Military governments in Pakistan and elsewhere claim legitimacy based on superior economic management and the pretext for assuming power is usually corruption and economic mismanagement of incumbent political regimes. Ever since the current military government seized power in Pakistan in October 1999, it has, like earlier military governments, claimed to have turned the economy around citing selective statistics. A more careful and comprehensive review of the same statistics suggests that this claim is exaggerated. Also, like past military governments, this one has ignored investing in people, and the human condition as measured by unemployment and poverty has worsened and as measured by other social indicators the progress has notably slackened. Most now agree that improving the human condition is a necessary condition for robust and sustainable economic growth and by this criterion the military government has not done well.

(JEL: I38, 010, O20, O53) Keywords: Government Policy, Economic Growth and Development, Country Studies.

1. Introduction

Pakistan is widely believed to have turned the corner and fears of it becoming a ‘failed state’ have rescinded under the military government that assumed power in October 1999.

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In 2004, it gave the International Monetary Fund (IMF) notice that it no longer needed further IMF loans.\(^1\) Thus, it would not be seeking another PRGF (Poverty Reduction and Growth Facility) package once the ongoing one expired in December 2004.\(^2\) Given the size of foreign exchange reserves and the macro-economic stability attained, this seems logical and also is a statement regarding Pakistan’s independence and self-confidence in managing its own economic affairs.\(^3\)

The separation was entirely amicable and Pakistan stated that it would continue to seek technical advice. The IMF welcomed this and the assessment of the September 2004 IMF mission to Pakistan was glowing, with confidence expressed in Pakistan’s prudent economic leadership. Some friendly advice was rendered, particularly on containing inflation, which had resurfaced after a long bout of low inflation and on other issues, such as improving the investment climate and continuing with the privatization programme.\(^4\)

The summary statistic most frequently used to access outcome is the gross domestic product (GDP) growth rate and this has picked up since the military government assumed power (refer to Section 3). However, some view Pakistan’s economic progress under the military government as indicative of a ‘bubble economy’ rather than of sustained economic growth. The reference is generally to the phenomenal increase in the average stock market indices and the prices of real estate.\(^5\) The argument is that vast sums of money, escaping increased scrutiny of the financial sectors and the perception of anti-Islamic sentiment in the West, flowed into the country (refer to Section 3). Such capital inflows could be reversed just as easily; say, if tensions with India increased again. In addition, a ‘favored status’ resulting from joining the ‘war on terrorism’ as a front line state resulted in debt relief and restructuring and therefore, enabled the foreign

\(^1\) Given that Pakistan continues to be a member of the IMF, it continues to get advice annually under Article IV Consultations, but it is not bound by that advice as it was to the loan conditionality.

\(^2\) PRGF packages have replaced the structural adjustment packages in response to criticism in 2000. Meltzer Commission Report said that structural adjustment packages in low-income countries were ineffective in addressing poverty. While there may be more apparent emphasis on poverty alleviation, the economic reform conditions in the ‘Letters of Intent’ sent to the IMF are substantively the same as is evident from a text-analysis of ‘Letters of Intent’ before and after the change in nomenclature. We leave a rigorous text analysis to other scholars, but in this paper refer to the reform package as structural adjustment.

\(^3\) Government of Pakistan, Statistical Appendix (2006: 86) shows total reserves to be $10.976 billion on the last day of December 2005. This is the main data source utilized for this paper.

\(^4\) Refer to Section 3 on inflation and to the Press Statement: ‘IMF Mission Concludes Discussions for the Annual Article IV Consultation and the Ninth and Final Review of Pakistan’s PRGF’. IMF Resident Representative Office in Pakistan, Islamabad, Pakistan, 8 September 2004. Available at www.IMF.org

\(^5\) The Karachi Stock Exchange index rose from under 1000, when the military government took power in the fall of 1999, to 11,374 on 16 March 2007. Real estate prices have similarly skyrocketed.
exchange reserves to climb as indicated. Furthermore, the contention is that neither the more comfortable foreign exchange reserve position nor the strengthening of the stock market necessarily reflects a strengthening of fundamentals and hence, the term ‘bubble economy’.

This contention needs to be explored more rigorously. In addition, we define the term ‘progress’ more broadly so that it is not enough just for the economic fundamentals to have shown an improvement. Rodrik (1996) has demonstrated that sustained economic growth requires both an increase in social development (improvement in education and health indicators) and a decrease in poverty and inequality. Pakistan has experienced periods of high growth in the past but was not able to sustain a high growth path. Thus, one needs to explore if there has been real reform under the military government that would enable Pakistan to stay on a high growth trajectory.

2. Conceptual Framework and Method

Critics in Pakistan have long charged that the loss of economic sovereignty to the IMF may not be in Pakistan’s best interest because many of the conditions accepted for loans are often mutually contradictory, ill-timed and may have adverse economic and social impacts. The assertion of economic independence associated with the end of the IMF programme addressed critics and catered to patriotic sentiment.

However, notwithstanding the greater discretion available to economic policy makers, economic policy is unlikely to change. A loan from the IMF requires senior economic policy makers (the Governor of the State Bank and the Finance Minister in Pakistan’s case) to send a ‘Letter of Intent’ to the IMF outlining their reform programme. This convention enables the IMF to claim that the reforms are home grown and there is substantive ownership for it and that therefore, the reform package outlined in the ‘Letter of Intent’ did not represent harsh

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6 Refer to Section 3. Husain (2004: 15) makes a valid point that the costs of assuming this front line position in the war on terrorism, such as the subsequent internal terrorism and the adverse climate for internal and external investment and tourism this created, needs to be offset against the windfalls. There are also losses due to higher freight and insurance rates.

7 For example, the average annual growth rates for the sixties and eighties were 6.8 per cent and 6.6 per cent, respectively. Government of Pakistan, Statistical Appendix (2004: 3).

8 The military government’s main political reforms are devolution and electoral reforms. These have been considered elsewhere and the focus in this paper is the economic and social sectors.

9 Refer to Stiglitz (2002) for a broad critique and to Khan (1999) for a critique from a Pakistani perspective.

10 Expanded programmes with the World Bank and the Asian Development Bank and those of bilateral aid agencies have continued.
conditions imposed on a country that had to seek a loan from it. Stiglitz (2002) and other ‘insiders’ have indicated that in most cases, IMF missions and behind the scene pressure is likely to ensure that the required reforms are in the ‘Letter of Intent’.

In Pakistan’s case, this may not have been necessary because there is little to distinguish the Pakistani economic team from the IMF missions that regularly visit the country. Both groups graduated from similar universities, are competent in their understanding of orthodox economic thought and could be institutionally interchanged.  

While this is true for the technocrats appointed by the military government, this was not generally the case for the political governments that preceded it. In addition, while the political governments signed on to similar reform programmes, the impression was that these were adopted reluctantly and press reports on IMF reviews suggested a lack of implementation.

Following from this, one could argue that the performance of the military government’s economic team is an outcome of IMF led, but ‘home grown’ economic reforms associated with conventional structural adjustment programmes. The IMF has praised Pakistan’s economic management over the last seven years for the restoration of fiscal discipline, cautious monetary policy, trade liberalization, privatization and other financial and tax reforms that have created the basis for a lasting recovery. This provides a unique opportunity for study because establishing causality, either heuristically or quantitatively, is extremely difficult.

When there is little or negative economic progress, the IMF often claims that the reforms were not implemented or that a counterfactual is not possible to attain and so we really do not know what would have happened without the structural adjustment, that is, the economy could have performed much worse than it has done.  

Although computable general equilibrium models can simulate what may have happened with or without structural adjustment, the assumptions the models are built on are often challenged. In this case, we know that the reforms were conscientiously implemented and so attributing social and economic outcomes to them is possible.

The conceptual framework we, therefore, use is that of exploring economic and social impacts in the context of structural adjustment reforms as identified

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11 Indeed members of the Pakistani economic team have worked abroad in the BWI (Breton Woods Institutions) or other institutions advocating similar policies.

12 Haque and Khan (1998) point out that the short-run macro stabilization programmes are expected to deliver low inflation, fiscal and balance of payment deficits; and the structural reforms (including liberalizations, deregulation and privatization) are expected to deliver the long-run economic growth.


14 This is about as near to a closed experiment one can get to in the social sciences.
in the four ‘Letter of Intents’ signed by the military government.\textsuperscript{15} On 4 November 2000, the military government sent a ‘Letter of Intent’ for a standby agreement addressed to the IMF. As is the convention, this reviewed the economic developments during 1999–2000 and described Pakistan’s macroeconomic and structural policy programme for 2000–01. Out of the 41 conditions Pakistan agreed to for the standby agreement, a dozen were prior actions. A devaluation of the rupee by 12 per cent, an increase in the interest rate of 3 per cent and trade liberalization requiring a reduction of the maximum tariff from 35 to 30 per cent by 1 July 2001 were part of these conditions.\textsuperscript{16} Even though Pakistan continued to face a recession in 2000–01, it was expected to cut its already trimmed down development expenditure.\textsuperscript{17} Thus, the packages of conditions were the usual interest rate, exchange rate and trade liberalizations along with increasing utility rates (gas and power) and fiscal and monetary stringency and as such had few surprises.

There was, however, one notable surprise. A prior action required was ‘adequate implementation of an orderly process to resolve the commercial dispute with HUBCO (Hub Company) and action to address the dispute with KAPCO (Karachi Petroleum Company)’ (http://www.imf.org/external/NP/LOI/2000/pak/01/INDEX.HTM; Section VII, Program Monitoring, Table 3, prior action no. 11). Why this dispute over contracts between a sovereign government and multinational companies should have anything to do with the IMF is puzzling.

The Government of Pakistan sent another ‘Letter of Intent’ to the IMF on 12 March 2002 in connection with a PRGF. The cover letter requested waivers for the non-observance of the quantitative performance criteria on revenue collected and on net credit to public enterprises. A notable condition in this ‘Letter of Intent’ was the Government of Pakistan agreeing to the elimination of the GST (generalized sales tax) exemptions on pharmaceuticals, effective from 1 April 2002, which was anticipated to generate an estimated revenue gain of Rs 6 billion (on an annual basis). As might be expected, this drew an angry response from labour and civil society organizations.

The ‘Letters of Intent’ sent by the Government of Pakistan to the IMF on 29 May 2003 and 7 June 2004 in connection with the continuation and conclusion of the Poverty Reduction and Growth Facility also represented the usual packages. The government noted its intention to continue to build on the substantial progress to date in liberalizing the economy, improving governance and deepening the structural reform programme. Trade liberalization and privatization was to

\textsuperscript{15} These reforms are cited and discussed by Ishrat Husain, the Governor of the State Bank, in Husain (2004: 12–13).

\textsuperscript{16} Note that 35 per cent is lower than Pakistan’s bindings as cited on the WTO website (www.wto.org).

\textsuperscript{17} Economic growth declined from 3.9 per cent in 1999–2000 to 1.8 per cent in 2000–01. Refer to Government of Pakistan, Statistical Appendix (2004: 3).
proceed at a steady pace. Several of the mentioned structural reforms, such as increasing the number of taxpayers, raising voluntary compliance, increasing the efficiency of audit and enforcement functions, overhauling the Central Board of Revenue’s business procedures and financial reporting and accounting are commendable. The PRSP (Poverty Reduction Strategy Paper) was being finalized and the institutional causes of poverty, such as a lack of assets and a justice system and gender disparities, were to be addressed.

As indicated in the introduction, the evaluation of implementation by the IMF was positive and the press statement issued on 8 September 2004 pertaining to the final review of Pakistan’s PRGF assessed Pakistan’s economic performance and prospects to be: ‘—now more favorable than at any time in at least the past decade’ (http://www.imf.org/external/country/PAK/rr/2004/eng/090804.htm p.1). In addition, the restoration of fiscal discipline, a restrained monetary policy, trade liberalization, privatization and other fiscal and financial structural reforms established a sound basis for lasting economic recovery.

Given the positive evaluation of the implementation of the reform programme of the military government by the IMF, we expected that the military government would reveal more monetary and fiscal discipline than the political governments that preceded it. The IMF constantly upbraided political governments for violating agreed conditions, whereas the military government was the first in Pakistan’s history to see a programme to completion. Our first table in the next section reviews implementation under the political governments (1989–99) and the military government (1999–2006). As earlier stated, if implementation in the form of monetary and fiscal discipline is better, then the economic performance is expected, as stated earlier, to be more robust.\(^{18}\) The second table in the next section reviews economic performance.

One of the criticisms of structural adjustment reforms is that austerity results in cuts in social sector expenditures and hence, in social sector indicators, such as health and education. Furthermore, the human condition indicators in the form of poverty rates worsen. Thus, if structural reforms are more conscientiously implemented, one could expect a worsening of social sector and human condition indicators under the military government. Tables 3 and 4 in the next section review social and human condition indicators. In so doing, we also take a broader view of progress as explained in the introduction. In a nutshell, the method adopted and issues explored using the data compiled by the Government of Pakistan are as follows:

\(^{18}\) Haque and Khan (1998) draw these conclusions from a survey of cross-country literature assessing such programmes. They also discuss alternative methods of analyzing the impact of structural adjustment, including ‘before and after studies’, ‘with and without studies’, ‘generalized evaluation studies’, and a ‘comparison of simulations’. 
• Explore the nature of implementation of the reforms for political and military governments.
• In view of implementation and resource availability, explore comparative economic performance.
• Explore comparative social sector performance.
• Explore comparative human condition outcomes.
• Reflect on the characterization of Pakistan’s recent economic growth as a bubble phenomenon.

Given our approach to data analysis, the comparative performance of the military government with the prior political governments can only be suggestive of how much of the success or failure in either period is attributable to them.\(^{19}\) This is both because policy impact takes place with lags and because there are autonomous domestic market forces and international forces that could work for or against either regime. Thus, the reader of the comparative analysis presented in the section below needs to keep these qualifications on attribution in mind. While we compare averages over the tenure of the political governments of the nineties with that of the military government that assumed power in 1999, we identify and discuss trends in the data where they exist and are noteworthy.

3. Findings

As stated earlier, the impact of the policies of the past government can carry over to successive governments for at least a short time period. Averaging over a number of years in each case, 10 for the political governments and seven for the military government, can partly resolve this problem. At a minimum, if there is a dramatic policy change or a change in management and governance, the averages should be able to pick up related impacts. As outlined in Section 2, we start with Table 1 by identifying monetary and fiscal discipline and we have, in addition, included other variables that could have a bearing on economic and social performance.

It is evident from Table 1 that the military government has to date exercised greater fiscal discipline. The average fiscal deficit as a percentage of GDP is notably smaller than during the political regimes of the nineties, while money supply growth was slightly more restrained. Thus, the contention that the ‘Letter

\(^{19}\) It would not be difficult to perform econometric exercises to identify if there has been a structural change since the military government assumed office, but in our view, given the limited observations and for other reasons, these are largely meaningless exercises compared to a common sense review of economic and social information organized by the relevant tables as done later. Refer to McGillivaray (2003) for an econometric exercise given a longer time period for analysis.
of Intents’ sent to the IMF have been honoured over the tenure of the military government is partly confirmed by the data.

As expected, therefore, the fiscal austerity of the military government resulted in average development expenditures as a percentage of GDP to be over 2 percentage points lower than during the political governments and average military expenditure as a percentage of GDP was also 2.46 percentage points lower. Again, average public investment as a percentage of GDP was over 3 percentage points lower. The burden of the reduced fiscal deficit for the military government fell on curbed expenditures because average tax revenues as a percentage of GDP were 2.82 percentage points lower. This was possible because of the additional fiscal space available to the military government because of the decline in debt servicing (see paragraph that follows).

Other expenditures and resources that complement the public sector also have an impact on economic growth. There has been virtually no change (mild decline) in average foreign direct investment over the tenure of the military government. Average private investment has been about 2 percentage points higher over the military government tenure to date relative to political governments. Average domestic saving as a percentage of GDP is, however, about 4 percentage points lower. More foreign resources also became available so that aid as a percentage of Central Government expenditures increased by about

\[ \text{Aid as a % of Federal Govt. expenditure} \]

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Overall fiscal deficit as a % of GDP</td>
<td>7.00</td>
</tr>
<tr>
<td>Military expenditure as a % of GDP</td>
<td>5.82</td>
</tr>
<tr>
<td>Development expenditure as a % of GDP</td>
<td>5.02</td>
</tr>
<tr>
<td>Tax revenue as a % of GDP</td>
<td>13.55</td>
</tr>
<tr>
<td>Growth in money supply (M2)</td>
<td>15.12</td>
</tr>
<tr>
<td>Public investment as a % of GDP</td>
<td>7.81</td>
</tr>
<tr>
<td>Private investment as a % of GDP</td>
<td>9.09</td>
</tr>
<tr>
<td>Foreign direct investment as a % of GDP</td>
<td>0.85</td>
</tr>
<tr>
<td>Domestic savings as a % of GDP</td>
<td>10.24</td>
</tr>
<tr>
<td>Aid as a % of GNI</td>
<td>2.21</td>
</tr>
<tr>
<td>Aid as a % of Federal Govt. expenditure</td>
<td>9.76</td>
</tr>
</tbody>
</table>

\[ \text{Sources: Government of Pakistan, Statistical Appendix (2006: 2–3).} \]

Notes: Numbers for 2005–06 are provisional. Information in rows marked with @ are drawn from the World Bank, World Development Indicators, 2006. These time series only extend to 2004 and so the averages for the military government in these cases are over a shorter time period.

\[ \text{All numbers are in % of GDP.} \]

\[ \text{20 Political governments are viewed as less capable of cutting military expenditures.} \]
1 percentage points. However, the rapid growth in worker remittances\(^{21}\) and debt relief and restructuring,\(^{22}\) enabled the building of robust foreign exchange reserves of over $10 billion in December 2005 (from $2.4 billion in December 1999).

The public, private and foreign investment indicated in Table 1 can be an important component in overall economic growth. Haque and Khan (1998) suggest that staying the course on fiscal and monetary discipline does eventually yield dividends in the form of less inflation and higher economic growth. The economic performance to date, during the tenure of the military government relative to the political governments, is reported in Table 2.

Table 2 shows that the overall growth of GDP over the period of the political governments was quite close to that over the tenure to date of the military government. However, the growth rates at the turn of the century were reduced by low agricultural sector growth that is subject to vagaries of the weather. Agricultural sector growth rates in 2000–01 and 2001–02 were \(-2.2\) and \(0.1\) per cent,

### TABLE 2
Selected Economic Performance Indicators (averages or growth rates)

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>GDP growth rate (%)</td>
<td>4.57</td>
<td>5.20</td>
</tr>
<tr>
<td>Manufacturing growth (%)</td>
<td>4.44</td>
<td>8.20</td>
</tr>
<tr>
<td>Agricultural growth (%)</td>
<td>4.61</td>
<td>2.83</td>
</tr>
<tr>
<td>Commodity producing sectors growth (%)</td>
<td>4.85</td>
<td>4.60</td>
</tr>
<tr>
<td>Services sector growth (%)</td>
<td>4.46</td>
<td>5.80</td>
</tr>
<tr>
<td>Inflation rate (GDP deflator)</td>
<td>10.24</td>
<td>6.53</td>
</tr>
<tr>
<td>Trade deficit as a % of GDP</td>
<td>4.87</td>
<td>2.34</td>
</tr>
<tr>
<td>Exports as a % of GDP</td>
<td>13.10</td>
<td>12.13</td>
</tr>
<tr>
<td>Imports as a % of GDP</td>
<td>17.90</td>
<td>14.49</td>
</tr>
<tr>
<td>Aggregate market capitalization of ordinary shares(^{a}) (billion Rs)</td>
<td>327.46</td>
<td>1,659.43</td>
</tr>
<tr>
<td>Electricity (% installed capacity growth)*</td>
<td>110.81</td>
<td>24.36</td>
</tr>
<tr>
<td>Roads (% growth)*</td>
<td>52.40</td>
<td>3.87</td>
</tr>
<tr>
<td>Telephones (% growth)</td>
<td>222.22</td>
<td>64.52</td>
</tr>
<tr>
<td>Electric power and distribution losses (%)(^{a})</td>
<td>22.97</td>
<td>25.73</td>
</tr>
</tbody>
</table>

**Source:** Government of Pakistan, Statistical Appendix (2006: 2–7, 61).

Information in row marked with \(^{@}\) is drawn from the World Bank, World Development Indicators, 2006. The average for military government is for the years 1999 to 2003.

**Notes:**

\(^{a}\) represents the average over 1999–2006 for the military government.

\(^{*}\) represents growth for the political governments from 1989–90 to 1989–99.

\(^{21}\) Remittances growth for 2001–02 and 2002–03 (post the 9/11 bombings) were a phenomenal 119.8 and 77.3 per cent respectively. Government of Pakistan (2006: 4).

\(^{22}\) There was a notable decline in debt servicing from 13.6 per cent in 1998–99 to 5.3 per cent in 2002–03. Government of Pakistan (2006: 89).
respectively. This is, however, only part of the story because there were years of very low agricultural sector growth during the tenure of the political governments (0.1 per cent in 1996–97) and agriculture by 2004–05 contributed about one-fifth of GDP.

The record seems mixed. On one hand, while the average manufacturing sector growth rate at 8.2 per cent is clearly much more robust during the tenure to date of the military government, overall growth rate of the commodity producing sectors combined was slightly better during the tenure of the political governments of the nineties. On the other hand, there is a discernable upward trend in the economic growth rates evident during the tenure of the military government from the low of 1.8 per cent in 2001–02, when the growth rate of agriculture was –2.2 per cent, to 8.6 per cent in 2004–05 and an estimated 6.6 per cent in 2005–06 respectively, with 12.6 and 8.6 per cent growth rates respectively, in manufacturing driving the overall economic growth rate.23

There have been short-term upward trends in economic growth during the tenure of the political governments, such as the increase from 2.2 per cent in 1992–93 to 6.6 per cent in 1995–96. Thus, it would be premature to conclude that the military government has economically outperformed, in an overall sense, the political governments, or that the record of political governments was dismal as seems to be the spin conveyed by supporters of the military government, or that sustainable growth has been attained.

Containing the inflation rate to an average of 6.53 per cent, compared to an average of 10.24 per cent during the political government, could be viewed as a notable achievement of the military government. However, once again averages mask important trends. The inflation rate had actually started declining under the political government from a high of 14.6 per cent in 1996–97 to a low of 5.9 per cent in 1998–99. Conversely, under the military government it has steadily increased from a low of 2.5 per cent in 2001–02 to an estimated 10.3 per cent in 2005–06.

The reduction of the trade deficit to an average of 2.34 per cent of GDP during the tenure of the military government relative to the average of 4.87 per cent during the political government period is notable. Once again, the deficit appears to be on an increasing trend from a low of 0.4 per cent (of GDP) in 2001–02 to an estimated high of 6.6 per cent in 2005–06. The data also shows that exports as a percentage of GDP were higher during the tenure of the political government and lower imports brought down the deficit. There was a trend of

23 The initial decline in economic growth during the tenure of the military government could also be viewed as consistent with the consensus Haque and Khan refer to (1998: 19), that initially the output is suppressed by short-run demand reducing reforms (fiscal and monetary restraint), while in the long run the structural reform delivers the higher growth rate. We suspect that the manufacturing sector growth is demand driven, based on the tremendous resource inflow as noted earlier.
decline in imports, starting in 1995–96, which continued during the tenure of
the military government until 2001–02, after which there has been a steady
upturn.

We view public infrastructure construction as contributing to the base of fu-
ture economic growth. In this regard, the dramatic growth rates achieved by the
political governments in electricity installed capacity, telephone connections and
roads built have notably subsided. The stock market capitalization is much im-
proved under the military government, representing a growth rate of 2,422 per
cent and this is an issue to which we will return.

We expected better public sector management during the military govern-
ment since much was made of mismanagement of the political government
when it assumed power. WAPDA (Water and Power Distribution Authority),
one of the largest utilities in the country, was put under the management of a
serving General in 1999. The average annual power and distribution losses for
the next five years (until 2003) had increased to 25.73 per cent of total output,
relative to 23.0 per cent during the political governments.24 Similarly, as evident
from Table 1, the tax effort of the political governments on average exceeded
that of the military government by almost 3 percentage points as a percentage of
GDP.25

To sum up, a review of Table 2 indicates that the tenure of the military govern-
ment to date coincides with good economic performance in terms of the pickup
of overall economic and manufacturing sector growth. However, the per-
formance of the political governments, at least in terms of the economic growth
attained, was by no means as dismal as is sometimes made out to be but, in fact,
was very close to that of the military government to date in some respects and
superior in others.

While sustaining economic performance is important, of greater importance
is progress, defined more broadly to include the social sectors and the human
condition. As earlier indicated, a persisting critique of the IMF-led structural
adjustment is that the fiscal stringency associated with such adjustment usually
results in the neglect of the social sectors and the worsening of the human con-
dition. If that is the case, scholars have demonstrated that the economic growth
is likely to be short-lived and reversed by a lack of investment in humans and
can lead to political, regional social tensions and conflicts that result from the
worsening of the human condition (Perotti 1996). We turn to these issues with
the information contained in Tables 3 and 4.

24 Line losses continued to be a problem and they were brought up on p. 8, paragraph 18, of the
25 One could view the lower tax effort as resulting from the softening of the budget constraint
that results from greater external assistance.
Average expenditure on education as a percentage of GDP declined from 2.28 per cent for the political governments to 1.92 per cent for the military government, while health expenditures declined from 0.73 to 0.54 of GDP. The crude health indicators reveal mixed trends, with population per hospital beds rising but those per doctor and nurse falling. Crude education quality indicators were also mixed. Crowding in primary schools increased with student–institution and student–teacher ratios rising (marginally) but teacher–institution ratios also rose. The United Nations Development Programme (UNDP 2005: 260) shows that net primary enrolment rate increased from 35 per cent in 1990–91 to 59 per cent in 2004–05. We will return to the issue of Pakistan’s progress in education in a comparative South Asian context in the next section and turn now to human condition indicators. These include social indicators and those on inequality and poverty.

Since there are no consistent national series on poverty rates over the years for which we are making the comparison, we use national data to compute unemployment and real wages as indicators of human condition. We follow this with an analysis of comparable data compiled in the World Development Indicators by the World Bank for poverty, inequality and human development.

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26 These numbers include non-government schools in which there is more crowding and so the overcrowding in government primary schools is over-stated. Overcrowding is more acute in urban than in rural areas. Refer to Government of Pakistan (2003: 3–5).

27 The Economic Survey 2003-2004 (2004: xv) reported a decline in poverty rates by 4 per cent relative to 2000–01, based on a Federal Bureau of Statistics survey in 2004 of 5046 rural and urban households. It also cites improvements in other social indicators relative to 2000–01 including better housing, access to clean drinking water, sanitation and household use of utilities like electricity and gas (2004: x).
There was an increase of about 2 percentage points in the average open unemployment rate during the tenure to date of the military government; a major cause of poverty, hunger and starvation. Disguised, sub and underemployment move in tandem with open unemployment and are generally much higher. While inflation was initially contained,\textsuperscript{28} the real average wages for skilled and unskilled

\begin{table}
\centering
\caption{Selected Human Condition Indicators}
\begin{tabular}{l cc}
\hline
& \textit{Political Governments} & \textit{Military Government} \\
\hline
Unemployment rate (% per annum) & 5.19 & 7.16 \\
Consumer price index (% Growth) & 10.39 & 5.21 \\
Average deflated daily wage of unskilled labour & 133.99\textsuperscript{*} & 128.24\textsuperscript{!} \\
Average deflated daily wage of skilled labour & 273.77\textsuperscript{*} & 249.71\textsuperscript{!} \\
Percentage reduction in the Gini index & 7.22 (1991–99) & 7.36 (1999–02) \\
Percentage change in poverty
gap at $\text{1 per day (PPP)}$ & $-$84.8 (1991–99) & +29.7 (1999–02) \\
Percentage change in poverty
gap at $\text{2 per day (PPP)}$ & $-$49.7 (1991–99) & +18.7 (1999–02) \\
Percentage change in headcount poverty
to $\text{1 per day (PPP)}$ & $-$72.0 (1991–99) & +2.71 (1999–02) \\
Percentage change in headcount poverty
to $\text{1 per day (PPP)}$ & $-$25.4 (1991–99) & +12.2 (1999–02) \\
Percentage reduction in crude death
to (per 1000) & 33.9 (1990–99) & 14.0 (1999–04) \\
Percentage reduction in IMR (per 1000) & 15.0 (1990–00) & 5.6 (2000–04) \\
Percentage reduction in <5 mortality
to (per 1000) & 16.9 (1990–99) & 6.7 (2000–04) \\
Percentage increase in female
death expectancy at birth & 6.8 (1990–00) & 2.5 (2000–04) \\
Percentage increase in male
death expectancy at birth & 3.1 (1990–00) & 3.7 (2000–04) \\
\hline
\end{tabular}
\end{table}

\textbf{Source:} Government of Pakistan (2006: 2–3, 6–7). We computed the average deflated daily wages using the general price index, Government of Pakistan, Statistical Appendix (2006: 65). Nominal wages for skilled and unskilled labour were available from the same source (2006: 109). A straight average of wages for skilled and unskilled labour across the Federal and Provincial capital cities was used. The wage series is for the calendar years while the price index is for the fiscal years and so the price indices for two overlapping years (e.g., 1990–91 and 1991–92) were averaged to make it consistent for deflating the fiscal year wage series (e.g., 1991). All data after the first four variables were drawn from the World Bank’s World Development Indicators. The time periods for these variables are indicated in the parentheses after the values because they differ by variable.

\textbf{Notes:} * represents an average over 1988–98 and (!) represents an average over 2000–05. * PPP represents purchasing power parity; IMR = Infant mortality rate

\textsuperscript{28} The trend for the consumer price index was downward for the political government from a peak of 13 per cent in 1994–95 to 5.7 per cent in 1998–99. Conversely there is an upward trend for
workers declined by 4.3 per cent and 8.8 per cent, respectively, despite the construction boom. These statistics suggest that poverty rates are likely to have increased during the tenure of the military government.

The data drawn from the *World Development Indicators* confirm that this is indeed the case. The political governments had succeeded in dramatically reducing both the poverty gaps and headcount poverty rates measured at both $1 and $2 per day in PPP (purchasing power parity) terms. The reversal of the negative numbers showing a decline between 1991 and 1999 to a rise for 1999–2004 in all four cases is dramatic. However, contrary to expectations, there is not much difference in performance on inequality and political governments and military governments reduced inequality about equally.

The performance of the military government on social indicators similarly lags as in the case for poverty. The percentage reduction in crude death rates, infant mortality rates and child (<5) mortality rates are almost threefold lower and the increase in female life expectancy rate at birth is almost threefold lower. The only exception is the slight increase in the male life expectancy at birth. Admittedly, the time span over which the progress for the military government is measured is smaller, but even so, the trend is not of a dramatic increase as claimed (Husain 2004).

4. Commentary and Conclusion

Our approach to evaluating the progress of the military government that assumed power in Pakistan in October 1999 is within the framework of the IMF/World Bank structural adjustment and reform programmes that it has owned and implemented. The IMF’s contention was that the political governments of the nineties in Pakistan, that preceded the military government, were not serious about such reforms even though they had signed on for such programmes and drawn on the condition-based loans. The military government by comparison earned praise from the IMF for serious minded implementation of these reforms and has been the first in Pakistan’s history to see the programme through to completion. We start our data analysis by exploring if the numbers confirm that this is indeed the case and find it to be so, in terms of both fiscal and monetary (at least initially) discipline.

The IMF has contended that sound economic growth often does not follow structural adjustment programmes because of lax implementation. One can rule this out for the military government, both in terms of the IMF’s own assessment and what the data show. The average economic growth rate over the tenure of

the military government from a low of less than 4 per cent to 9.3 per cent in 2004–05 and an estimated 8 per cent in 2005–06.
the political governments was close to the average during the last seven years under the military government. However, the recent growth of the manufacturing sector has been very robust (14.1 per cent in 2003–04, and 12.5 per cent in 2004–05) and there has been a steady increase in economic growth rates from a low of 1.8 per cent in 2001–02 to 8.6 per cent in 2004–05. Increasing trends have also been evident during the tenure of the political governments (from 2.2 per cent in 1992–93 to 6.6 per cent in 1995–96) and so the real issue is whether this economic growth is sustainable.

In fact, one view expressed in Pakistan is that the economic progress under the military government presents a ‘bubble’ that has been financed by a jump of remittances escaping heightened scrutiny of financial holdings in the West and the easing of the foreign debt-based resource outflows to reward Pakistan for assuming the role as a front line state in fighting terrorism. Furthermore, the contention is that resource inflows induced no real and sustained progress but fanned consumption and speculative bubbles in the stock and housing markets. Remittances certainly jumped post 11 September and in 2000–01 and 2001–02, grew by 119.8 and 77.3 per cent, respectively. Similarly, total debt servicing as a percentage of GDP declined from 13.6 per cent in 1998–99 to 5.2 per cent in 2002–03. The judicious handling of the remittances and the debt relief and restructuring enabled the military government’s economic team to get more fiscal space and boost reserves from $ 2.4 billion in 1999 to about $ 10 billion in 2005.

While there has been an easing of the resource constraint for the military government, the evidence does not suggest that the progress witnessed in the past seven years (1999–2005) was merely a bubble phenomenon. As shown in Government of Pakistan, Statistical Appendix (2006: 61), the stock market capitalization did pick up rapidly from Rs 259.28 billion in 1999 to Rs 7,218.53 billion in the end of March 2006, but this could also partly be a reflection of greater realized profits in the real sector and more positive expectations about the continued real economic progress in the manufacturing sector evident in the numbers. Similarly, if cement production is a proxy for an unusual construction boom following the escalation in real estate prices, the same source (2006: 37) shows there was certainly a sustained increase in the growth rates of cement production starting in 2002–03. However, these growth rates do not match the 20.9 per cent growth in cement production in 1995–96. Thus, such increases are not unique to the tenure of the military government, albeit they have been sustained over a longer period.

The bottom line is that the increase in manufacturing sector growth and the upward trend in overall economic growth during the tenure of the military government to date is notable. Therefore, it is not possible to simply dismiss
the economic progress between 1999 and 2006 as a bubble. The critics of the military government need to look elsewhere. We leave the critique of the damaging suspension of the political process to others, but even the economic progress may not be sustainable in a fundamental sense. While the military government has earned a very good scorecard from the IMF, it is important to explore whether the military government has invested in broader social progress that is the key to sustaining economic growth or whether, as is often contended, structural reforms have worsened progress in the social sectors and in the human condition.

There is now widespread consensus that economic progress in a fundamental sense cannot be sustained without a serious investment in human development. A review of the numbers in the Human Development Reports since UNDP started reporting these in 1990 is enough to establish this case. Few countries, even those that are resource rich, have prospered economically without progress in human development, while countries making high achievements in human development have overtaken countries that were previously growing faster.

The Human Development Report 2006 (2006: 225) is very revealing in this regard. First, the human development index (HDI) trend (made consistent for comparison) shows that Pakistan has made steady progress between 1975 and 2005. However, under the political governments, the growth in the HDI was 10.4 per cent (1990–2000), whereas, under the military government, the growth rate in the HDI almost halved to 5.5 per cent (2000–04). This is consistent with the disaggregated data we reviewed for female life expectancy, crude death rates, infant mortality and child mortality as reported in Table 4.

However, it is in a relative sense that Pakistan’s inability to make real progress becomes evident. Pakistan has traditionally compared itself to India that had an HDI index of 0.611 compared to 0.539 for Pakistan in 2004. The human development index trends show a steady opening of the gap between Pakistan and India from 0.048 in 1975 to 0.072 in 2003.

The UNDP (2006: 285) ranked Pakistan 134 out of the 177 countries ranked in 2004, and this is mainly due to its poor performance in education. Its rank based on per capita GDP in purchasing power parity terms was six points higher than its HDI ranking. Using an endogenous growth theory model that became popular in the academic literature in the nineties, Rodrik (1996: 22) showed that about 90 per cent of the growth of the higher performing Asian economies like Korea and Taiwan could be accounted for by the exceptionally high levels

\[ \text{UNDP (2006: 290).} \]
\[ \text{ibid.} \]
\[ \text{ibid. Per capita GDP in purchasing power parity terms controls for the differences in the cost of living across countries.} \]
of primary school enrolment and equality around 1960. Judging from this result, given the current level of educational achievement, Pakistan is not likely to sustain its current growth trajectory.\textsuperscript{32} Our research also shows rising unemployment and decreasing real wages for both skilled and unskilled labour (real wage declines of 4.3 per cent and 8.8 per cent, respectively) during the period of the military government. As expected, performance on poverty gaps and the headcount poverty indices, respectively, measured in $1 and $2 per day purchasing power parity terms, notably worsened after having improved dramatically during the tenure of the political governments.

There are two lessons to note for Pakistan’s policy makers. First, countries have the ability to make a difference if they are determined to and the change in ranking in human development in South Asia demonstrates that. Second, given the rapid pace at which the rest of South Asia has caught up or outpaced Pakistan’s lead in the GDP ranking suggests that economic growth without social development is not sustainable. Pakistan showed remarkable annual average economic growth of 6.8 per cent and 6.5 per cent in the sixties and eighties, respectively, but this sputtered out. Without a solid investment in quality education and health and in the overall well-being of its people, the current spurt of economic growth is likely to meet the same fate. This criticism is certainly not new and ever since the HDI started being released in 1990, this discrepancy between Pakistan’s index on per capita GDP and social indicators of development has been noted and repeated in the official government and donor reports as well as in the work of independent scholars. However, despite much lip service, little has been accomplished in this regard.

As indicated earlier, official economists of the Government of Pakistan have argued that the current government is now not only showing solid progress on economic indicators but also on social indicators, including poverty. However, we have used the Statistical Appendix of the same government report to show how easily this case can be cast in doubt. Based on the evidence cited in this article, this government needs to show more commitment than previous ones in investing in the poor and reducing poverty. If anything, its record to date is much worse since, in percentage terms, fewer people have jobs and those that do draw less pay and the poverty gap and poverty rates have increased.

The need for sustained and broad based economic growth that reduces poverty and relies on quality social investment in the poor in Pakistan is acute. If, as

\textsuperscript{32} Husain (2004) acknowledges the importance of improving social indicators but attributes the halting of the economic growth in the sixties and eighties in Pakistan to the nationalizations of the seventies and political instability of the nineties. Both hypothesis merit series review, but the latter hypothesis carries less weight given that the political governments outperformed the military government in several respects as demonstrated in Section 3.
hypothesized by political scientists and demonstrated by economists using endogenous growth models, poverty reduction reduces regional, ethnic, social and political tensions and enhances growth, there has never been a greater need given heightened international and related national tensions.

References


