

BOOK REVIEWS

IPS Pakistan Working Group, Pakistan: The State of the Economy, (Institute of Policy Studies, Islamabad, 1995), pp. 96, Rs.40.00.

What is the economic agenda of the Islamic parties? Can it be distinguished sufficiently from the policies of the mainstream parties, to legitimate the claim, that the Islamic groups have an alternative national economic vision? Or is the Islamic economic agenda merely a partial modification of liberal nationalist and social democratic economic perspectives? The Institute of Policy Studies has produced a document which allows us to address these important questions.

The Institute of Policy Studies is the premier Islamic policy think tank in Pakistan. But this annual economic review claims that the IPS Working group on the economy has produced "an independent and apolitical assessment of national economic conditions", (p.1).

However, "our major points of reference remain the socio political, moral and ideological objectives of the country", (p.1).

The attempt to present an apolitical yet ideological analysis reflects a basic contradiction in liberal Islamic discourse. It is assumed that there exists a liberal Islamic consensus interpretation of the 'ideology of Pakistan' embodied in the constitution which provides the meta-ethical pre-suppositions on the basis of which apolitical economic and social analysis can be undertaken.

The consensus interpretation of 'the ideology of Pakistan' which does exist is Muslim liberal not liberal Islamic. The Quaid-e-Azam was a Muslim liberal not a liberal Islamist. Liberal Islamists seek a redefinition of liberalism within an Islamic paradigm – they seek to absorb liberalism within Islamic history and civilization. Muslim liberals seek the opposite – to construct a Muslim community capable of organizing individual and social life in accordance with liberal rationality.

The Muslim liberal project is not inherently incoherent. Muslims can be transformed into a national community which practices liberal rationality – the Jews of modern Israel have shown how religion and a shared historical tradition can generate a strong community consciousness capable of sustaining a liberal nationalist polity.

But the liberal Islamist project is inherently incoherent. Liberalism cannot be absorbed into a religious civilization (Islamic or otherwise) as its central concern is with the universalisation of the practices of freedom. Religion on the other hand seeks the universal dominance of love.¹ Liberalism has played a major role in the transcendence and dissolution of Christian civilization in Europe [Tawney, (1949)]. Liberal Islamists seek to concatenate mutually exclusive paradigms. That is why Islamic parties trapped by the theories and practices of liberal Islam are necessarily politically and socially marginalised whereas Muslim liberal parties – such as the Muslim League – have the capacity to dominate liberal policies.²

The inherent incoherence of liberal Islam is reflected at many levels in *Pakistan: the State of the Economy*.

Firstly, in the technical weakness of its formal analysis. A most glaring example of this is the argument that: “if foreign direct investments continuously pour in, the repatriation of profits soon exceeds the incoming foreign investment”. This absurd result is demonstrated by an example which holds *both* the rate of profit repatriation and the amount by which foreign investment grows as constant. It can be shown that by varying one (or both) of these variables the result can be falsified. The argument is thus for *raising* the rate of foreign investment, so that it sufficiently exceeds the product of foreign capital stock and the profit repatriation rate. It is easily seen that as long as:

$$\frac{(F_1 - P)_{t+1}}{(F_1 - P)_t} > 1 \quad \text{(where } F_1 = \text{foreign investment} \\ P = \text{profit repatriation)}$$

net inflows will be positive.

The doubts expressed about the role of direct foreign investment are strictly incompatible with the “theory”, (presented in the book). There is simply no liberal non-pragmatic argument available for restricting foreign investment [Lall and Streeten, (1977)]. If you want to do this you have to step outside the liberal paradigm and ground foreign investment restrictionist policy on the premises that:

- a) foreign investment is an instrument for integrating the national economy within the liberal international economic order;
- b) such an integration facilitates the social dominance of takkathur and shahwat and makes zuhd and infaq increasingly socially marginal.

¹The practices of love negate the practices of freedom: since I love Riffat therefore I cannot be (and cannot will to be) free of her.

²Binder (1988) sees this and seeks to promote liberal Islam in the Arab world for this reason.

This argument is not available to liberal Islamists (despite their instinctive appreciation of Islamic values and adherence to Islamic moral norms in their personal lives) for they seek to play by the liberal rules of the game – they seek the Islamisation of the quest for freedom, the Islamisation of *takkathur* and *shahwat*.³

In addition, there are several clear misreadings of liberal economic theory and advocacy of conflicting policies. Thus, privatisation through the stock market is advocated on the grounds that this will not reduce employment – this is false because of the high level of share control concentration [Parker, (1993)], which the report itself recognizes. Foreign investment is supported on employment enhancement and technology transfer grounds, despite the views expressed earlier. Extension of the capital gains tax exemption is advocated despite support for measures to reduce asset concentration. It is written *both* that “the universal reduction of tariffs is not going to cause any problem to Pakistan” and that, “the universal reduction of tariffs would erode the generalized system of preferences”. Many other contradictions and ambiguities are concealed in sweeping generalizations spread throughout the text but heavily concentrated in the last chapter.

This high level of generality – and the tendency to sit on the fence on some key issues such as hydel vs thermal power projects – should not obscure the central thrust of the policies advocated by the IPS. This central thrust is unqualified support of the policies advocated by the World Bank.

The extent of the influence of the World Bank on IPS policy can be gauged from the fact that the co-chairman of the economic working group for the present state of the economy report and the chairman of the previous working group were Ghulam Qadir (currently of the World Bank Resident Mission in Islamabad), and Arshad Zaman (World Bank official 1970-82), respectively. The World Bank’s philosophy of developing ‘capitalism with a human face’ is indistinguishable from the economic agenda endorsed by the liberal Islamists.

The theoretical basis for this convergence of human capitalist and liberal Islamist perspectives are stated as:

“Growth of GNP is important but the manner in which it is shared are equally important. Simultaneous steps that ensure distributive justice are crucial. Economic progress has to be valued from the view point of consumer, The pattern and level of consumption determines the true state of well being which the economy should strive to realize as its ultimate objective. Much is to be done to establish a truly Islamic welfare state by reorganize(ing) the economy on a just basis as well as promot(ing) ‘*halal*’ and forbid(ing) ‘*haram*’ .”

³Pickthall translates “*takkathur*” as “rivalry in worldly increase” (expressing the ideas of both competition and accumulation) and *shahwat* as “pleasure”. [Pickthall, (1959), S.102 V.1].

This is an unreserved endorsement of welfare economics. The purpose of Islamic economic policy according to the liberal Islamist perspective is the maximization of an appropriately discounted stream of consumables constrained by the requirement to adhere to Rawlsian principles of justice [Rawls, (1971)]. This is regarded as compatible with "the promotion of 'halal' and prohibition of 'haram'".⁴ The divergence from welfarism is thus merely structural. Certain acts which welfarism endorses and the structures they entail – fornication and cohabitation, *riba* and a futures market – are forbidden in Islam. But within these constraints imposed by the Shariah, the Islamic economy functions much as the welfare economy does – both maximise consumption flows and ensure distributive justice [Chapra, (1993)].

Liberal Islamists do not appreciate the substantive difference between the Islamic and the *welfarist* order. A *welfarist* economy which maximizes consumption and ensures distributive justice *necessarily* undermines the Islamic values of *zuhd*, *sabr*, *ihsan* and *jihad*. Maximizing consumption flows *requires* the existence of a futures market and the expansion of female employment. It therefore facilitates the universalisation of *riba* and *zina*.⁵ The promotion of halal and prohibition of haram becomes increasingly impossible as a welfarist order takes root.

The IPS report endorses the following policies advocated by the World Bank:

1. Increase in producer prices for food products.
2. The postponement of land reforms until the reasons for the failure of the previous reforms are not determined.
3. The development of capitalist agriculture.
4. Fiscal devolution and decentralization.
5. Privatization in general and the follow up of MOUs through appropriate modes.
6. Opposes regional grouping even in the third world.
7. Supports trade liberalisation and tariff reform.
8. Regards the liberal international order as natural and asks Pakistan to play by its rules.
9. Supports greater autonomy for the State Bank.
10. Advocates increased foreign investment specially in the energy sector.

⁴ I interpret the Report's conception of distributive justice as Rawlsian for the Report's "consumables" are identical with Rawls' "primary goods". "Well being" as conceived by both Rawls and IPS is a consequence of improvement in the "level and pattern of consumption". The growth of consumption is primary but its pattern must be constrained (to ensure that the weakest section of society gains disproportionately, halal promoted haram forbidden etc.). Moreover, the "distributive justice" provisions envisaged by the Report have no obvious relationship with the "retributive" justice envisaged by the Shariah. The non implementation of these retributive Shariah provisions is taken as "a fact of life" (p. 6-7) and measures for promoting "distributive" justice are seen as implementable without the prior enforcement of Shariah.

⁵ There is an inherent social dynamic in liberal capitalism continuously pushing back the Islamic constraints and widening the sphere of operation of the 'normal' economy. This is the process through which the dissolution of Christian civilization was achieved by liberalism in Europe during the 17th to 19th centuries, [Tawney, (1949), *passim*].

It is particularly distressing that a Report, the key concern of which is self-reliance, should have nothing at all to say about the main instruments through which Pakistan's economic sovereignty is being undermined. These are:

1. The Structural Adjustment Facility agreements of the IMF.
2. The Sectoral Adjustment Programme of the World Bank specially in the financial and social sectors.
3. The marketisation of monetary policy and the disintegration of the credit planning system.

The World Bank is liberal imperialism's main public agent in Pakistan – the IMF is merely a supervisor. The World Bank's mandate is to facilitate the integration of Pakistan in the international financial order through dismantling of monetary policy, de-capitalisation of the key financial institutions, privatisation and systemic subordination.

Today the Islamic parties provide the only platform for popular anti-imperialist resistance. The Islamic leaders are vociferous in their criticism of the World Bank, yet liberal Islamists – in organizations such as IPS – guided by World Bank officials and consultants continue to set the economic policy agenda of the Islamic parties.

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World Bank, A New Agenda for Women's Health and Nutrition, (World Bank, Washington, 1994), n/p.

This is a very surprising publication, especially since it comes from the World Bank. We have become accustomed to the worldview of the World Bank and the International Monetary Fund (IMF), and their proclamations on almost all social and economic issues. If it is macro-economics, we can be sure that both the World Bank and IMF will insist on structural adjustment, informing countries that they should cut their budget deficits, deregulate and liberalize the state sector, and so on. If it is the social sector, we know that they will advise governments of underdeveloped countries to decrease government intervention, work with non-governmental organizations, increase user charges and cut subsidies in education, health and other sectors.

In the case of women, or gender-specific projects and studies, the World Bank's view is quite commonplace. It has moved away from the gender blindness of the early developmentalist years and now encourages the institution of Women-in-Development (WID). The liberal framework of WID falls within the entire conceptual underpinnings of the view from Washington. This view maintains that markets work, the state should be peripheral and secondary in its role in society, and ignores all forms of power relations prevalent in society. It emphasizes working within given structures without questioning the authority and composition of those structures.

Based on these broad guidelines, the combination of women and health, and the issues related to them, would be quite conventional and run-of-the-mill. The World Bank documents on women's health talk about issues related to infant mortality, mother and child health, the effects of limited access to drinking water and sanitation facilities, the effect of illiteracy amongst women on children and the rest of the household, and so on. In most of the World Bank publications which address the issue of women's health, we are informed that the critical variable which determines the health of a woman, her children and household, her use of contraceptives, etc., is education, or at least a fair element of literacy. This finding has been documented by literally hundreds of researchers, and is one of the least disputable findings in the social sciences.

As the title of the publication under review suggests, the World Bank is publicizing a New Agenda for the health of women, as opposed to the Old Agenda which is broadly illuminated above. Despite the serious ideological constraints and limitations inherent in the World Bank's philosophy, the Old Agenda does at least identify a number of very critical issues which affect the health of women in underdeveloped countries. Projects and findings are designed on these premises and the World Bank then intervenes in underdeveloped countries and tries to improve the health status of women who are affected by these programmes. However, the New Agenda is undoubtedly very new and seems to distance itself from the Old.

According to this New Agenda, some of the health and nutrition problems now facing women in underdeveloped countries include: genital mutilation (female circumcision), anemia, unsafe abortions, cancer of the cervix, greater risk than men of the HIV virus and aids, and domestic and sexual violence. Elements of the Old Agenda which still form part of the New also include the effects of women becoming mothers before the age of 20, and the causes for why the maternal mortality rate which has been falling in recent years, has not been falling "fast enough". Indeed, the New Agenda is a marked departure from the issues which mattered earlier.

The first chapter of this book argues why it is important to invest in the health and nutrition status of women, and how this can contribute to "sustainable economic growth". The standard arguments are given which pertain to views of the Old Agenda, followed by a discussion on why women are affected by poor health compared to men. This chapter also makes the case that it is cheaper to make interventions in the areas of women's health and nutrition, and the cost-effectiveness argument is alone worthy of consideration.

The second chapter goes on to examine, in the light of the New Agenda, how the women's health and nutrition needs, demands, and issues change throughout their life cycle. This is an interesting and helpful innovation, where the issues specific to women at different stages of their lives are highlighted. We are shown how, as the age of women increases, the health and nutrition problems change.

Once the issues and focus of the New Agenda have been identified, chapter three then explains how interventions in the health matrix would help deal with the issue of the ill-health and malnutrition which women face. According to the World Bank, the essential health interventions would include: a wider choice of short term and long term contraceptive methods, enhanced maternity care, expanded treatment and screening for sexually transmitted diseases, screening for cervical and breast cancer, greater policy dialogue to reduce gender discrimination, the prevention and management of unwanted pregnancies, prevention and management of sexually transmitted diseases and the promotion of positive health practices.

Chapters four and five together, deal with the overall implementation of these policies and programmes and discuss the role of governments in implementing these measures. In chapter four, governments are urged to improve the nature of health financing both in terms of equity and efficiency, by better targeting of projects and higher cost recovery. The chapter also suggests ways in which access by women to health services could be increased and how new services can be introduced which are more accessible to women. An important concern addresses the need for more female health care providers. The last chapter of the book is a plug for the World Bank, where we are informed about the World Bank's programmes worldwide which focus upon the issues of women's health and nutrition. Numerous examples and references are made to the World Bank's and other international agencies' projects, and the readers are told about the high success rate of these experiences.

While the Old Agenda, despite its limitations, was more focused on the social and health issues of women, the New Agenda seems to have shifted into a very different arena. The focus now seems to be on sexual relations and on issues emanating from women's sexuality. The repeated mention of female circumcision, sexually transmitted diseases, abortions and the like, seem to have taken the social aspects away from the issues of women's health and nutrition. This indeed is the surprise in the New Agenda, where compared to the past, social and certainly economic issues, no longer seem to exist. Moreover, even gender conflicts seem to have given way to issues specific to women, devoid of social, economic or gender-related constraints. The New Agenda sounds more like a Third World version of *Our Bodies Our Selves*, than a treatise on health for all, or health for women.

It is difficult to understand why the Old Agenda has been replaced by the New. Most of the issues which form such a critical component of the Old Agenda have still not been addressed by planners. Infant and child mortality rates are still very high, the position of women is still far worse than that of men when one looks at health indicators, illiteracy is still a major cause for poor health for both women and men, and female health professionals are almost non-existent outside large urban conglomerations in underdeveloped countries. This list is endless and only emphasizes the point that very little of the Old Agenda has been accomplished. Then why the New Agenda?

It is difficult to explain why this shift has taken place, since the Old Agenda is still quite incomplete. However, the Old Agenda has not been totally abandoned, for most World Bank publications on women and health do still espouse the old doctrine. This New Agenda may just be an indication of things to come in the future and may still see a number of transformations. Had it been advocated by some independent academic or researcher in some obscure university in the West, one could have conveniently ignored it. But this is the World Bank, one of the two institutions which determine developmentalist policy for the Third World. Its pronouncements must be taken more seriously. Possibly, the next few years may explain why this shift of agendas from Old to New has taken place. In the meantime, however, agendas of the sort the World Bank continues to champion must be criticized for what they are: utter nonsense, without a question of doubt.

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M. B. Abbasi, *Capital Markets in Pakistan*, (1994), pp. 284, Rs. 350.00.

The author, a seasoned bureaucrat in the public sector financial institutions, aims his book "Capital Markets in Pakistan", at the non-academic audience such as bankers, fund managers, bureaucrats, journalists and other professionals. In this list I would also add university students and novice practitioners in the capital market. The author admits that "the book is not intended to be a piece of academic research". The book is divided into six chapters with chapter five on "Emerging Market Instruments", receiving the largest amount of space. This chapter can be described as the main contribution to the growing literature on capital markets in Pakistan.

The main purpose of the capital market in the country is to assist the process of economic development by mobilising the resources for investment. During the decade of eighties, the developing world has recognized the importance of efficient capital markets. Since late 1980s, Government of Pakistan has introduced numerous market oriented reforms in the financial sector. Consequently, in the developing world, Pakistan is one of the important emerging capital markets.

In the introductory chapter the author presents a historical perspective on the economic development of the Pakistani economy. He also acquaints the reader with the priorities and strategies adopted by the different governments in the successive five year plans for economic development of the country. In chapter two, the significance of the capital market is discussed and important concepts are defined. His survey on "Research in Savings in Pakistan" is outdated and incomplete in many respects. He completely ignores some of the recent research on household savings such as that of Khan and Burney (1992); and Akhtar (1986). Empirical work on determinants of corporate savings by Qureshi (1983); and Nishat and Bilgrami (1991) are also ignored. He fails to highlight the fact that savings are difficult to measure, particularly in Pakistan, where the size of black or unrecorded economy is estimated to be 20 to 30 per cent of the formal economy.

Under the equity market section, the author highlights growth indicators like market capitalization, daily turnover, right issues, new issues and increasing number of companies raising capital from stock exchange. Institutional and legal rules and regulations that govern the structure and functioning of the stock market, like the membership of the stock exchange are also mentioned. Moreover, he also discusses the key regulatory issues of the equity market governed by the Corporate Law Authority (CLA). However, the analysis of such developments on the efficient running of the capital market is almost absent.

Dividends play a vital role in the equity market. In this section, he ignores the importance of dividends. The author does give a table on page 84 showing the percentage of companies (listed with Karachi Stock Exchange) declaring dividends from 1988-1993, which was a boom period for the Karachi Stock Exchange. The figures are as low as 43.3 per cent during 1992 and as high as 51.7 per cent in 1990. The reader is disappointed when he finds no explanation, or reason given for these

low percentages. At this stage one also wants to know the rules of declaring dividends, and why only 50 per cent companies declare dividends when the market was booming. One gets even more confused when one recalls the statement given on page 81: "By the end of 1991, the Pakistani equity market had been ranked second among the five leading emerging markets in the world by the International Finance Corporation in terms of the return obtained by the investors". Definitely there must be some reason for low dividends. Here the author should have discussed the differential tax treatment of dividends versus capital gains tax. The latter is exempted from income tax, while a withholding tax of 10 per cent is imposed on the dividends. He also ignores the implication of issuing bonus shares as a substitute for dividends in the capital market and financial structure of the firms.

Without discussing the importance of capital gains he moves to discuss the brokerage commissions, broker's role and various trading procedures and forms. This however, provides good information about the working of the trading market.

In the subsequent sections, the author gives a detailed framework of money, foreign exchange and the public debt markets. These do not directly relate to the emerging capital markets. Here one notices the divergence from the real topic of capital markets leaving the reader a bit confused. The book also contains a separate chapter on informal capital markets, keeping in view the fact that the volume of informal capital markets are estimated to be 20 to 30 per cent of the country's GDP. Informal capital markets are very organized in the rural areas and fulfil the credit needs of a large section of the rural population.

Each chapter of the book provides information on historical and current data. Wherever relevant, boxes about the historical base of stock exchanges, evolution of the banking system and other important issues related to capital markets are discussed. References are given in the end.

However, after finishing the book, one remains thirsty about the current empirical research done in the corporate sector on important aspects such as, corporate savings, dividends, share prices, retained earnings and relationship of stock market with macro-economic variables. It could have filled a vital gap in the literature on capital markets if the book had reported the findings of research on the above aspects of capital market.

The book "Capital Markets in Pakistan" will find a wide audience. The book will be welcome by the finance/financial economics students, business economics studies, bankers and fresh entrants in the financial institutions. It will be a good reference guide for them and will provide the basic information. The simple language and style will also attract the attention of the lay-person, in general, as they can understand the text, concepts and educate themselves in this important field in the era of market-friendly economics. As there is almost no literature available in this field, the book fills a gap in a newly emerging field.

However, it considerably falls short of meeting its second objective as set out

in foreword i.e. "to analyze the causal and often complex relationships existing between financial markets and the macro-economic environment".

In the end, I could not resist saying that "Financial Markets in Pakistan" would have been the more appropriate title for the book instead of "Capital Markets in Pakistan".

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