

Reversing Pakistan's Economic Decline

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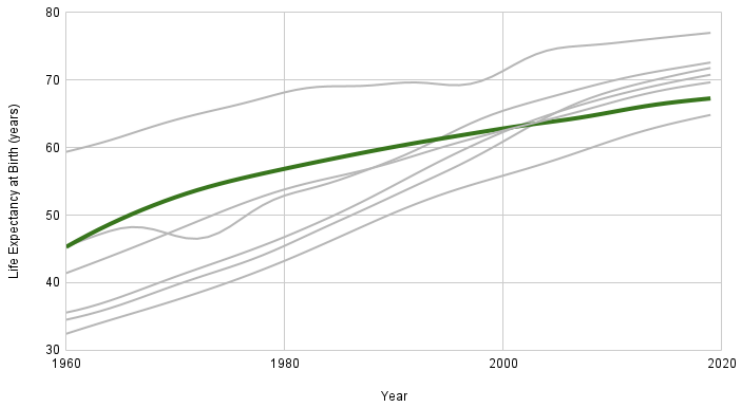
Lahore University of Management Sciences

June 22, 2022

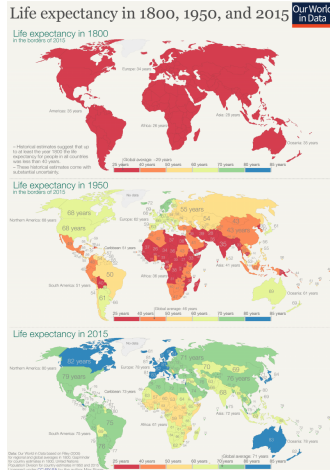
Sustained Stagnation

Life expectancy at birth in Pakistan

Life Expectancy at Birth - South Asia

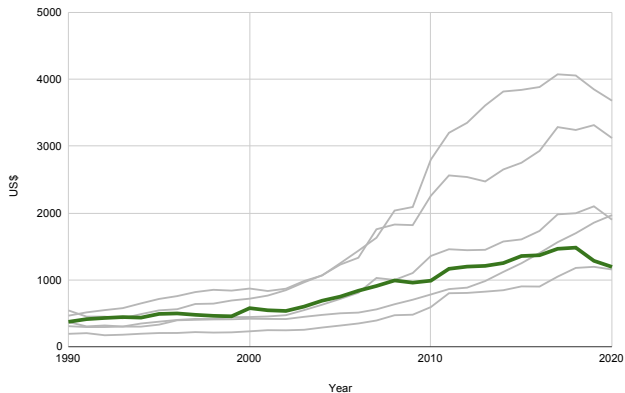


Why has it increased at all?



Pakistan's GDP per capita

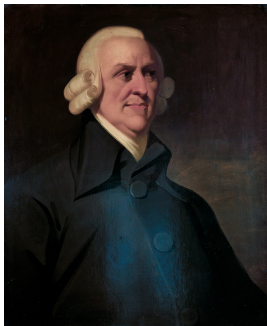
GDP per Capita (1990 to 2020) - South Asia



Source: World Bank

Security of Life, Property and Contract

The basics, per Adam Smith, 1755



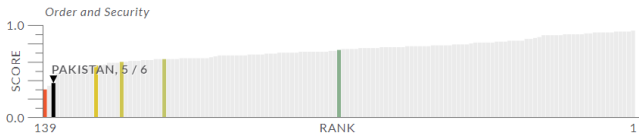
Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism but peace, easy taxes, and a tolerable administration of justice: all the rest being brought about by the natural course of things.

A candidate explanation

Pakistan Ranked 137th Across 139 Countries, 2021

Compare 2021 score rankings for Pakistan by toggling between global, South Asia regional peers, and Lower Middle income peers.

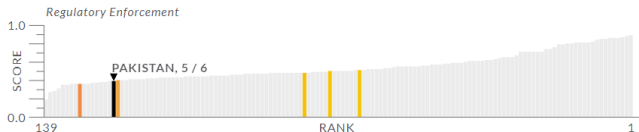
GLOBAL REGION INCOME GROUP



Pakistan Ranked 123rd Across 139 Countries, 2021

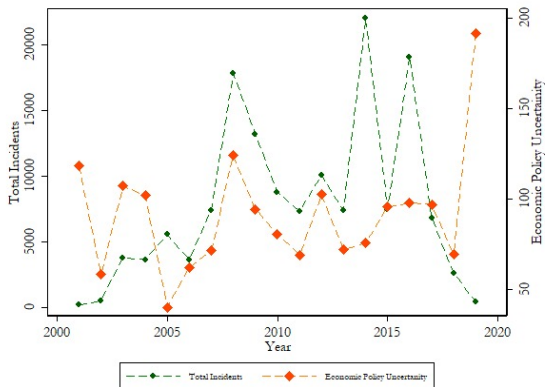
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GLOBAL REGION INCOME GROUP



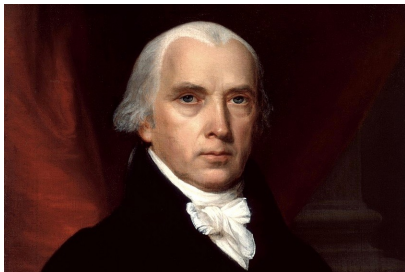
Source: World Justice Project Rule of Law Index

Security of Life: reduces risk and spreads investments



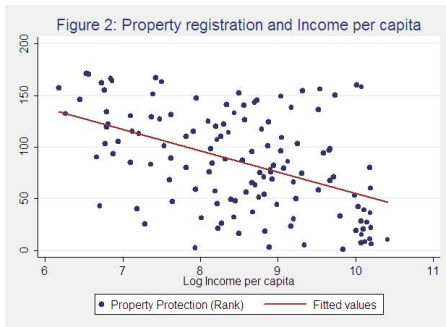
Source: Hasanain, Usman, Zafar (Ongoing); See also Choudhary, Pasha and Waheed (2020); Baker, Bloom and Davis (2016)

James Madison on Property, 1792

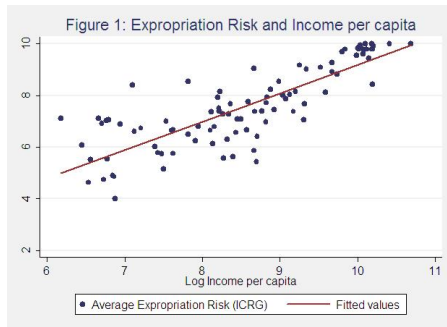


If the United States mean to obtain or deserve the full praise due to wise and just governments, they will equally respect the rights of property, and (human rights).

Security of Property: more income through multiple channels



Source: Besley and Ghatak (2009)

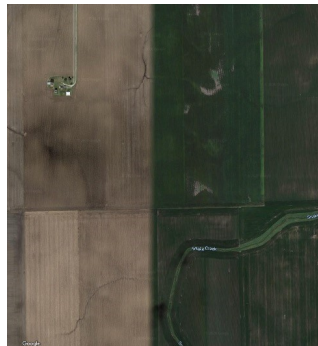


Source: Besley and Ghatak (2009)

Security of Contracts unlocks economies of scale...



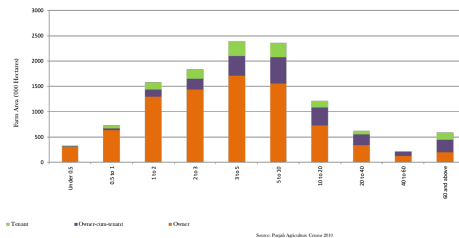
Punjab, Pakistan. Source: Google



Illinois, USA. Source: Google

...by separating ownership and control

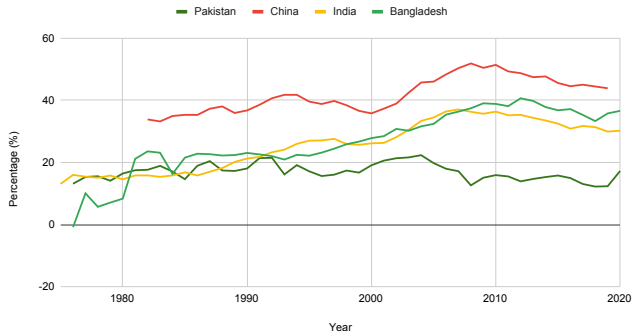
Distribution of Farm Area by Tenure



Source: Punjab Agricultural Census 2010

All 3 contribute to a low savings rate

Gross Savings (% of GDP)



Source: World Bank

Security of Life, Property and Contracts encourage (but don't guarantee) a crucial requirement of the economy:

Security of Life, Property and Contracts encourage (but don't guarantee) a crucial requirement of the economy:

Competition

Back to Madison

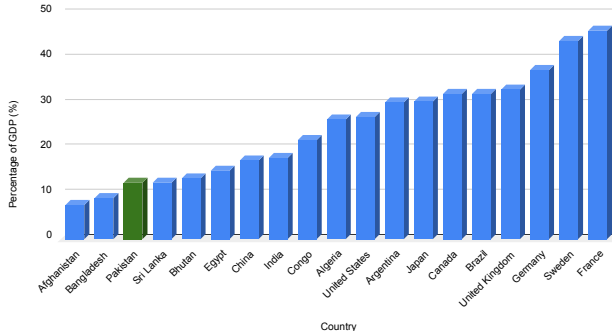


A just security to property is not afforded by that government, under which unequal taxes oppress one species of property and reward another species: where arbitrary taxes invade the domestic sanctuaries of the rich, and excessive taxes grind the faces of the poor.

Fixing Taxes

Tax to GDP Ratio - Selected Countries

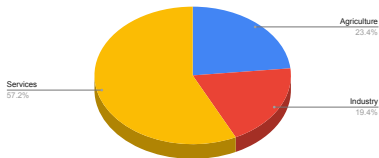
Tax Revenue as Percentage of GDP in 2020 - Selected Countries



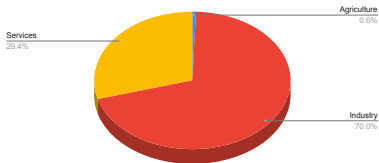
Source: IMF and Heritage.org

Unfair Distribution of Tax Burden

Contribution to GDP by Economic Sector - 2019



Contribution to Tax Revenue by Economic Sector - 2019



Source: Pakistan Bureau of Statistics (2019)

The China Model I: Devolving Taxation

TABLE 2
EVOLUTION OF CHINESE FISCAL DECENTRALIZATION, 1953 TO 2005

Year	Subnational/ total revenue	Subnational/ total expenditure	GDP/capita	GDP/capita grw	Institutional changes
1953	17.0%	26.1%	554	3.2%	1st five year plan
1958	19.6%	55.7%	693	8.8%	
1959	75.6%	54.1%	697	0.6%	<i>Great leap forward</i>
1961	78.5%	55.0%	673	0.0%	
1966	64.8%	36.9%	753	6.7%	<i>Cultural revolution</i>
1975	88.2%	50.1%	874	4.5%	
1978	84.5%	52.6%	979	9.4%	Reform starts
1980	75.5%	45.7%	1,067	2.6%	Fiscal reform starts
1984	59.5%	47.5%	1,396	10.4%	
1988	67.1%	66.1%	1,816	6.4%	
1993	78.0%	71.7%	2,277	8.5%	
1994	44.3%	69.7%	2,475	8.7%	Fiscal sharing rule
2004	45.1%	72.3%			
2005	47.7%	74.1%			

Sources: *China 50 Years' Statistics*; GDP/capita: 1990 international dollars, Maddison (2003).

Source: Xu (2011)

Pakistan: Own
revenue receipts
comprised just 15.9
% of provincial
funds last year.

The China Model II: Devolving Expenditures

PROFIT SHARING, CHINESE STYLE

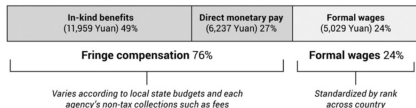


Figure 4.2 Fringe components made up 76 percent of compensation.

Source: Ang (2020)

PUTTING THE GOLDEN GOOSE TO THE TEST

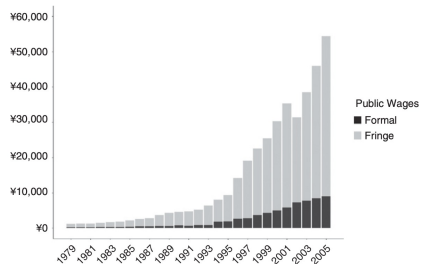


Figure 4.4 Growth of fringe compensation outpaced formal wages.

Source: Ang (2020)

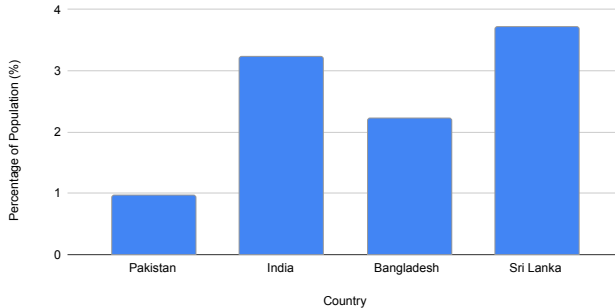
The China Model III: District as Residual Claimant

As one of the district's officers described it, "We hope to forge a friendly business environment by providing all-round services, for example, applying for permits, filling out paperwork, coordinating among various departments, parking, schooling, taking care of the surrounding sanitation, and so on. We want to serve businesses well, because every business has a thick network behind it, including friends and business associates. If we serve one investor well, we can access and mobilize these resources and attract more investors, thereby promoting our district's economic development and tax revenue base."²⁵

Source: Ang (2020)

What has India done?

Pending Court Cases as Percentage of Population - South Asia



Source: Law and Justice Commission of Pakistan and Newspaper Records

Lessons from India: 'Candles in the Dark' Edu Institutions

- 1961 Institutes of National Importance
- 5 campuses till 1995
- Russian, UK, German input (IIMs: MIT and Harvard support)
- 9x budget of other public sector universities
- No external or student politics
- Autonomous from government

QS World University Rankings (2021) - Pakistan and India

India	Rank	Pakistan
IITB	172	
IISc	185	
IITD	193	
IITM	275	
IIT-KGP	314	
IITK	350	
	355	NUST
	373	PIEAS
	454	QAU
IITG	470	
DU	501-510	
IITH	601-650	
JU + JGU + SPPU + IAST	651-700	LUMS
	801-100	COMSATS + UET + PU
	1001+	UAF + UoK + UOL

Source: QS World University Rankings

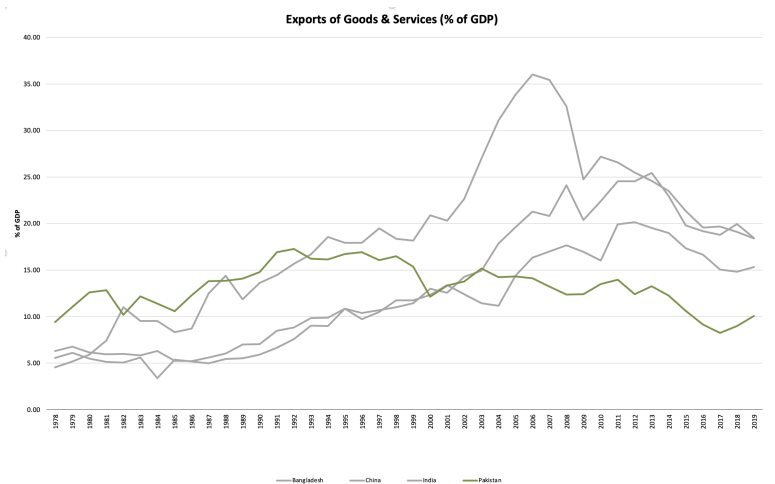
Prosperity in One Generation: Indian Diaspora in the US



Sundar Pichai at his IIT Kharagpur dorm room (Source: Business Insider)

- In 2019, Indians in America earned on average 120K; Pakistani-Americans earned USD 75K (Source: Pew Research Center)

What they all did



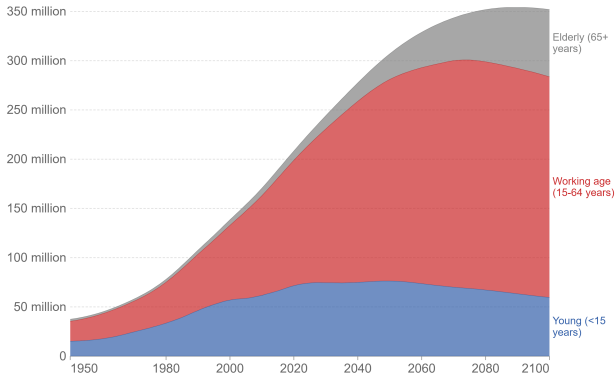
Coming Threats to the Status Quo

More young people than ever...

Size of young, working-age and elderly populations, Pakistan, 1950 to 2100

Historic estimates from 1950 to 2015, and projected to 2100 based on the UN medium scenario.

Our World
in Data



Source: UN World Population Prospects (2017)

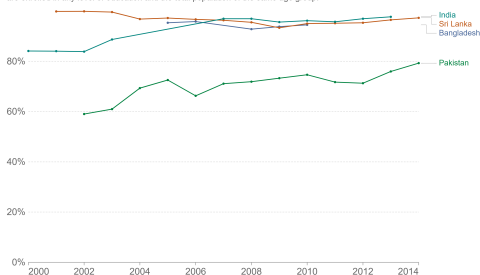
OurWorldInData.org/age-structure • CC BY

Source: UN Population Prospects

...being failed by our education system

Total net enrollment rate in primary education, 2000 to 2014

This is the ratio of the total number of students (of both sexes) of the official age group for primary education who are enrolled in any level of education and the total population of the same age group.



Source: UNESCO Institute for Statistics

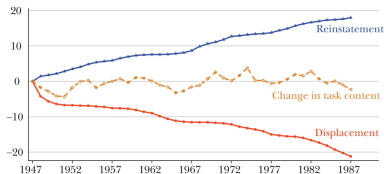
OurWorldInData.org/primary-and-secondary-education • CC BY

Source: UNESCO Institute for Statistics and ASER

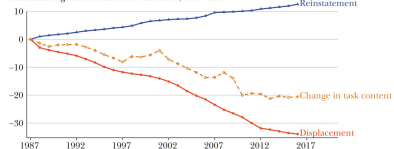
- 45% children in Class 5 in rural areas cannot read English at Class 2 level
- Only 59% of Class 5 students in rural areas can read stories in local languages or Urdu

2047: Not the time to be unskilled

Manufacturing Task Content of Production, 1947–1987



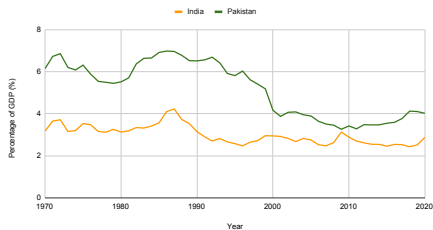
Manufacturing Task Content of Production, 1987–2017



Source: Acemoglu and Restrepo (2019)

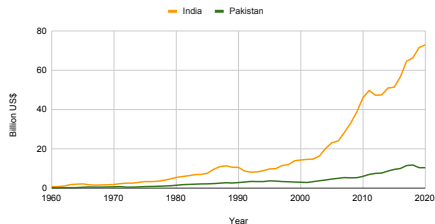
Defense Spending Differences - India and Pakistan

Military Expenditure as Percentage of GDP - Pakistan and India



Source: World Bank

Military Expenditure - Pakistan and India



Source: World Bank

Earl Grey, 1831



There is no-one more decided against annual parliaments, universal suffrage and the ballot, than am I . . . The Principal of my reform is to prevent the necessity of revolution. . . . I am reforming to preserve, not to overthrow

- Key Takeaways:
 - The elite haven't felt the need for reform...
 - The public haven't pushed for reform

Alexis de Tocqueville, 1835

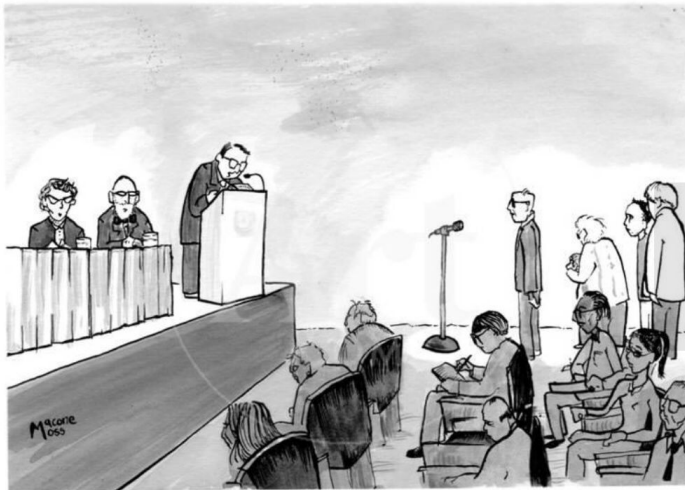


Americans of all ages, conditions and all dispositions constantly unite together. . . . To hold fetes, found seminaries, build inns, construct churches, distribute books, dispatch missionaries to the antipodes. They establish hospitals, prisons, schools by the same method. Finally, if they wish to highlight a truth or develop an opinion by the encouragement of a great example, they form an association.

Recap

Putting it all together

- Pakistan has been stagnating relative to peers for at least 4 decades;
- An uneducated youth bulge in the age of automation, and military disparity with India render the status quo untenable;
- Better policing, property registration, and contract enforcement are required;
- Pakistan needs to create autonomous universities, protected from elite capture;
- Sub-provincial level competition, and power to collect and spend taxes is needed.



“We’d now like to open the floor to shorter speeches disguised as questions.”