Economy Of Pakistan Essay, Research Paper

Pakistan

A Portrait of the Death of an Economy My topic deals with Pakistan, its relationship with the IMF and World Bank, and its internal problems that are causing unemployment, poverty, economic crisis and hunger. I shall be analyzing the situation using the neo-classical theory, as it is what the economists of the Pakistan government and the IMF are using to alleviate the economic instability of the country. Situated in the sub-continent, Pakistan is a low-income country, with great promise for growth. Unfortunately, it is held back from reaching middle-income status by chronic problems like a rapidly growing population, sizable government deficits, a heavy dependence on foreign aid, recurrent governmental instability and large military expenditures. It is to address these fundamental faults in Pakistan?s economy that the IMF has initiated the Structural Adjustment Programs (SAPs) in the country. This is discussed in further detail later in the paper. Like all developing countries, Pakistan?s population is largely employed in the agricultural sector, which accounts for about 48 percent of the labor force. In today?s world the Industrial and Service sectors are the largest growing areas of a developed county?s economy. Yet Pakistan only employs 39 percent of its population in Service, and a minute 13 percent in Industry. This is a paltry figure, compared to the employment statistics of a developed country. Pakistan is also heavily dependent on a single export crop, cotton. Hence the country?s fortunes rise and fall with the cotton market. It is no wonder that there are so many poverty stricken people in Pakistan. When almost half the population is involved in a very volatile market, a lot of the time, a lot of people will be burnt by price fluctuations. The country is also subject to the mercy of the weather. Focussing on a major cash crop means very little diversification. This translates to mass hunger and hard times for the agricultural sector whenever the agrarian lands are ravaged by floods, or conversely, by droughts. Even more importantly, Pakistan?s agricultural sector is marked by large landowners, controlling most of the production. Hence, only a minimal amount of the profit from exports goes to the poor people working for the large farmers. It is these people who constitute a large portion of Pakistan?s population. It is also these people who are living in abject poverty in the rural regions of the country, devoid of the right to feed their families. This is a great illustration of a theme discussed in ?World Hunger, Twelve Myths.? Lappe, Collins, Rosset and Esparza discuss the commonly believed myths about why hunger and poverty exist. In it they clarify this very important point: hunger does not exist due to a shortage of available food, but because of ?fear? and ?powerlessness,? resulting in the ?anguish, grief and humiliation? felt by the hungry and poverty stricken. Pakistan is a classic example of this theory. Based on a feudal system, especially in agriculture, Pakistani society is primarily controlled by feudal overlords, (a.k.a. the politicians or relatives of politicians), who own or oversee most of the agrarian land and industrial base. Being above the law, due to their political influence, these corrupt people can literally get away with murder. Thus, keeping their laborers subdued and underpaid is no hard task. Anyone who dares to complain is used as an ?example? for potential future unrest. As a result, the people in their ?elakhas?, (controlled lands), remain destitute in the throes of poverty, unable to help themselves due to their lack of power and the fear of the ?thekedars?, (large landowners). By a lack of power, I refer not to a dearth of physical prowess but to a scarcity of basic human rights. These are the same rights that people in developed countries take for granted. The right to vote for whomever one feels like is missing. Instead a lot of villagers are forced to vote for the local land owner due to a combination of fear and ignorance; a fear of the repercussions of a potential loss by the feudal lord and the ignorance of any means to escape this same overlord?s wrath. Very often there is also no choice of candidates. There are very few people willing to risk their own and their families? safety by running against their subjugators. All this goes against the very nature of the free market economy that Pakistan is supposed to be running. While the IMF and World Bank are using Neo Classical theory to address the nation?s problems in the capital, half the country is still being run under the feudal system. Till this system is broken, and the immense lower classes are empowered there is not a dent that can be made in the country?s poverty and hunger issues. Rather the problem will continue to grow right under the economists? noses. Pakistan is also set back by ethnic problems, having numerous groups including Punjabis, Pakhtoons, Sindhis, Balochis and Mujahirs. Speaking different languages, the different ethnic groups do not get along very well as is witnessed by the numerous clashes between Sindhis and Mujahirs in the violence torn city of Karachi. The language barrier also translates to a lack of mobility of labor, which is a key to economic success under neo-classical theory. Hence the large sparsely populated province of Balochistan is presently under utilized. Due to a lack of available labor, industries are tough to set up. If the language/ethnic barrier could be overcome, the rich lands of Balochistan could potentially become the saviors of Pakistan?s economy. Pakistan also has a very week industrial base. Being an ex British colony it suffers from a similar problem to the one ailing a number of the African and South American countries. This issue is that the colonists never bothered building up the necessary base for industrialization. While the rest of the world was busy building this base, greedy colonists who did not care about the country and thus paid no attention to its development were exploiting countries like Pakistan. Hence Pakistan is permanently playing catch up to the rest of the developed world leaving very little money for social services to help the situation of the poor. The literacy rate in Pakistan is also very low. In 1992, the official literacy rate for the adult population was said to be a low 36 percent. Even more dismal was the statistic that listed 45 women being educated for every man. With this dearth of qualified personnel, there is no room for economic growth as there are no new minds to head the growth. Women are also the primary food producers in Pakistan. If they are not being educated, it means that they are not up to date on the latest production techniques, which in turn translates to inefficiency and the aforementioned ignorance. Once again it all ties into the powerlessness that marks the hunger and poverty-stricken. Women represent 54 percent of Pakistan?s population. If they are not allowed to exercise their rights to an education and to vote, how can the country be expected to progress? It is like asking a man with one leg to run. Like other third world countries, in Pakistan, substandard housing, inadequate sanitation and water supply, and widespread malnutrition contribute to spread of disease and to high infant, childhood, and maternal mortality. The leading causes of death are gastroenteritis, respiratory infections, congenital abnormalities, tuberculosis, malaria, and typhoid fever, all preventable diseases. Unfortunately the poor, uneducated lower classes are not given enough attention by the corrupt officials running the country, which is resulting in their situation deteriorating year by year. These, along with other economic and social issues are causing immense hunger and poverty in Pakistan. Presently Pakistan is passing through an unprecedented economic crisis, made worse by the global recession. The turmoil in domestic markets and the imbalance between resources and liabilities threatens to roll back the modest levels of economic development and industrialization that Pakistan has achieved so far. Had it not been for a reasonably strong agricultural base, the situation would be much worse. This ?situation? has been caused by a mixture of issues, including the near sightedness of politicians and their persistence in following politically popular, but economically disastrous policies. An example of this is the detonation of a nuclear bomb a year ago. Simply to show off to India and the rest of the world, as well as to raise their local popularity, the Pakistani government decided to go ahead with an unnecessary test that brought economic sanctions against them and also cost them a lot of their aid from western countries. However, much more important have been the structural reasons underlying this deterioration, all of which have been contributing to the growing feeling of desperation the hungry and poverty stricken have been experiencing. Before this paper begins finding solutions to the problems at hand, we need to remind ourselves of the key issues. 1) One major problem that Pakistan needs to deal with is the fact that its expenses are far more than its revenues. Partly due to decades of lax fiscal management, but more because of myopic policies in its external relations, the militaristic structure of the state and the narrow vision of its rapist elite, Pakistan is Rs 100 billion short of the money to simply keep its existing machinery operational. How is a third world country supposed to develop an infrastructure when it is spending more than its net revenues on only two items, debt servicing and defense? In fact, Rs 18 billion of its defense has to be financed to borrowing. The Pakistani government has not been governing; it has simply been acting as a debt-securing agency. 2) Lately the government has been touting the fact that it has achieved the IMF imposed budget defect target. What it neglects to mention that it achieved the target through questionable means. Firstly, it drastically reduced its developmental expenditure from 7.5 per cent of GDP in the early ?90s to a paltry 3 per cent, which translates to a cutback of 140 billion in present prices. A cutback of expenditure of such extent in the governments purchases of private sector goods like cement, pipes and cables and services like engineering explains why a number of private sub-sectors are at the point of closing down, operating at a vastly reduced capacity. This is adding to the issues of hunger, poverty and unemployment being faced in Pakistan. The government has also reduced the amount it givers to the provinces by Rs 30 billion, transferring some of its debt to the provincial governments. In other words the government has done nothing to resolve the issue of structural defect. 3) What?s worse is that not only has developmental expenditure been sharply curtailed, but that the scarce resources set aside for infrastructure works have been diverted to less productive investments\_like the new motorway and the new Lahore airport. This massive reduction of the public sector?s developmental activities is causing a contraction in employment opportunities for Pakistan?s growing number of middle class educated youth. This is particularly serious in the areas where the private sector is unlikely to locate due to the lack of infrastructure. Thus the really poor areas continue to live in poverty due to the government?s inability to provide adequate physical and social infrastructure or create an environment for private sector investment. It has also not been able to maintain law and order and is guilty of not living up to its contractual obligations which is further discouraging foreign and domestic investment in the country. The treatment of its foreign currency account holders and IPPs last year illustrates this point. 4) Pakistan suffers from the typical problems that all third world countries suffer. One of these is massive corruption at all levels, estimated at Rs 100 billion a year. This means that a large portion of national wealth has been stolen from the poor. No wonder, the country is unable to lift itself out of the quagmire of poverty and hunger. 5) Tax evasion is another issue that the government needs to address. Successive governments have failed to establish a tax culture due to an inequitable structure, which taxes different sources differently. An example of this is provided by the large farmers who, despite now getting higher international prices for their crop, are unwilling to pay the modest levels of provincial taxes. The political leadership itself does not pay its taxes diligently. Thus, unless companies owned by sitting ministers install invoice based systems for tax accounting, it will continue to be difficult to enforce retail taxes. Also, the repeated bowing down of the government to shutter-down threats of traders and the repeated refusal of large land-owners to meet their tax obligations is increasing the burden of taxes on the helpless poor, the organized sectors, and the honest people foolish enough to pay their taxes. If the rich are not willing to meet their responsibilities, how are the poor supposed to survive? 6) There is the additional problem of a gap of between 5 an 6 per cent of GDP per year between domestic national savings and investments which translates to approximately Rs 150 billion being financed from external borrowing. This further adds to the crippling debt that is allowing the IMF and World Bank to interfere in the formulation of domestic economic policies. 7) The external debt of around US$ 34 billion is more than 50 per cent of GDP, and four times the annual foreign exchange earnings. Pakistan can neither repay nor service this debt. So far I has only postponed the inevitable, default by piling up further debts at abominably high rates. 8) Pakistan?s exports compromise 0.2 per cent of world exports and diversification from a single crop economy has remained an elusive dream. Therefore to hope for exports to be the driving force of economic recovery, as the government is doing, would require an astronomical rise in exports, and the price of cotton. In other words it is impossible. 9) The country?s ability to export is also affected by sluggish world trade, which coupled with an over valued currency, is rendering Pakistan?s exports uncompetitive. With the rise in the price of oil, the gap between import bills and export receipts is widening. 10) Until now this gap has been met with remittances and short-term borrowing. But due to a decline in remittances for a number of reasons and Pakistan?s declining credit, this is no longer an option. It therefore seems that it is impossible to maintain the present levels of growth rates and imports as well as meet debt servicing. 11) Public sector industries are also deeply in the red due to over-manning, corruption, and the protection given to large defaulters of utilities. The combined debts of just WAPDA and KESC, (which deal with electricity and gas respectively,) are Rs 91 billion while the loans of 18 public sector enterprises is close to Rs 250 billion. 12) The government is offering 15 to 18 per cent interest rates on its saving schemes which is far to high for it to be able to generate high enough returns to service the debt and still have enough left over to finance developmental activities. 13) Most of Pakistan?s industry faces the issue of negative or nominal growth, while value-added industry is operating at 30% below capacity. The limited growth is due to a lack of comparative advantage, the lack of credit availability and a high interest rate. Despite inflation being well below double digits, interest rates are as high as 15 to 18 per cent on loans! This is too high to keep the present economy afloat, let alone raise it to a maintainable level of growth. 14) There is also a lack of confidence in the government by the private sector. How can a government that cannot even handle domestic peace issues be expected to turn around an economy that is in the throes of a downward spiral? Therefore the private sector has been occupied in short-term trading and currency speculations which do nothing for growth or the welfare of the state. 15) An obvious result of this situation is that the disparity between the rich and the poor has grown. The share of the poorest 20 per cent of households has fallen to 7 per cent while the richest 20 per cent are receiving over 45 per cent. The low rate of economic growth and the high rate of inflation over the last few years have left the poor with no buying power resulting in almost a third of the population living below the poverty line. There is also anger amongst the poor about the fact that the incidence of increased taxation has been heaviest for them; expenditures on services for them have declined. Social tensions are rising with the growth of the absolute number of poor, illiterate and jobless, as employment opportunities and wages decline due to the stagnating economy. Such conditions are hardly conducive to political and social stability, without which growth will remain a distant dream. On top of all of this, Pakistan is plagued by the curse of the IMF and World Bank. Constant defects in the current account of the balance of payments and depleting foreign exchange reserves is causing the extension of credit to become an exercise in haggling and bargaining. Each time there are negotiations along with a string of conditions attached to the loan. The release of credit is then delayed until each and every condition of the IMF has been met. The only way that Pakistan can now secure loans and vital extensions on its debt is to institute the Structural Adjustment Programs that have been drawn up by IMF economists. The problem is that the benefit of these programs is questionable. Most countries have suffered immensely from them. Instead of improving the economy, these programs have been destroying them. Unfortunately, like other countries that have yielded to the them, Pakistan is virtually being taken over by the IMF, along with the World Bank. There is increasing evidence of this everywhere: • A few months ago, the IMF opened a resident office in the capital, Islamabad, to monitor the economic policies and performance. • Before the budget is presented to the Assembly, it is sent to the IMF scrutiny team for approval. • Even after the Assembly has passed the budget, the IMF can amend it, totally against the will of the Assembly and public interest. • Projects are started, speeded up or stalled at the will of the World Bank. • Not, only are major projects subject to their approval, but even small price changes in consumer products are also dependent on their assessment. • Either the mission is visiting the country and having meetings with various government departments, or the heads of these departments are rushing every week to Washington to plead for more time and/or money. This is reminiscent of countries like Brazil and Russia in the ?80s and ?90s when they were drowning in debt and faced mounting poverty. And did the IMF and World Bank?s policies help them recover? The answer is ?No.? In fact they made the situation much worse. From 1980 to 1989 Brazil paid $148 billion in debt servicing on a loan of $ 64 Billion. Ten years later, having paid $148 billion on the debt, Brazil now owes $121 billion. This illustrates the viscous cycle that the IMF puts its borrowers into. In Russia, the IMF contributed to Russia?s collapse in 1998. Competition combined with intelligent privatization and correctly channeled investments in capital markets could have brought about the growth that Russia was so desperately searching for, but the IMF never emphasized competition and economic growth. Instead they imposed their rigid, set, standard formula\_reducing inflation and cutting budget deficits. Insisting on a fixed exchange rate, it destroyed all prospects for export of oil, gas, and energy, which earns Russia half of its money leaving the country in tatters. Whenever the IMF?s policies fail, they give the standard excuse of poor implementation by government officials, corruption and the lack of political will. Policies are made within constraints. The IMF refuses to acknowledge these constraints just as it refuses to make country to country adjustments. No two situations are alike. How can the IMF expect one standard plan to solve every type of problem? It is obvious to laymen in economics that it cannot. Yet the geniuses at the IMF cannot see this. It is not the fault of the IMF that countries have taken loans and are now in debt. On the other hand, they are completely responsible for the havoc their policies have caused, and are causing, in victim countries where hunger and poverty have increased many fold instead of having been reduced. The particulars of the IMF and World Bank?s policy in Pakistan were recently announced and by the Government of Pakistan and were approved by the overseeing organizations. The three-year structural reform agenda is basically focused on the budget and on the restructuring and strengthening of the financial position of public enterprises. Substantial efforts are to be made to broaden the base of domestic taxes, revamp tax administration, implement the restructuring plans for the energy sector and a number of other public sector enterprises, and raise the productivity of government expenditure. The government is also to move forward with the privatization of financial institutions, trade liberalization, and to make further progress in the development of the market-based foreign exchange and payments system. The main points of the agenda are as follows: Agriculture The government?s strategy in this area is to limit the role of the public sector, transfer management to the private sector, strengthen local capacity, and assist in natural resource management and environmental protection. The government?s control over imports of fertilizers and the remaining restrictions on imports and exports of agricultural commodities are to be reduced. The wheat subsidy is to be phased out as well, and the private sector will be gradually allowed to participate in the wheat market on terms similar to those of the public sector. The functioning of the agricultural credit market will be improved by gradually phasing out credit subsidies and directed credit and by developing more effective, market-based credit institutions. Social policies Pakistan?s Social Action Program (SAP) was launched in 1992 to expand and improve the country?s very weak social services in elementary education, primary health, population welfare, and rural water supply and sanitation. The second part of the SAP (now underway) emphasizes improvements in the quality of services, particularly education, and the maximization of the impact of expenditures. The SAP program will continue to be agreed upon on an annual basis by the government, the World Bank, and other participating donors. In 1998/99, the government is to ensure that total rupee expenditure (not including foreign project assistance) for basic social services will be at least PRs 56.5 billion, including at least PRs 5.5 billion on critical quality-enhancing nonsalary expenditures in the provinces and federal areas. The focus in education is to be on enhancing the quality of services through improvements in the teaching environment; provision of textbooks and materials; and greater access to educational opportunities, particularly for girls. The objective of the healthcare sector is to be on strengthening of basic health care and family planning services at the community level. Transport Pakistan?s growth and export potential depends importantly on the modernization of its outmoded transportation systems. To improve the transport system, the government will implement a reform program over the next three years to upgrade and expand the country?s highways, railways, and ports. The highways are to be improved through the incorporation of tolls and through the encouragement of private sector investment while the railway is to be prepared for privatization by the end of 2000. Infrastructure In Pakistan, the provision of basic infrastructure and services in the urban and water sector lags considerably behind the rapidly growing urban population. To improve the living conditions of the urban population, particularly those of the poor, major efforts are proposed to improve Pakistan?s water supply and sewerage and solid waste management systems which include reforms to develop local governments? capacity to meet this need with private sector participation in urban services delivery. Power sector In the energy sector, Pakistan?s reform program is to increase the efficiency and reliability of energy supply and to create a competitive market structure. The government is to encourage private sector investment in new energy supplies while initiating the restructuring and partial privatization of the energy utilities. The government will consider restructuring and privatization of Pakistan State Oil Ltd., the largest oil marketing company, while shares of SNGPL, a major gas distribution company, will be offered for sale to investors. The government is also considering restructuring the Oil and Gas Development Corporation and natural gas tariffs will be adjusted to achieve a rate of return on assets as agreed with the World Bank. Environmental issues One of the most pressing issues in sustainable development for Pakistan is the strengthening and improved monitoring and enforcement of environmental protection. The areas of concern include the inability of provincial environmental protection agencies to design cost-effective strategies for the enforcement of National Environmental Quality Standards and other provisions of the Environmental Protection Ordinance, and the absence of a pollution control system. The steps that are to be taken over the program period include the development of provincial capacity for monitoring and enforcement, the implementation of mass awareness programs, the development of a comprehensive pollution control and environmental impact assessment system, and the increased enforcement of compliance by the industrial sector with sound pollution control. Government The effectiveness of the government in public expenditures is limited and contributes to poor economic performance, low investment, and inadequate social services. The politicization of routine decision making has weakened the civil service and diverted expenditures to lower-priority activities. To prevent this, the government is to downsize itself to a reasonable number of staff so as to increase its processing efficiency. Statistical issues In addition to plans for the improvement of the quality and timeliness of data on public expenditures, the government is to address remaining deficiencies in the economic database of Pakistan: in national accounts, through Public enterprise reform During the course of 1997/98, seven major public sector enterprises developed plans to restructure their operations and to improve their financial performance so as to increase their efficiency and/or prepare for privatization. Public debt management Due to the high levels of public debt and its effects on the budget, the government is to adopt a debt management policy to reduce the debt and debt-service ratios. Banking sector The banking reform program has already started to stem the losses from the politically motivated lending and subsequent operating losses. The efficiency of the banking sector has been improved through a change in management and by reducing overstaffing and the excessive numbers of branches. Regulations and financial disclosure standards have been brought to international levels to increase transparency. The central bank?s autonomy, especially in monetary policy and banking supervision, has also been strengthened through the amendment of the law. This is to lead to the privatization of the rest of the government controlled banks over the next two years. Reform in the Foreign exchange market Pakistan is to increase the role of market forces in the process of determining the exchange rate by developing the spot and forward markets, and by eventually having a freely floating exchange rate. Tariff reform Plans have been made to remove the remaining restrictions on exports and imports and to further lower import tariffs. The elimination of import bans on textile products is expected to be agreed upon during negotiations between Pakistan and its main trading partners. Only tariffs applying to automobile imports will remain for balance of payments reasons. Tax reform The focus of the tax reform program is to achieve larger revenues from tax collection, while promoting a more equitable distribution of the tax burden and greater documentation of the economy. To achieve this, the tax base is to be broadened by including previously untaxed income and under taxed sectors, and tax administration improved in order to provide scope for a lowering of statutory tax rates. A comprehensive review of the income tax system is also to be completed soon, and the recommendations from the review are to be implemented in the 1999/2000 fiscal year. Expenditure and civil service reform Improvements in expenditure policy are to concentrate on maximizing its effectiveness and developmental impact. To achieve this the government is to reduce spending on lower-priority activities by reducing the public investment program, lower spending on personnel, allocate resources toward high-priority and essential operating and maintenance expenditures, provide adequate money for basic social services which are part of the SAPs, and improve the planning and monitoring of budgetary expenditures. Pakistan is currently at the brink of complete collapse. It has got to the point where the army has stepped in and declared martial law and the people are happy about it! This shows how desperate the situation is. For many of the poor and starving, martial law represents their last hope as everyone including their government and international financial institutions has betrayed their trust. The question arises as to what the military can do to alleviate the problems and stem the collapse. The following are some suggestions: a) Until now taxation structure has been a dependent on import related taxes and excise duties. Along with sales and income taxes for mobilizing revenues no matter how poor the enforcement, the speed of imposed tariff reform program effects the capacity of the taxation structure to raise adequate resources to meet operational expenditures. The slowdown of industrial activity has also weighed greatly on this factor. Therefore there is a great need to place a structure which taxes incomes of all sources equally. b) Contrary to popular belief high rates of return on government issued instruments do not necessarily increase savings rates. They, instead, influence the switch from one instrument to the next. This encourages an outflow of capitol. A more practical proposition for decreasing the deficit would be for the government to lower yields on its securities and saving schemes. Taxation should also be brought up to date and been adjusted to levy new issues rather that old. c) To assist industries interest rates will have to be cut further in order for these operations to breathe. d) The industry should weed out the units that do not operate up to a certain efficiency standard so as to allow the inflow of cash to competent units. Ceasing to provide revival packages to dying industries as Pakistan has being doing for the last decade can do this. They need to let the free market take its course and eliminate non-competitive firms. e) The rupee is substantially overvalued and must be allowed to float so as to allow exports to sell fairly in international markets and to make foreign products less competitive in local markets. In turn, a revamping of the monetary system to correctly assess drawback claims would greatly improve the financial situation. f) There is one government servant for every thirty-five Pakistanis. Therefore the government needs to ?right-size? itself so as to improve its efficiency and cut back on expenditure on benefits. The multiple layers of required processing shake the present effectiveness of policy. A smaller, more efficient government would mean that policies would not hit the streets after the fact. g) A problem far greater than corruption is the lack of competence in public sector enterprises. There is a need for more specialists in key departmental positions instead of the present use of generalists to man key positions. h) Pakistan currently spends more than twice as much as India and Sri Lanka do per student at the primary and secondary levels. Hence there is a need to restructure the social aspect of the public sector through decentralization, so as to bring about greater efficiency. I) After the acquisition of nuclear weaponry, Pakistan needs to review its defense spending and the size of its army. There is no real need to be spending more than the size of the budget on a defense that could, most probably, never be required. k) It also needs to establish independent institutions to conduct a thorough accountability for the government?s actions so as to dissuade corrupt officials from stealing, evading taxes and mistreating the poor people living and working on their land. l) The quality of political leadership also needs to be improved. Decreasing the incentives of holding a seat in senate or assembly can do this. For example, the discretionary power to give tax breaks could be taken away. The economy could be further decontrolled and privatized. The income tax forms for those in office and heir immediate family should be made public for their time in office so as to control corruption. In this way the politicians and their relatives, who control a lot of the agricultural and industrial sectors, would have a harder time evading taxes and mistreating their labor. m) The government also needs to stop focussing on debt servicing which is obviously impossible at this point, and start focussing on getting the debt either absolved or completely restructured with equitable interest rates. Money saved from the reduction of the annual spending on debt servicing could then be used for financing re-prioritized infrastructure related developmental programs. Primarily focussing on deprived areas, particularly in the smaller provinces, and for financing human development programs and social safety nets for the less privileged segments of the population, the country could provide its present lower class with an option that they have not had before. This is the option to improve their lot through hard work and with the opportunity to break free of the controlling feudal system. After all, capital is not such a major constraint if there is an educated labor force that can deploy the existing capital productively. The major setback to growth is the lack of human capital that can absorb technology and the experiences of other countries to leapfrog a number of developmental stages Which is what Pakistan needs to do to undo the damage done by the colonists. It is people that make the biggest difference, not the capital hat they are using, since assets are just a means to an end. On the other hand, expanding good-quality education can create islands of skill wherein important skills in various key disciplines can be developed so as to push up the growth rate. To support this, I believe that all investments in, and incomes from education should be exempt from taxation. Furthermore, money saved from debt-servicing could be used for public sector investments in agriculture to enhance yields per acre in essential food production, thereby placing a constraint on the drain of foreign exchange being used to purchase imports of agricultural commodities like wheat and edible oils. This would make these vital food products cheaper and more accessible to the poorer citizens going some way to reducing hunger. As wheat and ?ghee,? (a local edible oil), are major mainstays of the local diet, they should be made completely tax-free and subsidized, so as to further cheapen their prices. I feel that this would go along way towards lightening the burden on the poor. Investments in agriculture are also critical as it continues to be the mainstay of the economy and provides a livelihood for a large majority of the population. It can also play a strong role in supporting small-scale industry and in checking rural-urban migration. If the military decides to impose these policies, or policies similar to these, Pakistan may have a hope of avoiding what appears to be an inevitable crash of its economy. The situation of the poor and under privileged could also be alleviated eventually as long as the government decides to start spending money on developing an infrastructure that can help feed the hungry by providing them with jobs. Nevertheless, there are no easy options left. Only the painful ones remain. It is, however, important that the pain of reform be distributed equitably, and not born largely by the poorer classes, as is very often the case. There are tough times ahead. Unfortunately, there is little evidence that the Pakistani ruling elite is aware of the gravity of the situation; or that it has what it will take to steer the country out of its mess.