

# **DEVOLUTION FOR EMPOWERING THE POOR: INSTITUTIONS, NORMS AND POWER**

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## **ABSTRACT**

*This paper examines the dialectic of power between the elite and the poor in the context of the decentralization of governance currently underway in Pakistan. On the basis of a historical analysis of the forms in which state power has been constituted, the paper indicates how the practice of elite power was associated with the emergence of an economic structure at the national level, which tended to generate poverty. The issue of economic efficiency at the local government level is examined for the first time in the context of the power dynamics between elected local elites and the bureaucracy. The aim is to contribute to a better understanding of the political constraints and economic space available for poverty alleviation.*

## **Introduction**

The “Devolution Reforms” in Pakistan have so far been conceived essentially in terms of a decentralization of administrative functions. Devolving power to the people at the local level, especially to the poor, will involve changing the structure of power at the local level. Essential to this process will be the building of independent organizations of the poor and establishing new institutions and norms through which empowerment of the poor can be achieved and sustained. Empowerment of the poor would enable them to get more equitable access over markets, public resources and basic services such as sanitation, health, education and justice. A strategy of *decentralization* requires the specification of new administrative procedures presumably aimed at more efficient governance. By contrast *devolution* requires the development of an institutional and normative framework within which the poor can be empowered to take the decisions that fashion their economic, social and physical environment.

In this paper in examining the challenge of devolution we focus on the issues of power, institutions and norms. The purpose is to cast new light on the dialectic of power between the elite and the poor and its impact on governance, efficiency and growth.

Our analysis of the power structure at the local level is based on extensive field interviews of local government officials at every tier in the districts of Lahore and Multan. In section-I, we present a historical analysis of the forms in which the patron-client model of governance functioned from the British Raj to

the present. In this section the process of using state resources by ruling elites for building political support in various periods, is examined to show how it was associated with the emergence of an economic structure at the national level, which tended to perpetuate poverty. In section-II, we present a brief analysis of the dialectic of power between the elite and the poor. The form of power practiced by the elite is counterposed to the form of power implied by the empowerment of the poor. In section-III, the issue of decentralization in the context of empowerment is examined with reference to the lessons learnt from the South Asian experience. In section-IV, the power dynamics of the existing local governments are examined with reference to the issue of efficient service delivery to the poor. Section V develops an analytical framework for comparing rent-seeking and efficiency in local governments and the provincial bureaucracy. Section VI examines the relationship between institutions, norms and power to understand the nature and scope of devolution. Section VII concludes.

## **I. Power, Patronage, and the State**

In Pakistan power has been historically constituted within the framework of patron-client relationships: The ruling elite has accessed state resources for arbitrary transfer as patronage to selected individuals, to build political support within a structure of dependency. In cases where the resource transfers within such a power structure, trickle down to the poor, they merely reinforce dependency rather than counteract the processes, which systematically perpetuate

poverty<sup>1</sup>. Therefore overcoming poverty would involve empowering the poor within countervailing structures of power.

Power through patronage has been historically constituted by means of two instruments: (a) The arbitrary transfer of state resources to individuals and factions to create a constituency of dependents who owed loyalty to the Raj (during the colonial period), or personalized loyalty to individual politicians and bureaucrats in the post independence period. (b) Discretionary appointments and transfers of personnel within the state sector.

In the nineteenth century, the British colonial government attempted to build a basis of political support, by consolidating the agrarian elite in the areas that later came to constitute Pakistan.<sup>2</sup> In the province of Sindh the British sought the support of the traditional agrarian elite by accommodating large landholder families (known as the *waderas*). In the Punjab by contrast, the British formalized the proprietorship over land of the *zamindars* (large landholders), who had newly emerged from the upper peasant strata following wide spread peasant revolts at the end of the Mughal period<sup>3</sup>. In both cases the colonial government in its early years created a political constituency through establishing patron-client relationships with selected members of the rural elites. In the subsequent decades the British created new clients amongst the rural elites through offering lucrative

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appointments in the British Indian Army almost exclusively to the agrarian hierarchy.

The most important and far-reaching form of patronage through enrichment of clients was done through the development of canal irrigation and the process of agricultural colonization that accompanied it. From 1885 onwards the British enabled extensive areas to be brought under cultivation, through the construction of river-spanning weirs and large networks of perennial canals. These areas, which were previously arid waste and had now become arable, were appropriated by the colonial government. Large parts of this newly arable land were transferred as land grants to loyal supporters in the agrarian elites of Punjab and Sindh<sup>4</sup>. Additionally a number of legislative measures were taken by the colonial government to strengthen and protect the position of the loyal rural elites against the operation of market forces. The most important amongst these measures were the Punjab Land Alienation Act 1900 and the Punjab Pre-Emption Act 1913, which prohibited transfer of land from land owners to “non-agricultural” classes [Cheema, Khwaja and Qadir, 2001; Ali, 1988; Alavi, 2001; Pasha, 1998].

In the post independence period, the patron-client model of governance continued, as the bureaucracy in the Ayub government (1958-1969) granted licenses and contracts to favoured individuals in the private sector within a highly regulated economic regime. At the same time lucrative appointments continued to

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be made in the state sector to establish a domain of patronage for the military-bureaucratic ruling elite. During the 1960s the government systematically encouraged import substitution industrial growth, and nurtured an industrial elite dependent on state patronage. This was done by means of high protection rates to domestic manufacturers, cheap credit, and direct as well as indirect import controls on competing imports. [Kemal, 1999; Soligo and Stern, 1965; Rahim, 2001].

The wide range of protection measures and concessions provided by the government during the 1960s enabled the industrial elite to make large rupee profits without the market pressures to diversify into high value added industries or to achieve international competitiveness. These tendencies persisted in varying degrees for the next four decades<sup>5</sup>. Yet they were at an economic cost that became a growing burden on the economy, particularly on the poor<sup>6</sup>. The rapid increase in budget deficits associated with subsidies and protection measures obliged the government to undertake fiscal measures that constituted a double squeeze on the poor: Development expenditure which had provided a cushion to the poor against growing income inequality, was drastically reduced from 7.4 percent of GDP in the 1970s to 3.5 percent in the late 1990s. [Hussain, 2003: 46]. At the same time the attempt to increase revenues through indirect taxation resulted in a further constriction of the real incomes of the poor [RTPA, 1997].

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The Ayub period illustrates the historically rooted tendency of the government to seek political support amongst nascent elites through state patronage, even though the financial cost of such patronage added to the relative burden of the poor.

In the subsequent Z.A. Bhutto period (1971-1977) one of the most important initiatives of the government was the nationalization in 1972 of 43 large industrial units in the capital and intermediate goods sector followed later by the nationalization of smaller industries such as cooking oil, flour milling, cotton ginning and rice husking mills. While the first set of nationalizations impacted the “monopoly capitalists”, the second set of nationalizations in 1976 hit the medium and small sized entrepreneurs. Therefore nationalization in this regime cannot be seen as state intervention for greater equity as was officially claimed [Noman, 1988: 80]. Rather the rapid increase in the size of the public sector served to widen the resource base of the regime for the practice of the traditional form of power through state patronage. [Hussain, 2004].

General Zia ul Haq who overthrew the Bhutto regime in a coup d’etat aimed to acquire a political constituency amongst the conservative religious strata of the lower middle class. This was part of his attempt to restructure state and society into a theocracy. The institutional roots of what later came to be known as “Islamic fundamentalism” were laid when government funds were provided for

establishing mosque schools (madrassas) in small towns and rural areas, which led to the rapid growth of militant religious organizations<sup>7</sup>.

In the Zia period (1977-1988) there was a strategic shift from the “socialist” policies of nationalization, and the large public sector in the Bhutto period, to denationalization and a greater role assigned to the private sector in the growth process. In this context the Zia regime offered a number of incentives to the private sector such as low interest credit, duty free imports of selected capital goods, tax holidays and accelerated depreciation allowances. These incentives combined with high aggregate demand associated with consumption and housing expenditures from Middle East remittances, induced an increase in private sector investment and accelerated GDP growth during the period<sup>8</sup>. The consequent increase in fiscal space was used to win the political support of various echelons of the religious theocracy by using state funds to support *madrassas*.

In the decade of the 1990s financial resources from the nationalized banking sector were systematically used for political purposes. This was done by granting loans from the nationalized banking sector as political favours to individuals, many of whom defaulted on the loans<sup>9</sup>. At the same time state resources were used to grant contracts and licenses to enrich political allies.

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According to an estimate by Burki and Pasha (1999), the cost of such corruption to the banking sector alone was 10 to 15 percent of the 1996-97 GDP during the period 1993-96 alone. The overall cost to the country of corruption at the highest level of government in the early nineties, has been estimated at 20 percent to 25 percent of the 1996-7 GDP, or approximately US \$ 15 billion. [Burki 1999: 178]

Occurring at a time when GDP growth had already begun to fall below its historical trend rate, widespread governmental corruption may have been a significant factor in intensifying the slow down in investment, increasing the economic burden on the poor and perpetuating the inadequacy of basic services during this period. [Hussain, 2004].

Corruption during the 1990s may have not only slowed down investment and growth but also increased inequality and the economic burden on the lower income groups. The problem of low revenues was accentuated by the massive leakage in the tax collection system due to corruption. This leakage amounted to 3 percent of GDP, which was about twice the level ten years earlier<sup>10</sup> (Burki, 1998). Since the government was unable to plug the leakage in the tax collection system or reduce non- development expenditure, it had to resort to increased indirect taxation to deal with the emerging fiscal crisis. Evidence on the incidence of taxation during the 1980s and early 1990s, shows that the tax burden as a percentage of income was highest at 6.8 percent for the lowest income group and

lowest at minus 4.3 percent for the highest income group<sup>11</sup>. Thus the indirect taxation, partly necessitated by governmental corruption, served to accentuate income inequality and poverty.

Thus the patron-client model of governance established during the British Raj continued in the post independence period in a variety of new forms. While in the British period state resources were used as patronage to build political support for the *Raj*, in the post independence period state resources were used by individual rulers to build *personalized* domains of power. The process of constituting power by individual members of the ruling elite in the post independence period was integrally linked with the emergence of an economic structure characterized by endemic poverty. In the next section we will discuss the counter posed forms of power manifested by the elite on the one hand and the poor on the other.

## II. **Poverty and the dialectic of power**

The ruling elite with rare exceptions practices a form of power that is counter posed to that of the poor<sup>12</sup>. The power of the elite is constituted within the structure of patron-client relationships. At an economic level it involves tying the poor individually into a chronic dependence on the patronage of the elite,

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operating within their individualized domains of power<sup>13</sup>. At a psychological and social level, elite power involves creating a sense of *powerlessness* in their subjects: internal relationships of fraternal loyalty and support within the community are ruptured, and the individual isolated and made dependent on the economic and social support emanating out of elite power. The exercise of this form of power, involves constriction of the space for autonomous initiatives by the poor. Therefore, *the power of the elite is predicated on the loss of freedom of the poor.*

By contrast the poor communities in Pakistan are imbued with a folk tradition where the process of actualizing the self is experienced through progressive integration with the community<sup>14</sup>. Thus, *empowerment of the poor involves a reintegration with their community.*

In contrast to the power nexus of the elite, when the poor are empowered the isolation of the individual is replaced by integration with the community. This relatedness with the other and with the inner self creates a sense of freedom and opens the space for autonomous initiatives by the poor. Integral to this sense of freedom is the ability through community action to acquire better access over input and output markets, credit, training and government institutions for security and justice. Empowerment of the poor signifies relatedness, and acquiring the confidence and material basis for taking autonomous initiatives for development.

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In the context of this dialectic, empowering the poor means breaking out of the nexus of elite power through a transformation of the economic, social and psychological conditions of the poor. One of the ways in which this can be done, and has been demonstrated in a number of cases in South Asia, particularly Pakistan, is through Participatory Development<sup>15</sup>. A brief description of this approach can be given as follows:

Participatory Development is a process, which involves the participation of the poor at the village level to build their human, natural and economic resource base for breaking out of the poverty nexus [Hussain, 1994: 26-28]. It specifically aims at achieving a localized capital accumulation process based on the progressive development of group identity, skills development and local resource generation. The essential features of Participatory Development include social mobilization, training, and participation within community organizations for development projects, small irrigation schemes, hygienic drinking water, health care and education. Social mobilization or group identity development proceeds through the initiation of a series of dialogues with rural communities. These dialogues culminate in the formation of community organizations of the poor, which undertake a series of projects for income generation and infrastructure development. Acquisition of new skills and active participation within their community organization (in both the planning and implementation of projects), allows the poor to exert a new power over the economic and social forces that fashion their lives.

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### III. Decentralization and Empowerment: The lessons from South Asia

In the preceding part-II we analyzed the differing forms of power practiced in Pakistan by the elite and the poor respectively. In this part-III we will examine the issue of empowerment in the context of decentralization reforms being undertaken in South Asian countries. In the context of empowerment through decentralization, four major lessons emerge from recent research in South Asia [Hussain, 1994: 26-28]:

First, formal decentralization of power in itself does not necessarily help the poor as pointed out by Upadhyay (2004) in the context of the Nepal case study. Empowerment of the poor, he argues, requires that formal decentralization be accompanied by a rigorous process of social mobilization. This involves consciousness raising and building organizations of the poor. It is only such a process that will enable the poor to acquire countervailing power. Without this dimension of countervailing power, decentralization will merely result in the appropriation of the “fruits of decentralization (by the elite) for their own narrow benefit”. [Maqsood Ali, 2004].

The idea of village panchayats as “little republics” (Metcalfe) was recognized by the colonial regime, and later the idea of Gram Swaraj or self regulated villages was propounded by Mahatama Gandhi. Yet the centralized structure of power inherited from the colonial regime constrained a series of legislative attempts at decentralization from finding fruition in empowerment of the poor. In the absence of clear responsibilities and powers to be conferred to

various levels of PRIs, in practice the PRIs in a number of states worked as mechanical agencies of a top down form of governance. Madhu Subramanian concludes that constitutional provisions notwithstanding, empowerment of the people through local self-governance has not been achieved. He quotes Gangrade to suggest that this is due to the fact that structural changes and the institutionalized participation of the people has not taken place to the desired extent.

The second lesson emerging from the case studies is that if decentralization is to enable empowerment of the poor, it must be holistic. i.e. incorporate political power, emergence of social consciousness and administrative and fiscal devolution. At the same time it must reach down to the grass roots level through various intermediate levels, with institutionalized participation of the poor in governance at every level.

Thirdly, the political dimension of decentralization must be inclusive and capable of absorbing what Upadhyay calls “diverse ethnic and other identity groups as equal partners occupying spaces in the polity”. He argues that the centralized polity excludes such identities which may be a factor in ethnic strife and social polarization<sup>16</sup>. Shaikh Maqsood Ali in his case study on Bangladesh illustrates the relationship between values development and decentralized governance. Like the preceding Pakistan case study this chapter illustrates in the case of Bangladesh the importance of linking social mobilization with local government. In the context of social mobilization Shaikh Maqsood Ali

emphasizes the role of shared norms and values as an essential underpinning to local government institutions. We can propose that sustaining development requires bringing into play, values which are common to all religions in South Asia such as sharing and caring for others. Our essential humanity can be enhanced in the conduct of social life through the cultivation of divine qualities of love, truth and justice. The recent case study by Akmal Hussain on Participatory Development Praxis in Punjab shows how tapping into the consciousness of a universal humanity rooted in the spiritual tradition of the Sufis can become a vital force in community development<sup>17</sup>.

On the basis of the lessons drawn from the recent case studies of decentralization reforms in South Asia, the following proposition can be made: If the poor are to be empowered at the local level, the decentralization currently being undertaken by a number of South Asian countries if it is to be effective, cannot simply aim at decentralization of *administrative* functions within existing governance structures. Rather, decentralization has to create the space within which an institutionalized relationship can begin between autonomous organizations of the poor and various tiers of local government. An integral part of this process is emergence of human norms and values that could sustain devolution for empowering the poor.

#### IV. **Power dynamics of local government in Pakistan: The issue of efficiency**

The idea of decentralizing governance is drawn from social science theory stretching back to the age of enlightenment. In recent times economists such as Oates (1972) and Teibot (1956) have propounded the welfare gains of decentralization. The argument is based on a simple proposition: The allocation of public resources at the local level is more likely to conform to public welfare priorities, and the delivery of basic services is likely to be more efficient, in a situation where these administrative functions are being performed by elected government officials, close to and in full view of the electorate. Thus, *proximity* to the electorate and *accountability* to them, impel the local government officials to seek the public good. By contrast un-elected bureaucrats in a centralized administrative system are disciplined through the less effective device of service rules<sup>18</sup>.

The theory of course looks at centralized and decentralized governance as alternative options. It does not take account of the transition process of moving from one to the other. More importantly it ignores the issues of *power* involved in the transition to effective local government. Pakistan's case constitutes a vivid illustration of the dynamics of power in the transition process.

In an important study on decentralization in Pakistan, Cheema, Khwaja and Qadir (2003), make two noteworthy propositions which are relevant for our discussion: (1) In Pakistan historically, decentralization measures in terms of local

government have always been undertaken by military governments which while centralizing political power in their own hands, seek political legitimacy through local government. (2) While such “non-representative governments” have undertaken reforms for “representative” local government, they have at the same time sought to establish control over local governments through the bureaucracy.

Information gleaned from our interviews with local government officials at various tiers in Lahore and Multan respectively, suggests that a contention for power is taking place between elected district government officials and the provincial bureaucracy. This contention threatens to paralyze the effective functioning of local government even for the limited objective of providing more efficient service delivery. This contention flows directly from the history of the patron-client model of governance in Pakistan. The latest “Devolution of Power” program threatens the terrain of resource gratification and discretionary appointments and transfers, on the basis of which the bureaucracy and the elected politicians in provincial governments had constituted their domains of pelf and privilege. Therefore a contention for power has ensued between the provincial bureaucracy and the local governments. This contention was intensified with the recent establishment of elected provincial governments, in which elected members of parliament at the provincial level contend with local governments for control over development funds and discretionary appointments of officials.

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The provincial bureaucracy was able to appropriate the authority to appoint key officials (Executive District Officers). Yet it is through these officials that the elected local governments were supposed to administer the allocation of development funds and provision of basic services such as health, education, sanitation and drinking water. Moreover, all officials in various public service departments in the district administration from grade 11 to 18, are also appointed by the provincial bureaucracy. Thus, while the elected local government officials have responsibility, they do not have authority. Their ability to improve the delivery efficiency of public services is severely constrained by the fact that they can neither transfer, nor appoint most of the officials who operate these services. To make matters worse, the resources made available to local governments and the professional expertise at their command are so inadequate, that they are unable to take even a minimal initiative to fulfill their election mandate of widening the coverage and quality of basic services<sup>19</sup>. Elected local government officials (known as Nazims) are reduced to ‘requesting’ the provincial bureaucracy to fill vacant posts in various schools and health care facilities or to transfer employees who fail to perform their duties. The resultant delays, the lack of control over EDOs, the severe shortage of resources and expertise combine to severely constrain the effective functioning of local governments. As a consequence of this contention for power, efficiency in the provision of public services far from increasing may in fact have been reduced. According to one Tehsil Nazim, in Multan district, the dominance of the provincial administration

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over the functioning of district governments has created a hybrid creature which is preventing efficient service delivery and limiting the effectiveness of elected members of the local government.

In the future, local governments in Pakistan can take one of three routes:

- (1) The district level governments may be rendered so dysfunctional that Nazims may begin to resign and in the subsequent elections genuinely popular local figures may lose interest in local government altogether. Such a process could ultimately result in the failure of the “devolution of power programme”.
- (2) The local government system as it presently exists may continue to function at such a low level of efficiency that the efficiency gains conceived in the programme may become low or even negative.
- (3) The current situation where local government (LG) elected officials have responsibility without appropriate authority and where they are starved of financial resources may be changed. In this case local government officials may be granted authority over appointments, promotions and transfers of all personnel in the district administration. At the same time, adequate technical and financial resources could be made available to elected LG officials. In such a case the power of the provincial bureaucracy to establish personalized patron-client factions and the tendency to appropriate economic rent could be transformed into efficiency gains associated with effective decentralization.

The devolution of power program in Pakistan stands at a crossroads. There is a dialectic between two forms of power at the local level: One that is

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derived from building a domain of dependency through the arbitrary use of state resources. Even as this form of power is at play, an alternative form of power could emerge over time: A form of power that is based on winning and maintaining public support by elected government officials. Such public support would be achieved through the effective functioning of local governments for the provision of basic services, poverty reduction and economic growth. In the next section we attempt to explore this dialectic in terms of efficiency and power constraints.

### **V.1 Rent-seeking, efficiency and the constraints to power: Local government vs. the Provincial bureaucracy**

In this section we build on the ‘grabbing hand models of government’ framework developed by Shleifer and Vishny (1998) and Shleifer and Blanchard (2000).

We use it for examining the dynamics of political and economic power in the context of recent local government reforms in Pakistan and their implications for social welfare. Underlying the grabbing hand analysis is the idea that politicians do not necessarily maximize social welfare, and pursue their own selfish objectives. These can be completely different and often opposed to social welfare. Selfish objectives could include maintaining political and economic power (by staying in office), and personal and particular factional as opposed to social enrichment in general. A democratically elected government for example although constrained by the need for re election, can often pursue private gain at a high social cost. This could include establishing patron-client relationships with members of civil society, where resource transfers (say subsidies) flow from

members of government to certain politically influential members of civil society, in return for political support to prop up the bureaucrats/politicians power base. Such behavior by both governmental and civil society members can be detrimental for productive and innovative activity and hence economic growth. The tendency to seek economic rents and political advantage using state instruments is costly in terms of social welfare and growth foregone, in two main ways. Firstly, rent-seeking 'mechanisms' can be subject to increasing returns, which means that very high levels of rent seeking may be self-sustaining. For example, there can be a fixed cost to setting up a rent-seeking system, such as laws facilitating corruption (say lobbying cost for bureaucrats for pushing through a legal requirement of a particular regulatory regime). Once such government regulations are in place however, bureaucrats can cheaply impose bribes for enabling the entrepreneur, or private sector entity adversely affected by such regulations, to avoid them. Similarly, rent seekers have strength in numbers. If a few people steal, they are likely to be caught if many do, the probability that any one of them is caught is much lower and hence the return to stealing is higher. [Shleifer and Vishny, 1998].

Secondly, seeking political advantage through appointments, transfers, selection of public sector development projects that win the bureaucrat political support for the furtherance of his career can also set up allocation distortions in the economy. This is because the most talented people may be blocked from progressing up the hierarchy of the bureaucracy at the expense of the most influential people, thereby distorting the former's effort incentives.

The social costs of such distortions in terms of lost output can be significant. Cross country evidence finds a robust negative association between investment and corruption (a proxy for rent seeking) across a broad cross section of countries (Mauro, 1995).

We examine two tiers of government, the provincial bureaucracy and local government. The un-elected provincial bureaucracy has traditionally sought to establish a domain of power within which it can construct and maintain patron-client relationships to acquire political advantage (such as furtherance of an individual's bureaucratic career) on the one hand and economic rents (such as bribes) on the other. Individual members of the bureaucracy have sought to build factions of clients using various instruments. These include; grants of permits, contracts, and exemptions associated within a regulatory economic regime; appointment and transfer of individuals in various tiers of government departments and public sector industries; utilization of government financial resources in terms of the selection and implementation of various development schemes, and government administrative expenditures. Political alliance building through granting favors to individual members of civil society allows the provincial bureaucrats to build political support in civil society. These political alliances wielded by bureaucrats, can prove valuable when made available to elected cabinet ministers and political leaders, and hence can be used by bureaucrats as a quid pro quo for career advancement. Similarly bureaucratic control over appointments and transfers of personnel, regulatory mechanisms such

as permits and involvement in development projects, can provide bureaucrats rents in the form of bribes and career promotions unrelated with merit.

Elected local government officials who have key administrative roles in the administration seek primarily to establish and maintain power based on broad based electoral support. This objective creates the imperative to improve the quality and coverage of development projects and public services within their constituencies. There would still be a tendency to build-patron client relationships to seek both private or factional gain as well as economic rent. However, this tendency would be restrained by the imperative for more efficient service delivery in a situation where proximity to their constituencies makes their actions both transparent and accountable through the electoral process. Proximity to their constituencies and the need for re election thus constrains the 'grabbing hand' of LG officials as they attempt to seek rents through misappropriation of state resources and or bribes from the private sector. These additional features of accountability and the need for re election begetting responsibility can set the LG administration apart from the provincial bureaucracy vis-à-vis political alliance building and rent-seeking. However, the extent of LG pursuit of power through relatively efficient utilization of public resources (for improved coverage and quality of various services and development projects) will depend on the scale of financial and technical resources it can draw upon, together with the authority over allocation of resources and degree of autonomy over management decisions available to it.

## **V.2 Institutions, Organizations and Devolution**

### V.2.1 Institutions and Organizations

Institutions are humanly devised constraints on behavior that structure human interaction. They include formal rules such as a constitution, informal constraints such as norms and conventions, and their enforcement characteristics. In short institutions *are the 'rules of the game' that govern our interaction with others to the extent that they are enforced* and thus provide the framework within which economic and political activity takes place. Taken together they comprise a society's institutional framework (North 1990, 2005).

In the context of the devolution of power program in Pakistan, we can consider Local Government Ordinance (LGO, 2001) as a new institution.

For our purposes it is useful to draw North's analytic distinction between institutions, which guide our behavior and organizations through which our behavior manifests itself. Organizations are consciously derived human associations which operate within a given institutional framework. They include a diverse set of entities such as corporations, political parties, the bureaucracy and military, educational establishments and religious bodies. In game theoretic terms, organizations are the 'players' while institutions are the 'rules'. Within this analytical framework we can then consider the National Reconstruction Bureau (NRB) that is officially charged with conceptualizing and implementing the LGO (2001) as an organization. Similarly we can consider a Citizen Community Board that provides for development projects as an autonomous organization of the poor.

The stated objective of Devolution is to alter the existing distribution of power in Pakistan at the local level. Specifically the official aim is to empower the poor, women and minorities (NRB, 2001). Empowerment is broadly defined to include greater representation of these groups in the political process (legislative and executive) and in economic activity through organizations such as Citizen Community Boards (CCBs).

#### V.2.2 Institutions and Norms for Devolution

For a set of formal institutions to be effective and stable they have to be under-girded by a complementary set of informal institutions such as norms and codes of conduct. A contention between the two types of institutions however, represents disequilibrium and provides a recipe for institutional change, where either the formal rules will be abrogated or the informal constraints either wither away or cease to be enforced. Does Pakistan with its complex, heterogeneous society have informal institutional matrix that allows devolution to take root? If not how do we build appropriate informal constraints? As economists we know little about how informal institutions. We know very little for instance about how informal institutions like norms and conventions form and take root. Accidents of history and minor events at particular points in time can give rise to particular informal ways of doing things which can persist and give direction to subsequent institutional trajectories. What we do know is that informal institutions stem from a society's belief system and the mental models of its members. They also display "tenaciousness" survival ability given that they are embedded within society

(North, 1990; Grief, 2006). As the new literature on the economics of institutions suggests norms (informal institutions) are an integral part of societies' institutional structures and the process of institutional change (North, 1990 and 2005; Grief, 2006).

### V.2.3 Rules, Enforcement and Devolution

Rules are derived and enforced by those who possess political power. Dejure political power stems from political institutions such as the constitution or the LGO while Defacto power is generally derived from control over economic resources and instruments of coercion. A good first approximation about the psychology of those with the political power to make institutions is that they are driven by self-interest. Cheema, Khwaja and Qadir (2003) make the interesting observation that decentralization programs in Pakistan have always been taken up by Military governments. Such institutions it is feared could be misused to form structures of power in contention with elected provincial governments. If the military dominated government actually seeks to promote national interest through the stated objectives of devolution, then it is important to build institutional mechanisms for ensuring the enforcement of the stated objectives: This requires: (a) establishing independent organizations of the poor which are institutionally linked with various tiers of local government, (b) a new local government civil service cadre answerable to elected Nazims, (c) decentralization of taxation and financial powers to the local level and (d) technical and managerial capacity building of local governments.

In the context of the current devolution of power program in Pakistan let us assume that the formal rules governing devolution are efficiently crafted in the sense of being correctly defined to achieve the stated objective of empowerment of particular social groups. However, the efficiency implications of the new set of political rules depend not only on their content but also the effectiveness of their enforcement. It is important to note that a particular institutional matrix comprises not only formal rules and informal constraints but also their *enforcement characteristics*. Enforcement like the rules themselves also emerges from the political process. A set of rules that seeks to alter the existing distribution of power can run into enforcement problems as the relative political losers attempt to block the new rules in a bid to preserve their own power. We can characterize the competition for turf between the provincial government and the new local governments in these terms. (This dynamics of this tendency are examined in Section V of this paper).

For enforcement to be effective and hence the new rules of devolution to be efficient and stable autonomous political and economic organizations of the poor maybe required to provide countervailing centers of power. These alternate centers of power can conceivably allow the institution of devolution to be enforced.

## **Section VI: Conclusion**

In this paper we have shown how since the British Raj and during the various regimes in the post independence period, economic policy was designed to enable the elite to use state resources for building a domain of dependency

amongst various social strata. Over the last four decades, the patron-client model of governance has led to the emergence of an economic structure which restricts poverty reduction for given GDP growth rates and also constrains the growth potential of the economy from being realized.

One of the approaches to poverty alleviation that has been demonstrated in South Asia, is empowerment of the poor at the local level on the basis of participatory development. This is a process, which involves the participation of the poor at the village level to build their human, natural and economic resource base for breaking out of the poverty nexus.

The question that arises is, can such empowerment of the poor emerge out of the decentralization reforms currently underway in Pakistan? The lessons of decentralization in South Asian countries suggest that even within the constraints imposed by elite dominance at the national level, for the ongoing decentralization to work for the poor, it must go beyond mere decentralization of *administrative* functions. Rather decentralization has to create the space within which an institutionalized relationship can emerge between autonomous organizations of the poor and various tiers of local government.

The functioning of existing local government in Pakistan is characterized by a contention for power between elected district government officials and the provincial bureaucracy. This contention threatens to paralyze the effective functioning of local government even for the limited objective of providing more efficient service delivery to the poor.

We have argued in the light of the recent literature on institutional economics that the stability and effectiveness of the local government institution requires not only the specification of rules that ensure enforcement of the stated objectives of devolution but also the establishment of norms or informal constraints that are essential to effective empowerment of the poor.

Our analysis of the differing incentives and constraints operating on the provincial bureaucracy and local government shows that the latter are more likely to pursue pro-growth and pro poor policies. At the same time, elected local governments face a set of incentives that induce them to be relatively less corrupt and seek relatively greater social welfare. This is because elected governments are impelled by the imperative of electability and proximity to their electorate. In terms of incentives and constraints these are more stringent than the service rules operating on the provincial bureaucracy. However, the necessary condition for the results indicated above is the availability of a set of complementary inputs: adequate authority and resources to the local governments. These could be provided within an institutionalized relationship between organizations of the poor and local government. Such a local governance structure could enable the poor to participate in the process of resource allocation and resource use at the local level, even though there is very limited space for empowerment at the national level where the power structure is still dominated by traditional elites practicing power within the patron-client model.

## Notes

1. For data and analysis on the processes of poverty within the structure of elite power at the local level, see: Akmal Hussain, et.al., *Poverty, Growth and Governance*, Pakistan National Human Development Report, 2003, UNDP, Oxford University Press, 2003, Chapter 3.
2. For a detailed discussion with supportive evidence, See: Imran Ali: *The Punjab Under Imperialism, 1885–1947* (Princeton, N.J., 1988).
3. Unlike most other parts of pre-British India, in the Punjab, the upper echelons of the social hierarchy were extensively displaced at the end of the Mughal period. The growing momentum of peasant uprising in the eighteenth century led by land holding segments of the peasantry, culminated in these peasant war bands asserting autonomous control over land and political authority. The upper peasant rebel leadership emerged as a new class of superior land holders, who with the onset of the British Raj, were later acknowledged as such by the British. Evidence of the displacement of the older Mughal period elite comes from British documentation such as the District Gazetteers and Griffin and Massy's tome, *Chiefs and Families of Note in the Punjab*. Very few families identified at the district level as of elite status, had such antecedents prior to the late eighteenth century. See: Imran Ali, *Government Patronage and Rent Seeking Elites: A Longer Historical Perspective*, Background paper (Mimeo, 2002) for the Pakistan National Human Development Report, UNDP, 2003.
4. For a more detailed discussion, and evidence, See: Imran Ali: 'The Punjab Canal Colonies, 1885-1940', Australian National University Ph.D. thesis, 1980; 'Malign Growth? Agricultural Colonization and the Roots of Backwardness in the Punjab', *Past and Present* (Oxford, February 1987); and *The Punjab under Imperialism, 1885-1947* (Princeton, N.J., 1988).
5. That protection to the large-scale manufacturing sector persisted for the next three decades is indicated by the fact that even in 1990-91 by which time the rate of effective protection had been considerably reduced, the increase in the share of manufacturing attributable to protection amounted to 5 percent of the GDP. Similarly the failure of the industrial elite to diversify exports into high value added non-traditional industries is indicated by the fact that the textiles and related goods sector constituted 5 percent of commodity exports in the period 1960-70, and continued to remain as high as 50 percent three decades later in the period 1988-99. See: Akmal Hussain: *Institutions, Economic Structure and Poverty*, paper published in the *South Asia Economic Journal*, Institute of Policy Studies, Colombo, June 2004.
6. During the 1960s while a highly monopolistic elite was amassing wealth, the poor in Pakistan were experiencing an absolute decline in living standards. This is indicated by the fact that the per capita consumption of food grain of the poorest 60 percent of Pakistan's urban population declined from an index of 100 in 1963-64 to 96.1 in 1969-70. The decline was even greater over the same period in the case of the poorest 60 percent of rural population. In their case, per capita consumption of food grain declined from an index of 100 in 1963-64 to only 91 in 1969-70. (See: N. Hamid, *The Burden of Capitalist Growth, A study of Real Wages in Pakistan*, Pakistan Economic and Social Review, Spring 1974). There was an even larger decline in the real wages in the industry: In the decade and a half ending in 1967, real wages in the industry declined by 25 percent. (See: K. Griffin and A.R. Khan, "Growth and Inequality in Pakistan". Macmillan, London. Pages 204-205). According to one estimate, in 1971-72 poverty in the rural sector was so acute that 82 percent of rural households could not afford to provide even 2,100 calories per day per family member. (See: S.M. Naseem: *Rural Poverty and Landlessness in Asia*, ILO Report, Geneva, 1977).

7. This social process was catalyzed by the Afghan war. Zia sought political, economic and military support from the U.S. by offering to play the role of a front line state in the Afghan guerilla war against the occupying Soviet army. Accordingly, Pakistan obtained a package of US \$ 3.2 billion in financial loans. Additional fiscal space was obtained by getting foreign debt rescheduled and increased private foreign capital inflows. These official and private capital inflows played an important role in stimulating economic growth in this period. They also helped establish a political constituency both within the institutions of the State and in the conservative urban petit bourgeoisie for a theocratic form of military dictatorship.
8. Private sector gross fixed investment increased from 7.1% of the GDP in the Bhutto period to 9.2% in the Zia period. At the same time GDP growth accelerated from 4.9 percent in the Bhutto period to 6.6 percent in the Zia period. See: Akmal Hussain: Institutions, Economic Structure and Poverty, op.cit. Table 3.
9. For example S.J. Burki has shown that during the mid 1990s, large amounts of funds were siphoned off from public sector banks, insurance companies and investment institutions such as the National Investment Trust (NIT) and the Investment Corporation of Pakistan (ICP). The evidence was found in the non-performing loans, which the state controlled financial institutions were forced to give to the friends of the regime, in most cases without collateral. During this period the NIT and ICP were forced to lend to patently unviable projects, which were then quickly liquidated. The purpose of such lending apparently was not to initiate projects but to transfer state resources into private hands. The case of an oil refinery in Karachi and a cement plant in Chakwal have been quoted as examples of infeasible projects funded by the NIT on political grounds with both projects declaring bankruptcy. See, S. J. Burki, Pakistan Fifty Years of Nationhood , Vanguard, 1999, page 175.
10. S. J. Burki: Governance, Corruption and Development: Some Major obstacles to Growth and Development, The Banker, Lahore Spring 1998.
11. For details see: Overcoming Poverty, Report of the Task Force on Poverty Alleviation, Islamabad, May 1997, Page 6.
12. This section is based on: Akmal Hussain: Pro-Poor Growth, Participatory Development and Decentralization: Paradigms and Praxis. (Mimeo), January 2002.
13. For a discussion based on survey data that shows how poor peasants tied to the landlord get less than market wage rates when working as day labourers on the landlord's own cultivated farms. See: Akmal Hussain: D.Phil Thesis. Pages 363-381. For a more recent discussion based on the latest survey data see: Akmal Hussain et al, NHDR 2003, Pages: 62-63
14. For an analysis of this phenomenon, based on the Punjabi Sufi tradition, See: Najam Hussain Syed: Recurrent Patterns in Punjabi Poetry, Majlis Shah Hussain, Lahore 1969.
15. (i) For a first hand field experience account of a Participatory Development initiative in ten districts of the Punjab, See: Punjab Rural Support Programme, The First Four Months, Report submitted to the Board of Directors by Akmal Hussain, Honourary Chief Executive Officer, PRSP, November 1998.
- (ii) For an articulation of the theory of Participatory Development and illustrative case studies of initiatives in the field in a number of South Asian countries, See: Ponna Wignaraja, Akmal Hussain, Harsh Sethi, Ganeshan Wignaraja: Participatory Development: Learning from South Asia, United Nations University and Oxford University Press, Karachi, 1991.
16. For details see: Pro-Poor Growth and Governance in South Asia, Decentralization and Development, P. Wignaraja and S. Sirivardana (eds), Sage publications, New Delhi, 2004.

17. See, Akmal Hussain, Participatory Development Praxis: A Case Study from Pakistan's Punjab, in P. Wignaraja, Susil Sirivardana, Madhu Subramanian and Akmal Hussain (ed), Readings on Pro Poor Planning through Social Mobilization in South Asia, (Vol. II), SAGE Publications, London (Forthcoming).
18. For a review of the literature on the economic arguments for decentralization, see: Vito Tanzi, Fiscal Federalism and Decentralization: A review of some efficiency and macro-economic aspects, Annual Conference on Development Economics, World Bank, 1995.
19. According to the Nazim of city district Lahore, the financial resource constraint was so severe that only rupees 70 million were available for new development, a sum which was not even enough for painting traffic markers on the roads of Lahore city.

At the same time almost all the local government officials interviewed, reported an absence of adequate technical expertise within their administration and hence a severe constraint in designing development projects. (The project proposal form that is required to be submitted for funds allocation runs into about a hundred pages and requires specialized technical expertise to fill).

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