60

Total government spending on health and education, measured either as percent of GDP or constant dollars per capita, remained flat or declined slightly after the initiation of SAP (Figure 12). Given the high drop-out rates in the early grades, part of this spending is being wasted on students who do not stay in school long enough to acquire functional literacy. Government spending on health of \$2 per capita and on education of \$8 per capita is surely inadequate for expanding these services to a broader range of the population. It's not so much that "social action" failed, as it was that it was never really tried.

#### *Past Social Reform Attempts*

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<sup>11</sup> Results on tetanus toxoid are not available for other provinces.

The Social Action Program is only the latest of many government and foreign aid programs to try to improve Pakistan's social lag. Pakistan's founding father Mohammad Ali Jinnah sent a message to the first education conference, held in November 1947 shortly after independence, saying "the future of our state will and must greatly depend on the type of education we give to our children." A commission on national education in 1959 called for universal and compulsory education. It stressed education of women in particular, since "unless a mother is educated, there will never be an educated home or an educated community."<sup>12</sup> The Five Year Plan in 1959 called for "a universal system of free and compulsory primary education by about 1975."

In 1965, the government's five-year plan aimed "greatly to increase enrolment at the primary level in order that universal primary education may be achieved as early as possible." The long-run plan in 1965 aimed to achieve by 1985 "universal literacy."<sup>13</sup> (Actual literacy in 1985 would turn out to be 24 percent.)

Bhutto nationalized private schools in the 1970s, eroding their quality. They were finally re-privatized in the early 1990s. Bhutto also established a national textbook board, which Burki 1999 blames for the continuing abysmal quality of textbooks. Nevertheless, the Education Policy of 1972 called for universal primary education for boys by 1979 and girls by 1984 (boys primary enrollment in 1979 turned out to be 52 percent, and girls' primary enrollment in 1984 was 31 percent).

The World Bank in a 1977 study sounded the alarm about school quality:

Even the few children fortunate enough to reach school often have no books, pencils or paper...the roofs leak or have collapsed without funds for repair, thus crowding two classes and two teachers into the same room. Teachers, especially in rural areas, are often absent. (World Bank 1977, p. 6)

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<sup>12</sup> Unesco 1987, pp. 7-8

<sup>13</sup> Government of Pakistan 1965, p. 17, p. 189

The World Bank in 1984 noted that the Pakistani government planned to launch a "program of mass literacy," noting that "progress in recent years has been disappointing."<sup>14</sup> Quality issues continued to fester, as a 1986 National Education Commission found that "large numbers of teachers are undereducated, under-trained, under-paid, and most important of all undervalued."<sup>15</sup> A Harvard/USAID survey in 1988/89 found that about 20 percent of primary schools had no school building, meaning that classes were held outside under a tree (a 2001 World Bank study of Punjab province found similar proportions of "shelterless" schools) . Classes were cancelled if it was too hot, too cold, or if it rained. The survey found that 60 to 70 percent of the students had no textbooks at the beginning of the year, although this was reduced to about 30 percent by the end of the year. The textbooks were hard to understand and contained numerous errors. <sup>16</sup> The 2001 World Bank study of Punjab province found that the allocation for teaching materials came to only 36 cents per pupil.

A 1996 World Bank study pointed out again the low literacy and enrollment rates in Pakistan. But it hopefully noted that "efforts to improve schooling have been increasing," with a "growing emphasis" on basic schooling for rural residents, and a focus on "improved schooling quality."<sup>17</sup> Instead, as we have seen, enrollment rates declined in the 1990s, especially in rural areas. Quality did not improve, as flight from public to private schools continued. In Punjab province in 1999, only 41% of the highly selective group that made it to tenth grade passed the matriculation exam.

As one study put it, there have been many education "reforms and commissions on reform" (by one account there were 11 national education commissions between 1947 and

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<sup>14</sup> World Bank 1984, p. 103.

<sup>15</sup> Bhatti et al. 1986

<sup>16</sup> Warwick and Reimers 1995, p.34, 37, 82

<sup>17</sup> World Bank 1996, pp. 8-9.

1993),<sup>18</sup> but education has remained “unabashedly elitist”.<sup>19</sup> Total adult literacy remains at only 45 percent at the start of the new millennium.

Women’s and mother’s issues have also featured in many government and aid programs. Notwithstanding the subsequent poor record on controlling fertility, the government had noted the need to reduce birth rates as long ago as the first five-year plan in 1955-60. Fertility rates did not begin to decline until the mid-1980s, and then -- as we have seen -- at a rate that lagged behind the rise of income. The redressing of gender inequality has also long been a feature of government plans. As a government document put it, “toward the close of the 1970’s, women development issues were considered urgent...{and} became one of the priority objectives of the government.”<sup>20</sup> Again in 1989, the government of Pakistan was “committed to redressing this waste of human and development potential” i.e. low female human capital.<sup>21</sup> The 1996 World Bank report, done in collaboration with the Government of Pakistan's Planning Commission, noted efforts toward "more equal distribution of basic schooling," "particularly for girls."<sup>22</sup> Still at the end of the 1990s, female primary enrollment was the same as it was at the beginning of the decade. A critical indicator of maternal welfare, the percentage of low birthweight babies, has remained stuck at about 27 percent over the past two decades. Similarly, the low share of females in the population, a critical indicator of female health status, has not changed over the past four decades.

A nationwide campaign for improvement in health began as long ago as the second five-year program in 1960-65. The third five-year plan in 1965-70 aimed at increasing "the supply of medical personnel in rural and semi-urban areas" and promoted "active participation by local communities." The government started the decentralized system of basic health units to serve the

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<sup>18</sup> Farooq 1993, pp. 6-7.

<sup>19</sup> Library of Congress 1994

<sup>20</sup> World Bank 1989, p. xxi

<sup>21</sup> World Bank 1989, p. xiii

<sup>22</sup> World Bank 1996, p. 8

rural population in the early 1970s.<sup>23</sup> These units have never really functioned effectively due to missing medicines, absenteeism of medical staff assigned to the units, and unfilled posts for doctors. A USAID study in 1980 rather defensively concluded that "the lack of interest within the Government of Pakistan in social sector investments helps to explain the poor performance of recently funded AID projects in health."<sup>24</sup> The SAP in the 1990s was meant to revitalize this system, but a recent review based on data through 1999 concluded that basic health units were still missing essential medicines, under-funded, under-staffed, and under-visited.<sup>25</sup>

The third five-year plan noted in 1965 that "a programme for the complete eradication of malaria has been in progress since 1960-61." The campaign was expected to take 5 to 7 years.<sup>26</sup> Instead, both the percent of the country area affected by malaria and the percent of the population living in such areas was higher in 1994 than it was in 1966 (or in 1946).<sup>27</sup> Pakistan today is still at an early phase of the epidemiological transition; forty percent of the burden of disease continues to consist of communicable infectious diseases.

The military government that took power in 1999 soon thereafter announced a plan of devolution of authority for social services to the district level, in the hope that district level officials would be held more accountable for service delivery than higher level officials. It is too soon to tell whether this plan will be effective. Devolution is another idea that has been tried before: the military governments of Ayub Khan in the 60s and Zia Ul Haq in the 80s also tried to strengthen local governments, without succeeding in eliminating Pakistan's social lag. The First Five-Year Plan in 1955 planned to "decentralise school administration, giving greater degree of

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<sup>23</sup> *ibid.*

<sup>24</sup> USAID 1980, p. 26.

<sup>25</sup> A review of the largest province, Punjab, found that 50 percent of clinics reported they ran out of more than two essential drugs during October-December 1999.

<sup>26</sup> Government of Pakistan 1965, p. 248

<sup>27</sup> Data from the Center of International Development at Harvard (available online at <http://www2.cid.harvard.edu/ciddata/>)

financial authority to the district education officers, ..., and constituting local school management committees."<sup>28</sup> The SAP in the 1990s resuscitated these ideas, but without much success.

The SAP review in 2000 concluded that inadequate resources, lack of trained staff, absenteeism, inadequate and unreliable supplies of key inputs needed to maintain service quality, faulty construction and weak monitoring all contributed to the continuing disappointment in social progress.

Part of the problem throughout Pakistan's history is that foreign donors placed a relatively low emphasis on social progress compared to overall GDP growth as a measure of success. Pakistan's lack of social progress did not prevent the World Bank touting Pakistan as a success story in 1985 entitled in a publication entitled "Pakistan and the World Bank: Partners in Progress." Figure 13 shows that the social sector (defined to include education, health, nutrition, and population policy) had a miniscule share in World Bank lending to Pakistan until recently (and even in the 1990s was still only 22 percent of lending). This probably reflects some combination of low demand from the Pakistani government (which I will explore in the next section) and the donors' emphasis on building things and directly supporting manufacturing and agriculture. In any case, foreign aid and government social programs are not a success story.

#### *The Political Economy of Growth Without Development*

Why didn't Pakistani growth result in social and political development? Why is the social crisis so pronounced in Pakistan for its level of income? Why was the large volume of aid so ineffective? At the beginning, I noted the paradox of the highly educated Pakistani Diaspora in the West and the troubled, poorly educated society at home. I hypothesized political economy models of elite dominance and ethnic division could help explain this paradox.

Pakistani economist Ishrat Husain puts forward a persuasive formulation of the effects of elite dominance: "The ruling elites found it convenient to perpetuate low literacy rates. The lower the proportion of literate people, the lower the probability that the ruling elite could be

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<sup>28</sup> UNESCO 1987, p. 10

displaced.”<sup>29</sup> In a famous statement, the chief economist of the planning commission Mahbub ul Haq alleged in the 1960s that 22 families controlled 66 percent of the industrial wealth and 87 percent of banking and insurance.<sup>30</sup> The rural areas are dominated by the large "feudal" landowners, whom Gazdar 2000 classifies as belonging to a high “caste”. Landowners have been prominent in virtually all Pakistani government coalitions. Their power is so great that they were long able to block direct taxation of agricultural income, depriving the state of an important revenue source.<sup>31</sup> The Economist Intelligence Unit estimates that the “rural gentry” captured 70% of the seats in local elections in December 2000.<sup>32</sup> Landowners have formed an alliance with the military leadership, who have in turn played a prominent role in Pakistani politics.

It is notable anecdotally that rural/urban and gender gaps are very high in Sindh, where "feudal" landlords are commonly thought to still be predominant in rural areas (Talbot 1998, p. 37). The rural/urban and gender gaps are much less in Punjab, by contrast, which is thought to be less "feudal" except in its southwestern extremity. By the same token, the severe social backwardness of rural areas all over the country, which explains much of Pakistan's overall lag in social indicators for its income level, is consistent with the story that landowners oppose human capital accumulation.

To explore more the relationship of the elite to public schooling services, Gazdar 2000 performed a careful survey of primary schools in selected rural locales. In a sample of 125 schools surveyed with surprise visits, a quarter of the schools were not open at the time of the visit.<sup>33</sup> There were several cases where the teacher was a relative of the landowner and, thus protected, did not bother to show up for classes. The schools were sometimes used as a personal building by the landowner. Only a quarter of the schools had electricity and only half had a

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<sup>29</sup> Husain 1999, p. 359.

<sup>30</sup> Husain, 1999, p. 19

<sup>31</sup> Talbot 1998, p. 37-38. The government is introducing an agricultural income tax as of this writing (June 2001), but it is too soon to tell how effective it will be at mobilizing revenue from landlords.

<sup>32</sup> [http://wb.eiu.com/report\\_full.asp?valname=CRBPK2&title=Country+Report+Pakistan#7](http://wb.eiu.com/report_full.asp?valname=CRBPK2&title=Country+Report+Pakistan#7)

<sup>33</sup> Gazdar 2000, p. 46

latrine.<sup>34</sup> There were no teachers present at all in 19 per cent of the schools, and only one teacher was present in 35 per cent of the sample.<sup>35</sup> The researchers on the Gazdar team classified only 38 percent of the schools as “functional”, according to a minimalist criterion.<sup>36</sup> There was an association between high “caste” status and participation in schooling.<sup>37</sup>

In a case study of the Sanghar district in rural Sindh, Gazdar gives specific examples of landlord interference with schooling:

In both these villages (in different areas of Sanghar), there were school buildings but no functioning schools. In AR Sammat1 the building was in a cluster of four homes, all belonging to a local landlord family, who had connections with a bigger landlord of the area. This building was being used as a farm shed, and for keeping goats. In Y Baloch2, the school was located in the middle of fields, and did not appear to have a connection at all with any of the surrounding settlements. Y Baloch2 was the name of a powerful large (deh level) landlord. The school was used here too as a farm shed, and one of Y Baloch2 employees was taking a nap there at the time of the visit. (p. 71)

In another village described by Gazdar 2000:

There are 28 families in this village, which is about half a kilometre from the metalled road, though much further from any main or link road. The village is unique in the sample in that it is organized around the landlord's manor. There are four homes belonging to one branch of an extended Sammat2 family who are the sole landlords. Their land ownership is in the hundreds of acres. ... The Sammat2 home is a towering pukka mansion, and is equipped with modern amenities. . . Other homes are clustered around 50 meters away, and are all mud and thatch structures. . . The conditions of the tenant homes are very poor, and the attitude of the Sammat2 towards the tenants is high-handed. ... The tenant families, nevertheless, speak frankly about their exploitation, and state openly that they would not be exploited if they were educated. There is a government school in the village, but it does not function because the teacher remains absent. The school was established and building constructed under the Iqra scheme in 1986. According to a Bheel respondent, the only benefit they have of the school was that they could sleep in the building when it rained and their own roofs leaked. None of the tenant children go to school. The children of the Sammat2 all go to private school in a nearby town, and are driven to school and back in a jeep. (p. 72)

The elite enforces their preferences on under-investment in human capital by keeping social service delivery highly centralized, with all decisions on allocation of resources taken at the top. In Pakistan, it is the provinces that are responsible for social service delivery. For Punjab's population of 73 million, for example, the provincial government in Lahore makes the decisions on how many textbooks and medicines will make it to some remote rural backwater.

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<sup>34</sup> Ibid, p.50

<sup>35</sup> ibid., p. 51

<sup>36</sup> Ibid, p. 55

<sup>37</sup> ibid., p.112, 115

The national government in Islamabad, in turn, largely determines the province's resources through transfers of taxes collected at the national level.

A variant of "the elite keeping the masses uneducated so as to keep power" hypothesis is that the male elite in a highly patriarchal society are reluctant to invest in women's education, since that is likely to lead to demand by women for increased power and equality. As we have seen above, Pakistani women are discriminated against in both health (as indicated by their low share of total population) and education. This discrimination may reflect some exogenous ideological and religious currents as well as political economy determinants.<sup>38</sup> The gender gap in turn may be feeding other social gaps. There is a negative association between mothers' education and the mortality rate of their children, both at the micro and macro levels. There is also a negative association between women's education and fertility, in both the household survey and cross-country datasets (World Bank 2001, 79-83). Lower women's rights is also associated with more corruption across countries (World Bank 2001, p. 94-95).

The second political economy hypothesis is that division into linguistic, religious, or regional factions has also inhibited public provision of social services in Pakistan. Pakistan has a troubled political history. An anomalous feature of nationalism in Pakistan is that the cultural and geographical homeland of the "Pakistan idea" in British India lay outside the boundaries of what is today Pakistan.<sup>39</sup> Ironically, significant areas of what is today Pakistan supported other parties -- including the Indian Congress Party -- rather than the Pakistan-founding Muslim League in pre-Independence elections. For example, the Muslim League won only 1 of 86 seats set aside for Muslims in 1937 elections in Punjab.<sup>40</sup> Only shortly before partition did the northwest Muslim-majority provinces embrace the idea of Pakistan. Even so Pakistan became a nation of "disparate ethnic groups who had never previously coexisted except under colonialism."<sup>41</sup> The way the

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<sup>38</sup> As Noman 1997 (p.37) puts it, "ideological puritanism" led to "social and private subjugation of women."

<sup>39</sup> Talbot p. 130

<sup>40</sup> Burki 1986, p. 16

<sup>41</sup> Talbot 1998, p. 18

British rushed independence contributed to the panicky migration of some 6 million Hindus from Pakistan to India and 8 million Muslim refugees from India to Pakistan and extensive communal violence that left 500,000 dead.<sup>42</sup> The failure of the British to resolve the dispute over Kashmir (a Muslim majority state with a Hindu prince) prior to independence would poison the relationship with India forever after.<sup>43</sup>

The death of the unifying founder figure Jinnah soon after independence was an additional blow to the formation of strong national leadership. The remaining Muslim League leaders had their political base mainly in areas that were now in India.<sup>44</sup> The division between West Pakistan and Bengali-speaking East Pakistan further complicated the launching of the national community at independence.

One indicator of polarization is the alternation of power between feuding factions of the elite, with governments rarely completing their terms of office. From independence to 1958, Pakistan had seven successive non-military appointed governments. Then, it had a secular military dictator Ayub Khan, a violent breakup of East and West Pakistan, then a socialist democratic (but nevertheless autocratic) regime under the Sindhi landowner Z.A. Bhutto. Many Pakistani economists today trace the roots of the decay of the professional civil service to Bhutto's politicizing civil service appointments in the 1970s.<sup>45</sup> Next came an Islamic military dictator Zia ul Haq (who executed Bhutto). The spillover of weapons and refugees from the war in Afghanistan further destabilized Pakistani politics. (The US was happy to use Pakistan as a conduit for arms to the Afghans fighting the Soviets, but left Pakistan in the lurch once the Soviets left). Zia died in a plane crash in what probably was an assassination. The nation returned to democracy, with an alternation in power between the populist regime of Bhutto's daughter Benazir and the Muslim League regime of the Punjabi industrialist Nawaz Sharif. Each party

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<sup>42</sup> *ibid*, p. 41, Bell-Fialkoff 1996.

<sup>43</sup> So politically salient is the Kashmir issue that during both of my two visits to Pakistan, Kashmir was on the front page of Pakistani newspapers every day of my visit.

<sup>44</sup> Library of Congress

leader out of power wound up in court charged with corruption, while the party in power often resorted to extra-constitutional means to hold on to it. Finally today there is another military regime (under which both Benazir Bhutto and Nawaz Sharif are in exile and banned from politics).<sup>46</sup>

The political instability has made Pakistan's successive governments more like Mancur Olson's (2000) "roving bandit," who loots only for today. The governments are not like Olson's "stationary bandit" who invests in his victim's future prosperity so he can continue fleecing him. The political polarization and instability may help explain the poor quality of government institutions documented above.

Part of the root of the factionalism lies in ethnolinguistic diversity. There are many different linguistic groups -- although Urdu is the national language, it is spoken as the native tongue by only 8 percent of the population. Others out of the 20 languages spoken by fractions of the population include Punjabi (48 percent), Sindhi (12 percent), Siraiki (a variant of Punjabi, 10 percent), Pashto (8 percent), and Balochi (3 percent).

Before the secession of East Pakistan, of course, there was even more linguistic polarization. A contentious issue in the first quarter-century of Pakistan's existence was whether Bengali (spoken by East Pakistanis) was to be a second national language along with Urdu. When the East Pakistanis resorted to civil disobedience over this and other autonomy issues in 1971, the West Pakistani army responded with a campaign of rape and murder against the largely defenseless population. Scholars estimate that the army killed between 1.2 and 3 million Bengalis in 1971, and something like 10 million Bengalis fled their homes. Bangladesh finally won its independence with help from India.<sup>47</sup>

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<sup>45</sup> Husain 1999b, p. 27

<sup>46</sup> Husain 1999a, p. xiii, Burki 1986, pp. 37-101

<sup>47</sup> various estimates by Fein (1992), Charny (1999), Rummel (1997)

Another division is between native inhabitants of the region that became Pakistan and the Muslim immigrants (the *muhajirs*) that came from India at the time of partition.<sup>48</sup> The President of Pakistan accused the second Benazir Bhutto administration of extra-judicial killings of *muhajir* militants in Karachi when he dismissed her in 1996.<sup>49</sup> Balochis tried to secede in the 1970s under Bhutto senior, but Bhutto and the army responded with a campaign of mass murder of Balochis (continuing violence that dated back to 1958).<sup>50</sup> Finally, there is polarization between different variants of Islamic belief and non-Muslim minorities, and the debate over the degree to which the Pakistani state should be secular or Islamic. The move towards increased Islamicization of society under Zia (beginning in 1979) may have exacerbated other divisions by leading to a more exclusive definition of "Islamic". As the Library of Congress puts it

Disputes between Sunnis and Shia, ethnic disturbances in Karachi between Pakhtuns and *muhajirs*, increased animosity toward Ahmadiyyas, and the revival of Punjab-Sindh tensions--can all be traced to the loss of Islam as a common vocabulary of public morality.<sup>51</sup>

Husain 1999 concurs that:

Every conceivable cleavage or difference: Sindhi vs. Punjabi, Mohajirs vs. Pathans, Islam vs. Secularism, Shias vs. Sunnis, Deobandis vs. Barelvis, literates vs. illiterates, Woman vs. Man, Urban vs. Rural -- has been exploited to magnify dissensions, giving rise to heinous blood baths, accentuated hatred, and intolerance.<sup>52</sup>

Polarized societies find it difficult to agree on the kind of public good, and even if they compromise, each faction will value it less than would a citizen of a society with more homogeneous values. Examples in Pakistan might be disagreements about the role of Islam in the public schools, or disagreement about whether English or Urdu should be the language of instruction. (English was used in the schools until Zia instituted Urdu in the early 1980s; English was brought back in the private schools in the late 1980s and early 1990s). The Harvard/USAID survey found that even in the Urdu schools, there were translations by students into local

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<sup>48</sup> Library of Congress Pakistan page: <http://lcweb2.loc.gov/frd/cs/pktoc.html>

<sup>49</sup> Talbot 1998, p. 17, 410

<sup>50</sup> Harff 1992.

<sup>51</sup> <http://lcweb2.loc.gov/frd/cs/pktoc.html> under "politicized Islam"

<sup>52</sup> Husain 1999, p. 396

languages such as Baluchi, Punjabi, Pushto, and Sindhi.<sup>53</sup> A further schism in education is between the western-style schools and the *madrassahs* that focus mainly on religious instruction in Urdu and Arabic.<sup>54</sup> In both education and health, the access of women to these services, and the role in which women play in delivering the services, has been a divisive issue.<sup>55</sup> The result of such polarization over public services is that less public services are provided. Pakistan is the poster-child for the hypothesis that a society polarized by class, gender, and ethnic group does poorly at providing public services.

An interesting exception to the general under-provision of public goods is the abundant supply of one national public good: military defense. Real defense spending more than doubled from 1980 to 2000, while real development spending decreased in absolute terms over the same period (Government of Pakistan 2001). One of the few things all factions can agree on is animosity towards India over the disputed province of Kashmir. Hence, it is easy for the military to justify a large investment in the army and advanced weaponry (the testing of a nuclear device set off widespread popular celebrations in Pakistan). The political and military leadership may exploit the Kashmir grievance as a distraction from its poor performance in other areas.

Polarized societies will also find it difficult to agree on a common set of institutions to restrain rent-seeking. An example in Pakistan is how successive governments (starting with Bhutto senior if not earlier) have politicized the high quality civil service inherited from the British. The poor institutions in turn reinforced the poor public service delivery, aggravating the social lag.

The two political economy hypotheses of elite domination and ethnic factionalism fit the realities of Pakistani society, confirming cross-section results in the growth literature. One area for further investigation might be to examine how the two types of polarization interact -- if

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<sup>53</sup> Warwick and Reimers 1995, p. 39.

<sup>54</sup> Burki 1999

<sup>55</sup> Noman 1997 (p. 37) attributes part of the poor human capital performance of Pakistan to the divisive debate on role of women in society.

the Pakistani elite was divided into factions, how did it manage to keep power from the poor majority? There were some attempts to co-opt the masses in the populist governments of Z.A. Bhutto and Benazir Bhutto, which we could think of as one section of the elite using the poor majority as a weapon against another section of the elite. However, the powerful position of the army and the landlords has prevented any passing of decision-making to the illiterate majority. Each segment of the elite is powerful enough by itself to exclude the majority from power, even when it is feuding with another segment.

*One last econometric check on hypotheses*

One way to check on the ethnic divisions and inequality story is to introduce measures of ethnic divisions and inequality into the regressions of human capital on per capita income and the Pakistan dummy. The significance and magnitude of the Pakistan dummy when one controls for Pakistan's ethnic divisions and inequality will help assess whether these factors explain the poor social outcomes.

One piece of evidence that is not consistent with the inequality story should be mentioned before doing this exercise. Pakistan has a fairly low Gini coefficient by comparison with the rest of the sample: it was only in the 20<sup>th</sup> percentile in the 1990s. It similarly ranks low on inequality by the land Gini (the 31<sup>st</sup> percentile). Yet virtually all country level analyses of Pakistan stress the great divide between the elite and the poor majority.<sup>56</sup> It may be that the concentration of power and social status ("high caste") among the elite is more important than the actual material divide between the elite and the masses. It may also be that the skewed distribution of education (the near world-record gap of 9 years of schooling between the richest 20% and the poorest 40% mentioned earlier) is a more important dimension of inequality than income.

Table 8 shows that controlling for ethnic diversity and inequality generally renders the Pakistan dummy insignificant. The educational inequality variable (absolute difference in years

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<sup>56</sup> Having paid visits to both elite and poor households, I can anecdotally vouch for the "great divide" thesis.

of schooling between top 20% and bottom 40%) generally outperforms the income Gini in both having the “right” sign and significance and rendering insignificant the Pakistan dummy.<sup>57</sup> The coefficients on ethnic diversity and inequality are not themselves consistently significant as the sample size is small and collinearity is a problem. However, there are some important significant results confirming that polarization inhibits human capital accumulation controlling for per capita income. The Pakistan dummy is almost always insignificant when controlling for ethnic diversity and educational inequality. The results are uneven but supportive of the hypothesis that Pakistan’s poor level of human capital investment for a given level of income is related to its high degree of ethnic and class polarization.

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<sup>57</sup> The relationship between the education gap and the enrollment ratio variables is partly mechanical, in that an extremely large gap makes it arithmetically impossible to enrollment to attain very high levels.

**Table 8: Testing Pakistan human capital dummy controlling for ethnic divisions and inequality (t-statistics below coefficient)**

variable	coefficient on income	coefficient on Pakistan dummy	coefficient on ethnic fractiona- lization	coefficient on income Gini	coefficient on education gap	R- squared	#obser- vations
Primary enrollment	11.82	-8.46	-0.01	1.10		0.447	80
	5.26	-1.71	-0.17	3.89			
Primary enrollment	25.19	-6.58	0.07		-3.90	0.480	36
	4.50	-0.61	0.65		-1.93		
Female primary enrollment	13.59	-26.32	-0.06	1.25		0.530	79
	5.92	-5.35	-0.91	4.26			
Female primary enrollment	28.17	-18.63	0.01		-5.26	0.546	35
	4.70	-1.57	0.05		-2.36		
Male primary enrollment	10.31	9.07	0.05	0.99		0.347	79
	4.62	1.73	0.74	3.40			
Male primary enrollment	23.06	3.94	0.13		-2.46	0.355	35
	3.91	0.40	1.22		-1.33		
Secondary enrollment	24.73	-22.82	0.00	-0.63		0.819	80
	13.25	-7.43	0.03	-2.86			
Secondary enrollment	23.64	-5.68	-0.02		-1.57	0.644	36
	7.39	-0.78	-0.20		-1.09		
Female secondary enrollment	25.91	-27.14	-0.06	-0.50		0.814	79
	13.03	-8.48	-0.87	-2.16			
Female secondary enrollment	24.86	-8.39	-0.10		-2.07	0.692	35
	6.64	-1.30	-1.38		-1.58		
Male secondary enrollment	23.24	-18.94	0.04	-0.71		0.797	79
	12.01	-5.73	0.54	-3.14			
Male secondary enrollment	24.97	-4.10	0.03		-1.41	0.593	35
	7.49	-0.48	0.30		-0.86		
Illiteracy	-15.24	18.55	0.05	-0.55		0.621	61
	-8.47	4.67	0.91	-2.52			
Illiteracy	-22.50	-7.34	-0.06		6.73	0.676	36
	-6.44	-0.83	-0.60		4.11		
Female Illiteracy	-15.79	24.07	0.09	-0.72		0.599	61
	-7.56	5.37	1.40	-2.90			
Female Illiteracy	-23.29	-4.14	-0.02		7.48	0.649	36
	-6.47	-0.44	-0.18		4.34		
Male Illiteracy	-12.32	13.32	-0.02	-0.32		0.546	61
	-6.74	3.13	-0.31	-1.38			
Male Illiteracy	-18.93	-10.89	-0.12		6.07	0.651	36
	-5.18	-1.33	-1.44		4.03		
Pupil-teacher ratio	-8.35	7.62	0.02	0.30		0.618	76
	-6.57	2.48	0.46	1.83			
Pupil-teacher ratio	-12.24	-8.36	0.04		2.62	0.497	36
	-3.78	-1.54	0.52		2.58		

**Table 8 (continued): Testing Pakistan human capital dummy controlling for ethnic divisions and inequality (t-statistics below coefficient)**

variable	coefficient on income	coefficient on Pakistan dummy	coefficient on ethnic fractiona- lization	coefficient on income Gini	coefficient on education gap	R- squared	#obser- vations
Newspapers	85.12	-49.04	-0.58	-3.12		0.608	79
	7.80	-2.52	-1.49	-2.67			
Newspapers	22.70	8.67	-0.04		-1.93	0.588	35
	4.23	2.16	-0.62		-1.77		
log(public health spending per capita)	1.13	-0.48	-0.01	0.00		0.875	74
	12.72	-2.85	-2.41	-0.16			
log(public health spending per capita)	0.79	-0.36	-0.01		0.01	0.658	31
	4.61	-1.26	-3.19		0.21		
Infant mortality	-28.36	20.46	0.17	-0.22		0.820	81
	-11.63	4.44	2.34	-0.79			
Infant mortality	-37.74	23.97	0.05		0.67	0.731	36
	-8.36	5.11	0.51		0.63		
Under-5 mortality	-49.19	3.37	0.33	-0.65		0.769	77
	-9.74	0.32	2.34	-1.12			
Under-5 mortality	-80.85	18.06	0.10		0.86	0.770	35
	-8.58	1.54	0.45		0.34		
Access to sanitation	22.30	-21.72	0.01	0.35		0.646	74
	9.45	-4.18	0.11	1.26			
Access to sanitation	21.44	2.68	0.18		-5.73	0.416	35
	4.71	0.35	1.43		-3.33		
Access to sanitation, rural	23.41	-31.20	0.05	-0.24		0.542	66
	6.41	-4.17	0.36	-0.57			
Access to sanitation, rural	15.55	5.90	0.19		-6.09	0.273	35
	2.53	0.70	1.31		-3.11		

### *Conclusions*

The political economy of growth without development helps understand why it has resisted treatment by many well-intentioned government and donor programs. The Pakistan case illustrates the principle that the social payoff to foreign aid is low in a polarized society.<sup>58</sup>

The legacy of that failure is a lag in Pakistan's social indicators behind countries of comparable income and there are serious inequities across rural/urban, provincial, and gender divides. The poor social indicators in turn lower the productive potential of the economy and its ability to service its high debt, not to mention the loss in human welfare from having achieved so little social and political progress.

Another puzzle to study in future research is why the low human capital indicators did not prevent a respectable growth rate of 2.2 percent per capita over 1950-99. It may be that a certain degree of development and growth was attainable with a skilled managerial elite and unskilled workers, but over time this strategy ran into diminishing returns as human capital did not grow at the same rate as the other factors. This is consistent with the slowdown in growth from the mid-80s to the present, but this requires more study to confirm. This interpretation is supported by some of the evidence of the cross-country growth regression literature.<sup>59</sup>

Agricultural growth may have also been possible with the landlord elite taking advantage of the immense potential of the irrigation network and the Green Revolution, using only unskilled agricultural laborers. But agricultural growth may also have run into diminishing returns as irrigated land and human capital did not grow at the same rate as other factors of production.

On the other hand, Pakistan could be taken as a supporting case for the proposition that per capita income growth is possible without commensurate human capital accumulation, at least

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<sup>58</sup> Svensson 2000 finds that foreign aid tends to go into corruption in societies polarized along ethnic lines.

<sup>59</sup> Barro 1998 finds initial health and education to affect subsequent growth, and Kaufmann et al. 1999 find corruption, political instability, and other measures of government dysfunction to lower growth.

as measured by the enrollment and educational attainment statistics (Pritchett 1999, Benhabib and Spiegel 1994).<sup>60</sup>

The bottom line is that Pakistan made little social progress for given rates of per capita income and growth relative to comparator groups, lowering the welfare of the population compared to that under more broadly-based development. Pakistan is an interesting illustration that growth alone is not enough for broader development under circumstances of high social polarization. It may help us understand why economic growth is not always reliably associated with social and institutional progress.<sup>61</sup>

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<sup>60</sup> Krueger and Lindahl 1999 challenge this view.

<sup>61</sup> See Easterly 1999.

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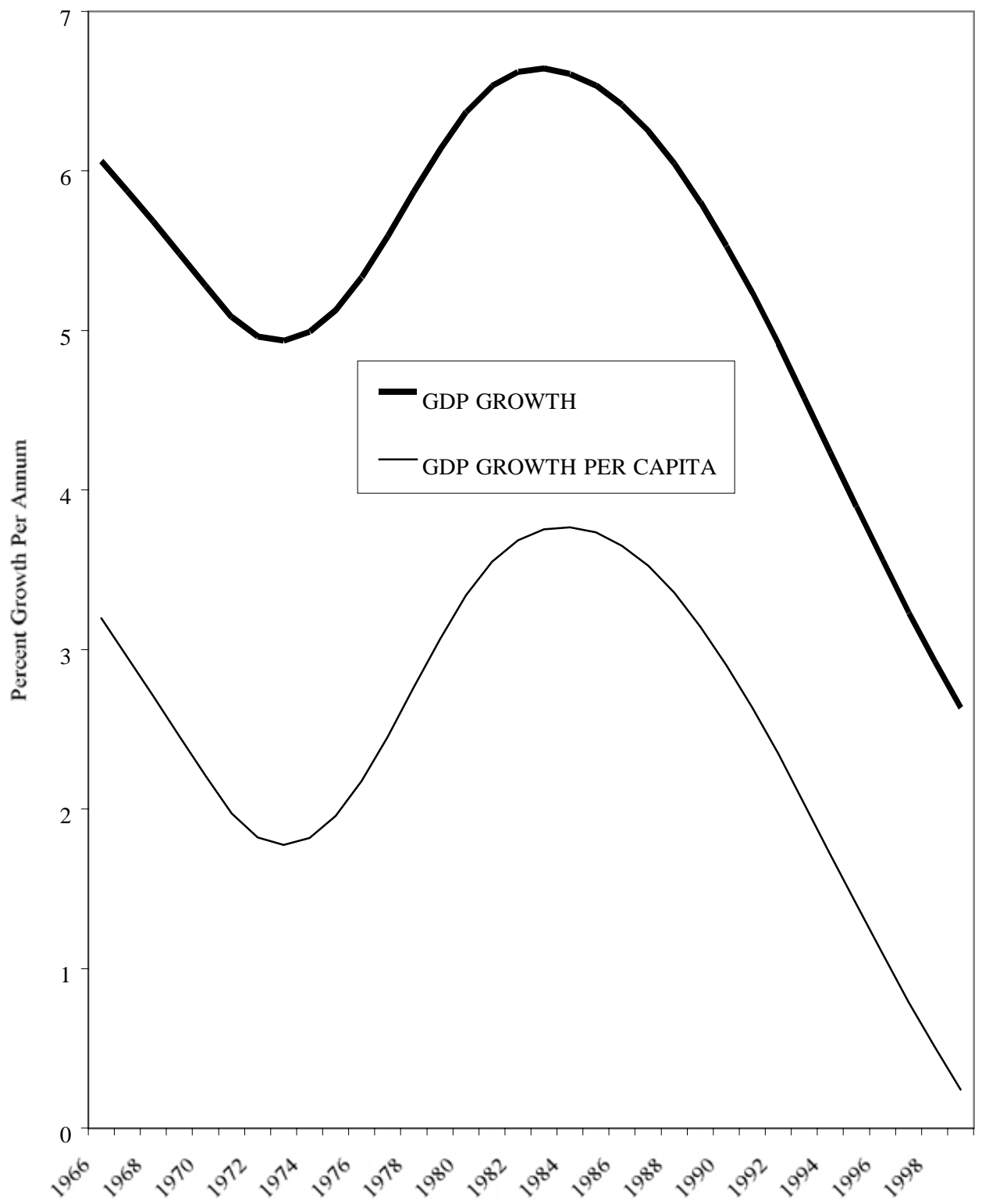
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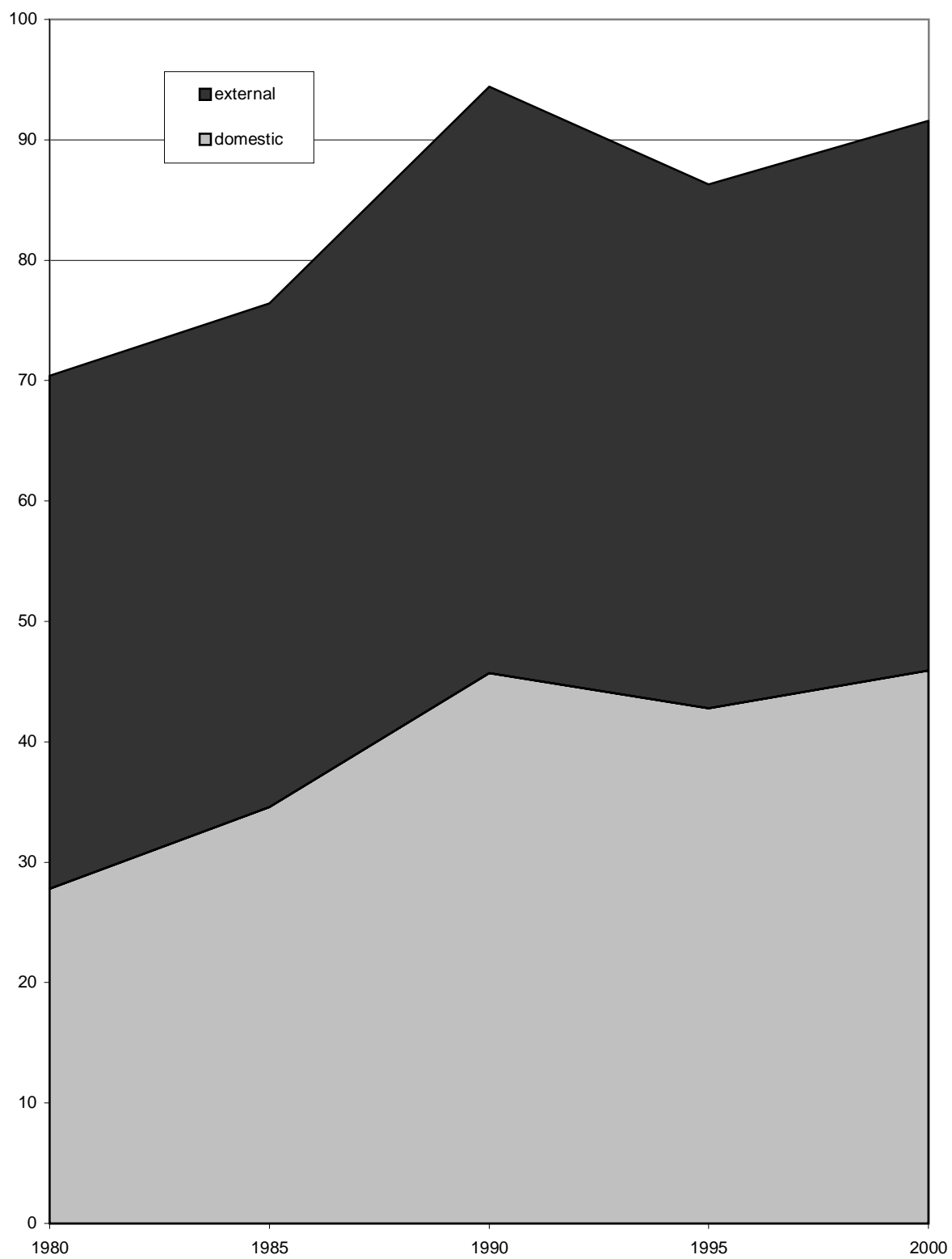
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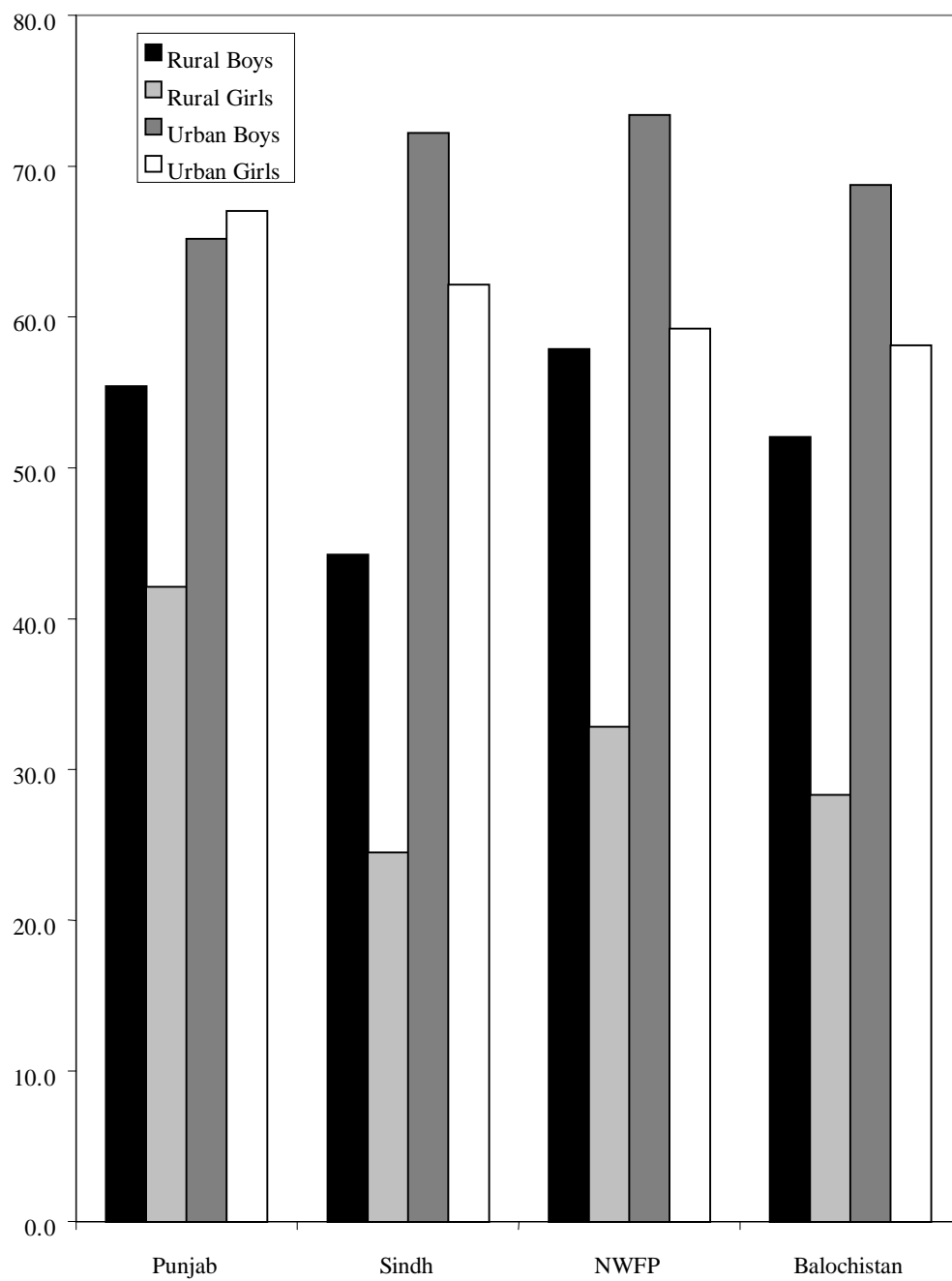
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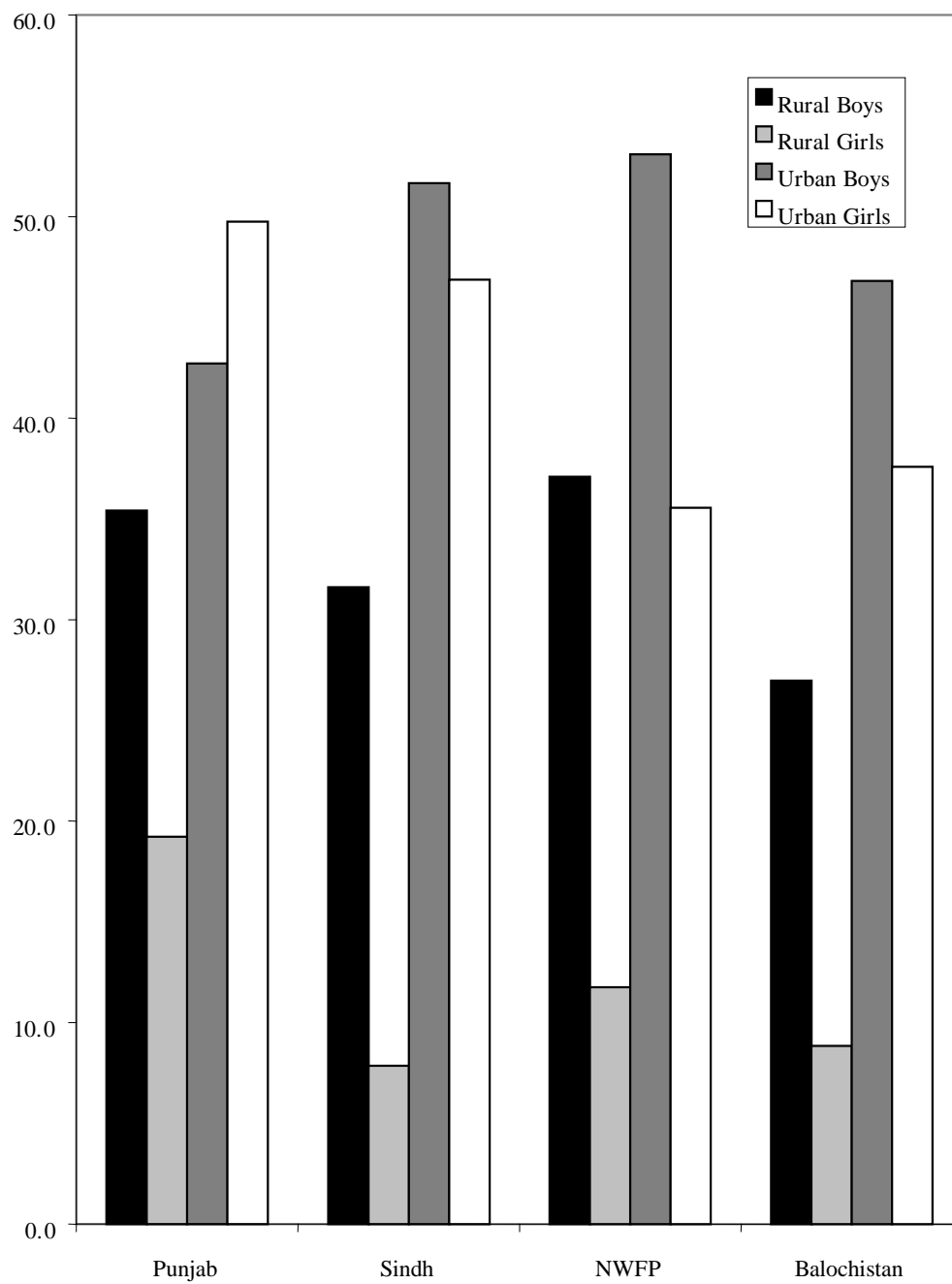
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**Figure 1: Pakistan's Smoothed growth series,**

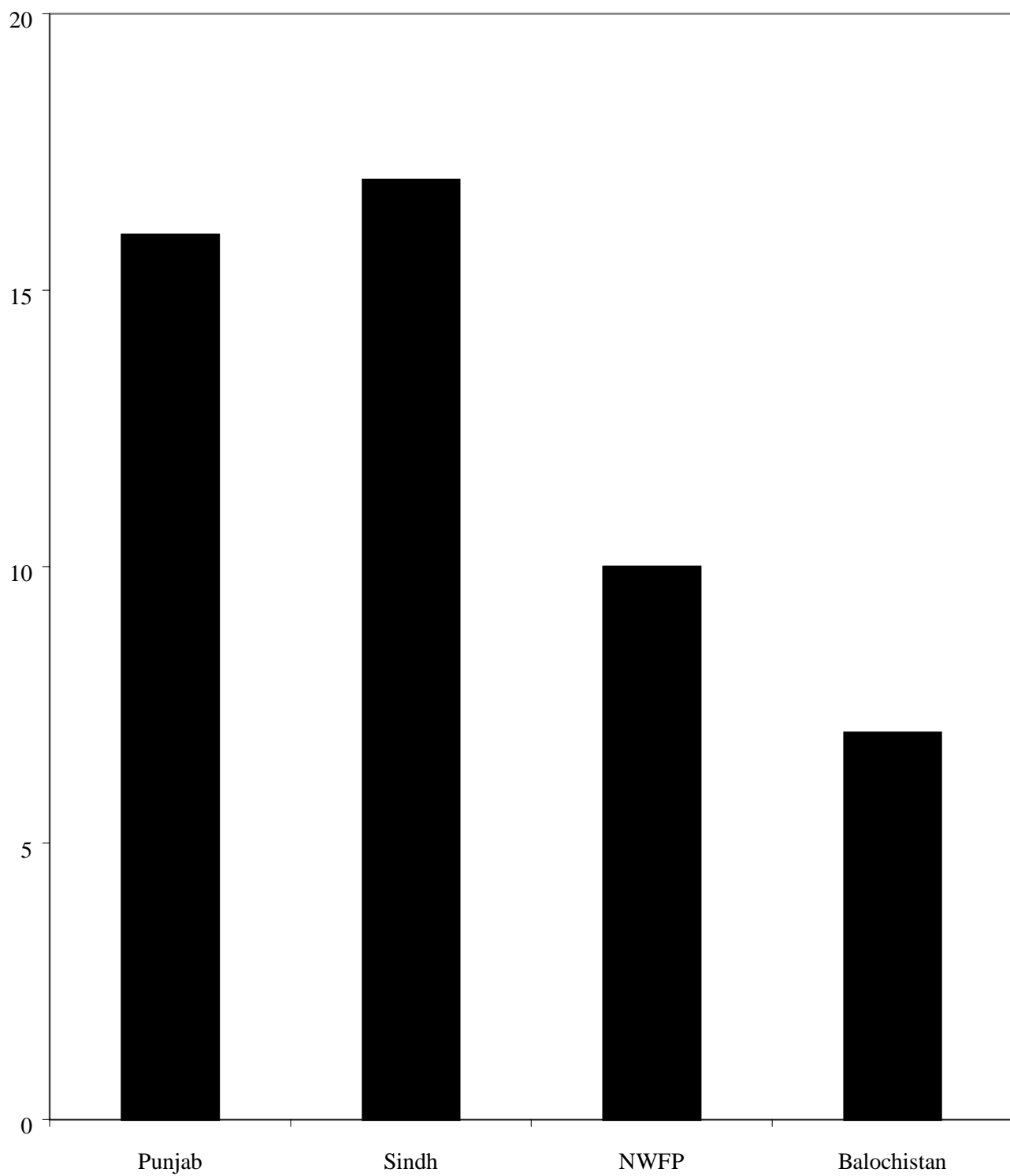
**Figure 2: Pakistan's Net Public Debt as Percent of GDP**

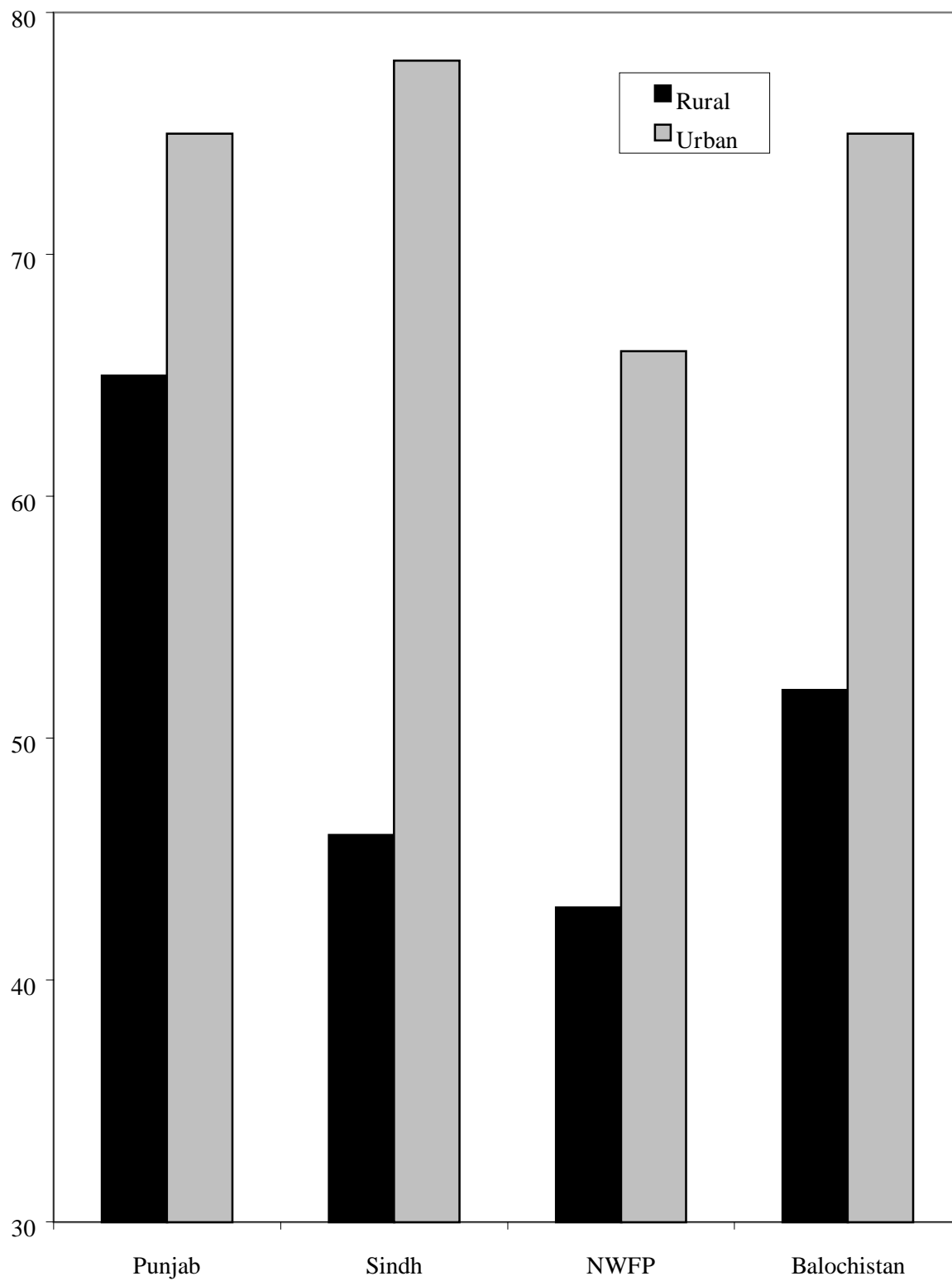
**Figure 3: Net primary school enrollment**

**Figure 4a: Net secondary school enrollment by region, gender, and urban/rural classification**



**Figure 5: Contraceptive Prevalence 1998-99 (Percent of currently married women aged 15-49)**



**Figure 6: Percent of births conducted by qualified personnel, 1998-99**

**Figure 7: Percent of rural households with access to drainage 1998-99**

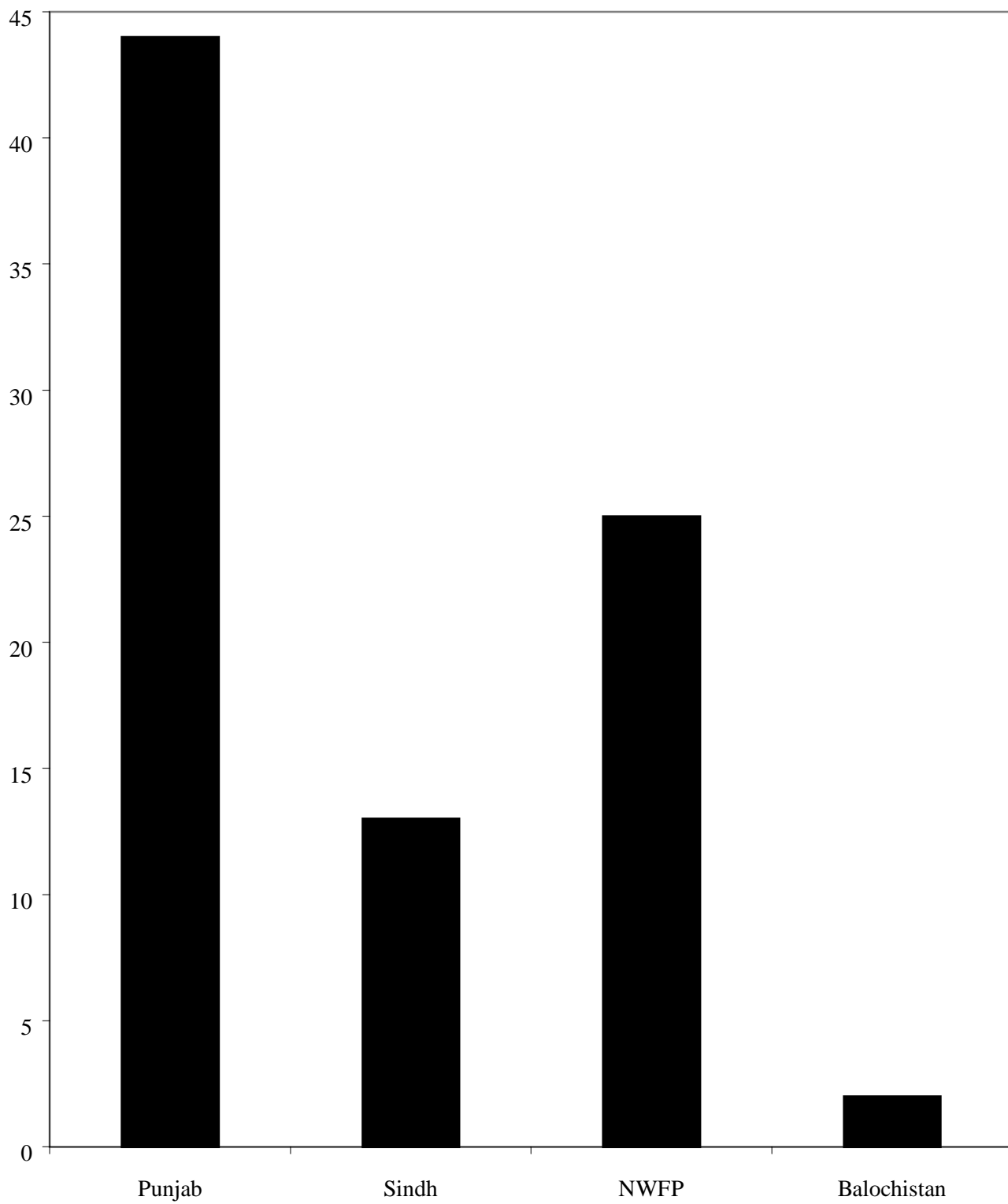
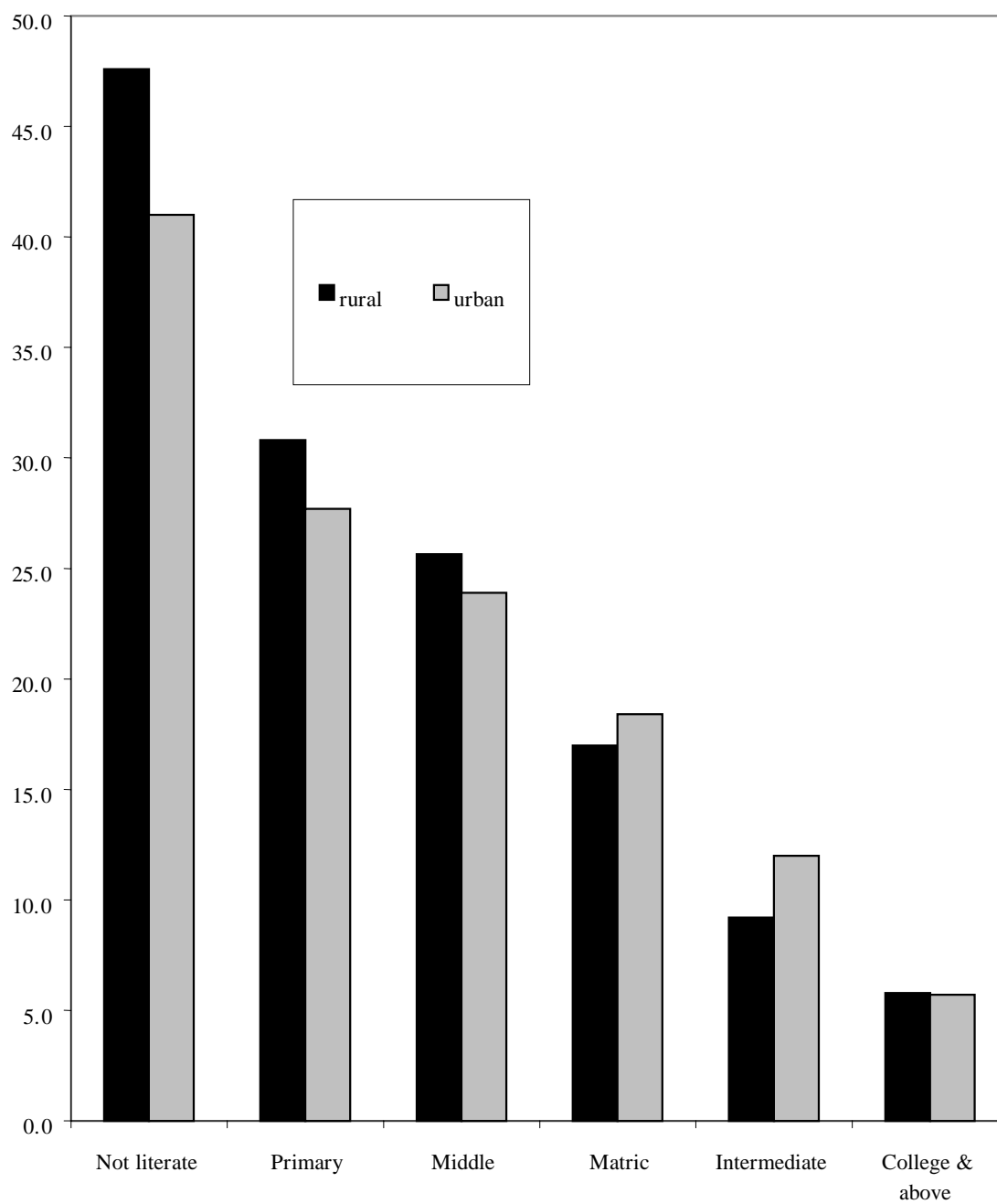
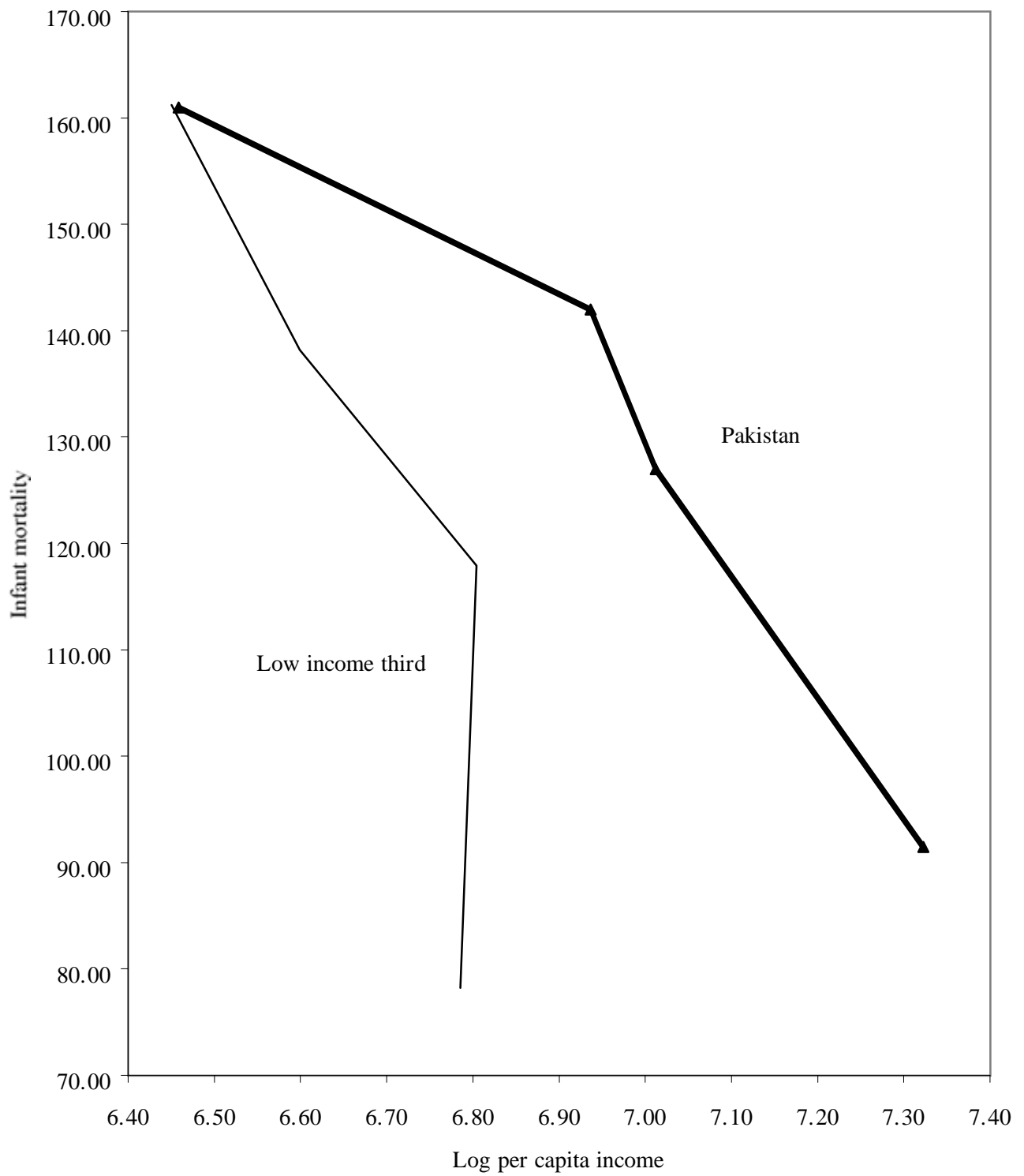


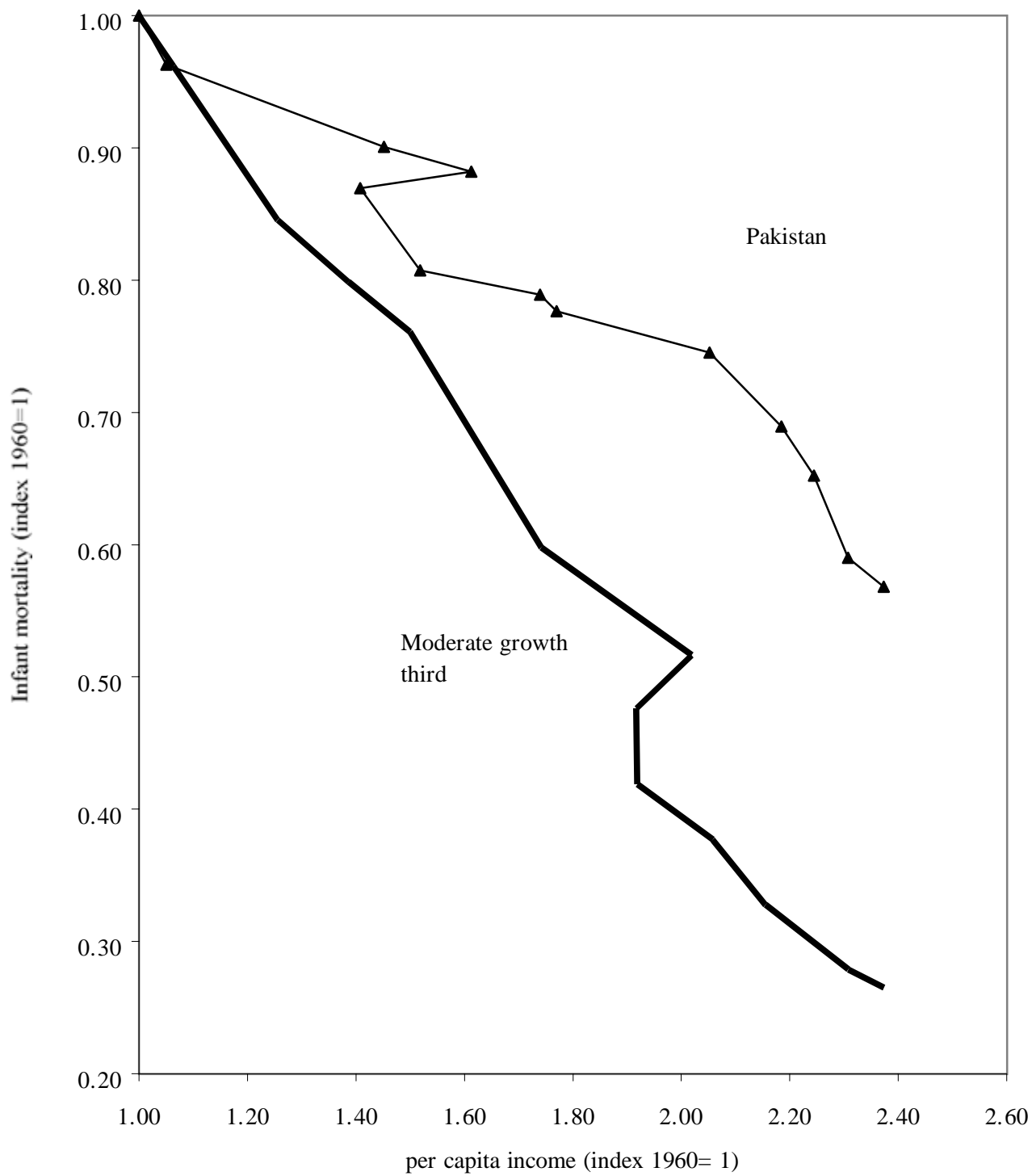
Figure 7.5: Poverty incidence 1998-99 by level of education and location



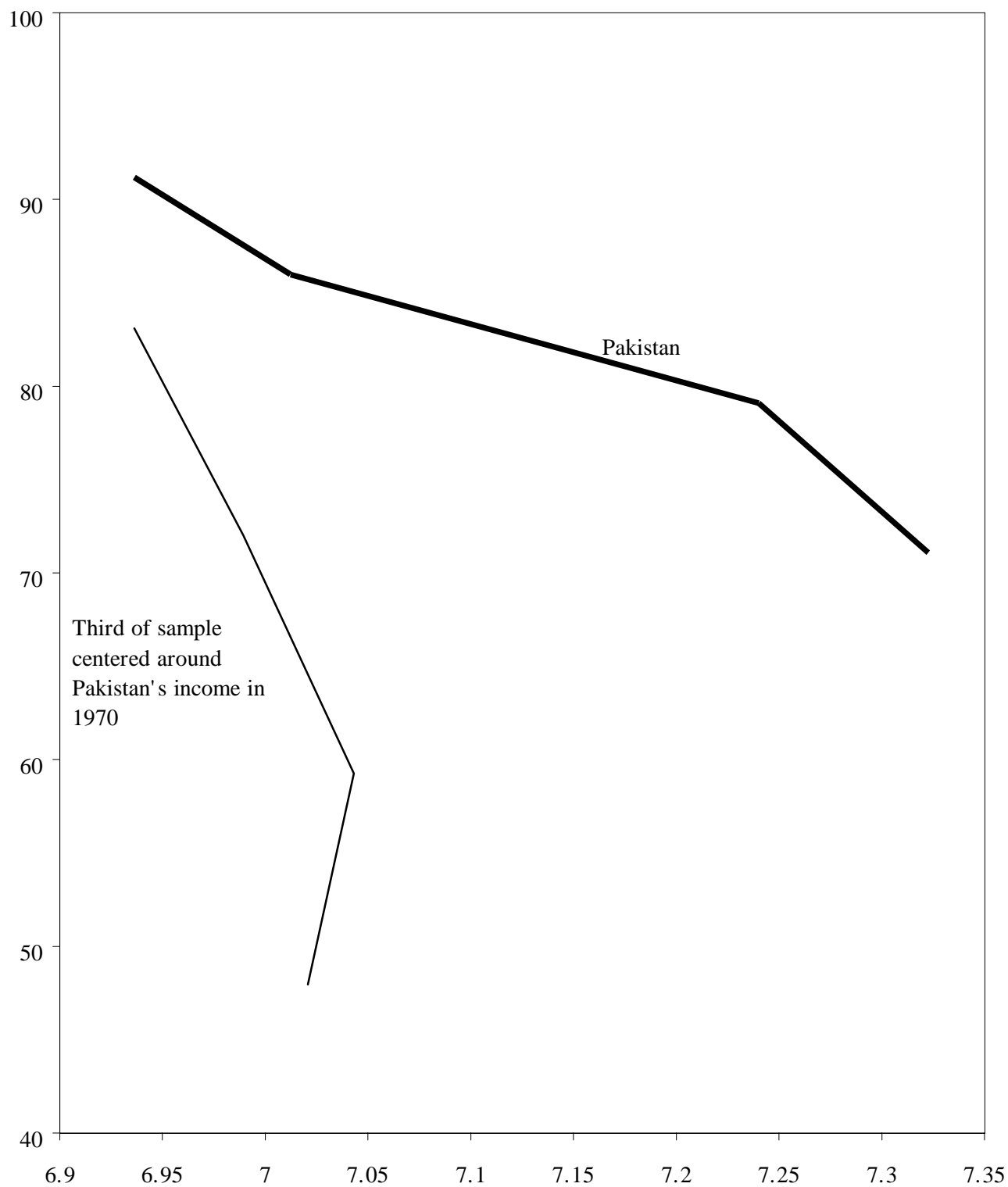
**Figure 8: Path of income and infant mortality, low income third and Pakistan, 1960-98**



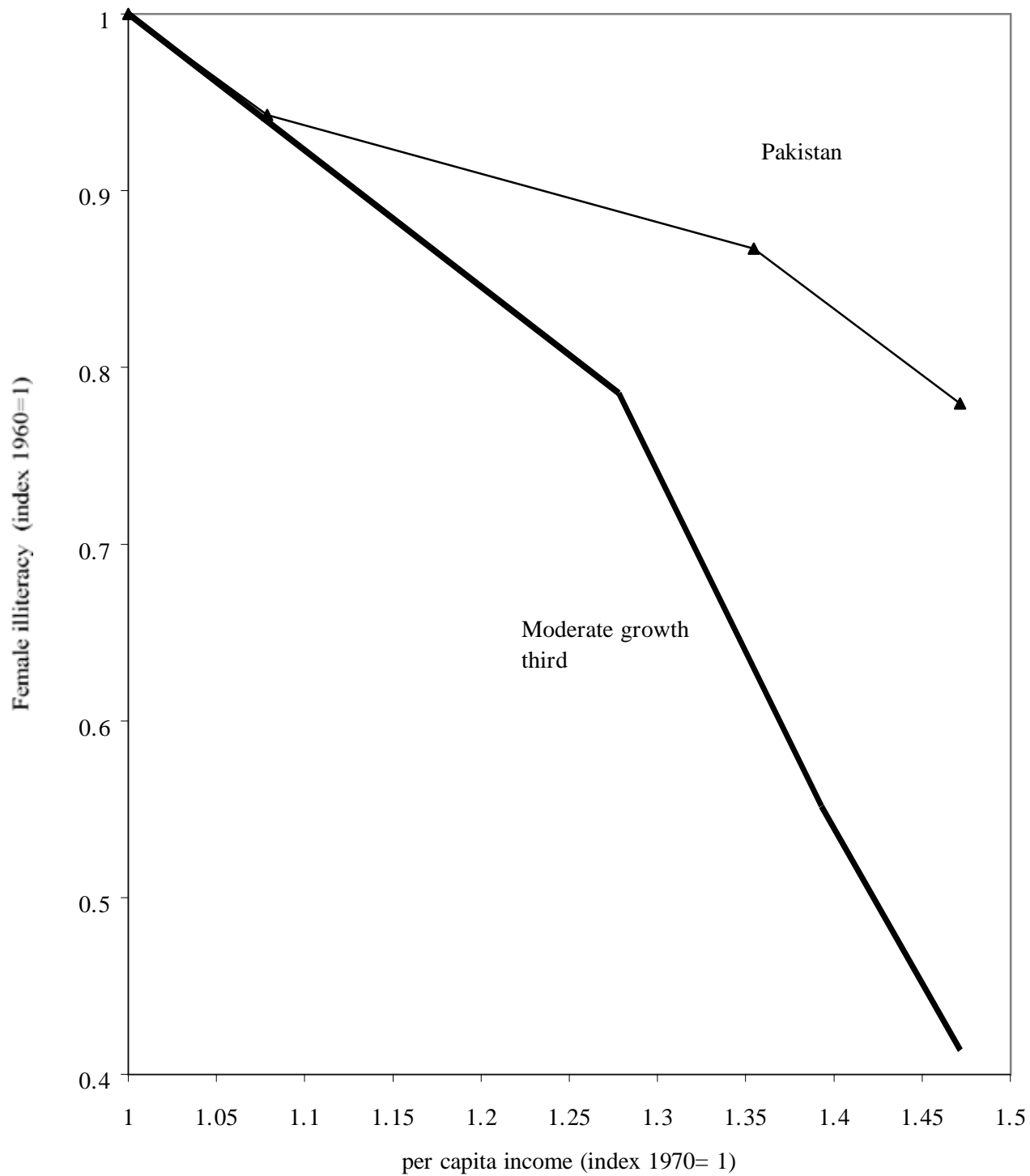
**Figure 9: Path of income and infant mortality, moderate growth third and Pakistan, 1960-98**



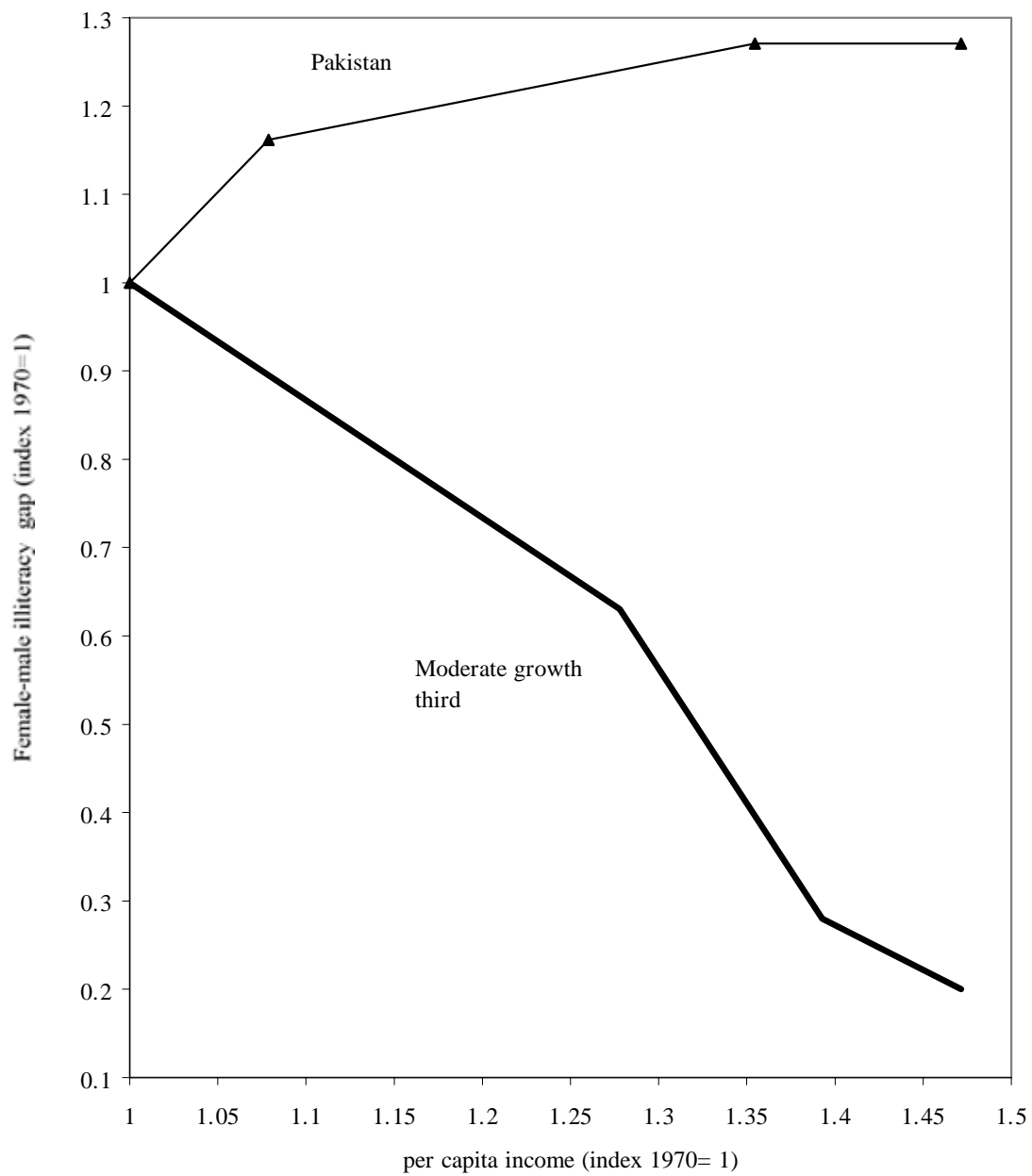
**Figure 10: Female illiteracy and per capita income, third of sample centered around Pakistan and Pakistan, 1970-1998,**



**Figure 11a: Path of income and female illiteracy, moderate growth third and Pakistan, 1970-98**



**Figure 11b: Path of income and female-male illiteracy gap, moderate growth third and Pakistan, 1970-98**



**Figure 12: Education and health spending before and after the initiation of the SAP in 1992/93**

