

## **THE GOVERNMENT'S PRESENT AGREEMENT WITH THE IMF: Misgovernment or Folly?\***

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In a delightful, instructive book, *The March of Folly* (Ballantine Books, New York, 1985), Barbara Tuchman explains the distinction between what she calls misgovernment (in general), and one of its particular manifestations, folly:

Misgovernment is of four kinds, often in combination. They are: 1) tyranny or oppression, ....; 2) excessive ambition, ....; 3) incompetence or decadence, ....; and 4) folly or perversity. This book is concerned with the last in a specific manifestation; the pursuit of policy contrary to the self-interest of the constituency or state involved ....

To qualify as folly, the policy must meet three criteria: it must have been perceived as counter-productive in its own time, not merely by hindsight ... Secondly, a feasible course of action must have been available. To remove the problem from personality, a third criterion must be that the policy in question must be that of a group, not an individual ruler, and should persist beyond any one political lifetime ....

With her usual erudition, she goes on to illustrate the rather common occurrence of folly throughout human history – from King Priam's decision to bring in the Trojan Horse, to the perverse policies of the Renaissance Popes which provoked the Protestant secession, to England's loss of her American colonies due to the policies of George III, and finally, to America's more recent folly in Vietnam – and draws conclusions about contributing factors:

Wooden-headedness, the source of self-deception, is a factor that plays a remarkably large role in government. It consists in assessing a situation in terms of preconceived fixed notions while ignoring or rejecting any contrary signs. It is acting according to wish while not allowing oneself to be deflected by the facts ....

\* Revised version of the paper presented at the Conference.

All misgovernment is contrary to self-interest in the long-run, but may actually strengthen a regime temporarily. It qualifies as folly when it is a perverse persistence in a policy demonstrably unworkable or counter-productive ....

It is the contention of this paper that the government's February 1994 agreement with the International Monetary Fund (IMF), on the programme currently under implementation in Pakistan, qualifies as folly, in the terms defined by Barbara Tuchman. We hope to show that reliance on such programmes qualifies as pursuit of policy contrary to the self-interest of Pakistan (and, incidentally, of the IMF), that it has been perceived as such for some time now, that feasible alternative courses of action are available, and that the inclination to enter into such arrangements is not confined to any individual head of government (or of IMF) but is the policy of a group (led essentially by the twin bureaucracies) and has persisted across governments (and managements of the IMF) of several political hues. We also hold that the remarkable tenacity of successive governments (and IMF managements) in keeping the course is the result, as is usual in history, of a wooden-headed commitment to preconceived fixed notions while ignoring the clear accumulation of all evidence to the contrary.

#### Orthodoxy, Critique and an Alternative Perspective

This argument, then, is based on a different vantage point – essentially national rather than global – and therefore on a somewhat different set of premises and concerns than those which underlie the two dominant discourses which have emerged on policy-based lending – the mainstream conservative orthodoxy, defined by its concern for *order* in the non-Western world, and a marginal (and marginalised) liberal critique, which seeks to raise somewhat the priority given to *liberty* in the accepted balance between order and liberty, among non-Western peoples. Our quarrel, however, is primarily with the government of Pakistan, on whom we have claims, and not with the IMF/WB, who are essentially the agents of foreign powers, engaged in the implementation of their agenda. In order to locate the point of view adopted in this paper, however, it may be helpful to comment briefly on the mainstream discussions of policy-based lending, as they appear from our vantage point.

Paradoxical as it may seem, from our vantage point, both the IMF/WB orthodoxy and the UNICEF/UNDP critique (itself now an orthodoxy) may be characterised as a discourse about *order*. In what might be called the conservative orthodoxy, all participants agree on what the desirable balance is between order and

<sup>1</sup> For the Eurocentric parochialism, however, of most "global" discourses, see Zaman [February (1994)]. "The very phrase 'the world community' has become the euphemistic collective noun (replacing 'the Free World') to give global legitimacy to actions reflecting the interests of the United States and other Western powers." Huntington (1993).

liberty among the poor, and on the premise that the exercise of power by the rich to restore order among the poor is legitimate, appropriate and desirable. The bulk of the controversy is about tactics, and in rare cases, about some limited aspect of strategy.<sup>2</sup> By contrast, the alternative critique may be characterised as the discourse on *liberty*, or as the loyal opposition: loyal, because it too shares the imperial outlook of the orthodoxy; opposition, because unlike the protagonists in the orthodox discourse, it is prepared to tolerate somewhat greater financial disorder, if the poor can enjoy somewhat greater liberty.<sup>3</sup> It should be noted, however, that there is a decidedly authoritarian bent to this liberal critique of the two strands within the conservative orthodoxy. At the expense of some inaccuracy and reductionism, we can move closer perhaps to more recognisable terminology by characterising the first as the development discourse, and the second, as the democracy discourse.

Our perspective on policy-based lending, therefore, side-steps both this order-liberty dichotomy, and the associated development-democracy discourse. Naturally, we are unable to share the enthusiasm for empire which underlies both the conservative orthodoxy and the liberal critiques of policy-based lending; but we do accept the existence of the desire for power and empire among Western nations. Despite this constraint, however, we believe that superior options are available to government, if it can develop its own plans and strategies, in aid of which it seeks recourse to policy-based loans, if necessary. As a substitute for such plans, however, the IMF programme is both inadequate and harmful. It is our view, therefore, that (i) policy-based lending will not be efficacious – in the sense, that it will not achieve its intended results, for either the government or the IMF – and that there is ample contemporary evidence to support this; (ii) there are feasible courses of action available, which would achieve both the government's desire to protect the interests of the classes it represents, and the IMF/WB's task of ensuring the service of external debt by Pakistan, while promoting financial stability in the world economy; and finally, that (iii) it is common wooden-headedness which conceals the feasible, in the pursuit of the counter-productive by the government, and in the operational strategies of the IMF/WB.

Similarly, while we recognise the central importance of order and liberty in the reflections of Westerners on themselves, we do not believe that this is the most fruitful way to look at the problems confronting Pakistan, and other poor non-Western countries. In Pakistan – and other post-colonial states – the central problem

<sup>2</sup> There is no disagreement between the two on the desirability of the use of power, only about the most effective manner in which it should be used. All debates, therefore, about the design of IMF programmes (including the appropriate pace and sequencing of reforms), and their impact on one or more desirable variables (like growth, distribution, poverty, environment, etc.), may be characterised as a conversation between the IMF and its sympathizers. See, for example, Killick [(1992), (1993)], and some of the chapters in Banuri (1991) and Ghai (1991).

<sup>3</sup> In this critique lie the debates about governance (e.g., Healy and Robinson, (1992), some of the chapters in Banuri, (1991), and Ghai, (1991)).

is in some senses a psychological one [ Zaman and Zaman (1994)]. With the benefit of hindsight, it is now clear that post-war decolonization was more spectacular than significant, in the sense that it signified merely a shift in the technique of empire, and not in its aims or strategies. The lives of the large, disenfranchised vernacular classes did not change as meaningfully with the coming of independence, as did the lives of the small anglophile elite, to whom the mantle of colonial power fell, without either the mitigating influence of parliamentary oversight or the civilising influence of being rooted in one's own culture and tradition.<sup>4</sup> In Pakistan, this ruling class – represented by the military and civil bureaucracy – has embraced policy-based lending enthusiastically, as a way of enhancing its own power not only against the power of political governments, but at the expense of civil society at large.

Once again, it is our view that for the anglophile elite of Pakistan (or the xenophile elite in other post-colonial societies): (i) support of policy-based lending, as a strategy of buttressing their power against the forces of political governments and civil society, will not yield the desired results for long, and that there is ample contemporary evidence to support this; (ii) there are feasible alternatives, which would ensure the preservation and enhancement of much of the power and wealth of their class, which they seek by their efforts to become a client-state of the United States of America; and finally, that (iii) it is common wooden-headedness which conceals the feasible, in the pursuit of the counter-productive in the strategy of Pakistan's anglophile elite (and the xenophile elites of the non-Western world).

As for the vernacular classes, the coins in which they reckon their gains and losses can be so different and diverse, that it would take us too far afield to address their passions and interests too, in the scope of a single paper.<sup>5</sup> We shall deal therefore only with the principal (the United States of America) and its two agents, the UN agencies and the government of Pakistan, and seek to show that their support of policy-based lending is contrary to their self-interest.

### The Present IMF Programme

The present IMF programme is essentially the third recourse by Pakistan to a long-term ("upper tranche") agreement with the IMF. The first was the extended arrangement, initiated by Finance Minister Ghulam Ishaq Khan, which ran from 24 November 1980 to 23 November 1983.<sup>6</sup> The second was the controversial structural

<sup>4</sup> This distinction between an anglophile and vernacular class is drawn from a description of the social and political structure of post-colonial societies, like Pakistan, and of the influence of these structural features on the pursuit of modernization and progress, which has been presented elsewhere, [Zaman, March (1994), Summer(1989)].

<sup>5</sup> For an exposition of the perspective on the social and political structure of Pakistan and other post-colonial societies, see Zaman [March (1994), Summer(1989)].

<sup>6</sup> Technically, this period covered two extended arrangements as the first arrangement was cancelled on 1 December 1981, and a second, for the undisbursed balance, initiated afresh on 2 December 1982.

adjustment arrangement signed by Finance Minister Dr. Mahbubul Haq on the last day of the interim government, which was ratified by the first government of Prime Minister Benazir Bhutto which took office the following day, and ran from 28 December 1988 to 27 December 1991.

Prior to these two arrangements, Pakistan had entered into nine, short-term, standby agreements with the Fund – three, in aid of the martial law government of Field Marshal Ayub Khan (1958, 1965, and 1968); four, in aid of the People's Party government of President & Chief Martial Law Administrator, and then Prime Minister, Zulfikar Ali Bhutto (1972, 1973; and 1974, 1977); one, in aid of the first People's Party government of Prime Minister Benazir Bhutto (December 1988); and the last, a precursor to the present agreement, in aid of the interim government of Prime Minister Moeen Qureshi (September 1993). Clearly, the charge that authoritarian, modernising regimes and the IMF tend to get along well, is not refuted by data from Pakistan.

TABLE 1  
IMF Arrangements with Pakistan  
(Standby, Extended, Structural Adjustment, & Enhanced Structural  
Adjustment Arrangements)

| Date of Arrangement | Type of Arrangement | Date of Expiration or Cancellation | Amount Agreed (SDR mln) | Amount Drawn (SDR mln) | Undrawn Balance (SDR mln) |
|---------------------|---------------------|------------------------------------|-------------------------|------------------------|---------------------------|
| 08 Dec 58           | Standby             | 22 Sep 59 <sup>a</sup>             | 25.00                   | –                      | 25.00 <sup>a</sup>        |
| 16 Mar 65           | Standby             | 15 Mar 66                          | 37.50                   | 37.50                  | –                         |
| 17 Oct 68           | Standby             | 16 Oct 69                          | 75.00                   | 75.00                  | –                         |
| 18 May 72           | Standby             | 17 May 73                          | 100.00                  | 84.00                  | 16.00                     |
| 11 Aug 73           | Standby             | 10 Aug 74                          | 75.00                   | 75.00                  | –                         |
| 11 Nov 74           | Standby             | 10 Nov 75                          | 75.00                   | 75.00                  | –                         |
| 09 Mar 77           | Standby             | 08 Mar 78                          | 80.00                   | 80.00                  | –                         |
| 24 Nov 80           | EFF                 | 01 Dec 81 <sup>a</sup>             | 1,268.00                | 349.00                 | 919.00 <sup>a</sup>       |
| 02 Dec 81           | EFF                 | 23 Nov 83                          | 919.00                  | 730.00                 | 189.00                    |
| 28 Dec 88           | Standby             | 30 Nov 90 <sup>b</sup>             | 273.15                  | 194.48                 | 78.67                     |
| 28 Dec 88           | SAF                 | 27 Dec 91                          | 382.41 <sup>c</sup>     | 273.15                 | 109.26                    |
| 16 Sep 93           | Standby             | 15 Sep 94                          | 265.40                  | 88.00                  | 177.40                    |
| 22 Feb 94           | EFF                 | 21 Feb 97                          | 379.10                  | 80.55                  | 298.55 <sup>d</sup>       |
| 22 Feb 94           | ESAF                | 21 Feb 97                          | 606.60                  | 101.10                 | 505.50 <sup>d</sup>       |

<sup>a</sup>Cancelled prior to expiration date.

Source: *International Monetary Fund*

<sup>b</sup>Extended from March 27, 1990 to June 30, 1990, and again to November 30, 1990.

<sup>c</sup>Approved amount increased from SDR 346.9 million in March 1989.

<sup>d</sup>As of July 31, 1994.

The present, enhanced structural adjustment arrangement *cum* extended arrangement, had been prepared during the interim government of Caretaker Prime Minister Moeen Qureshi (July 18 to October 18, 1993),<sup>7</sup> in which the government position was also defined by IMF/WB colleagues of the Caretaker Prime Minister, acting in an informal advisory capacity to the government officials themselves.<sup>8</sup> By August 30, 1993, IMF/WB staff representing both IMF and the government of Pakistan had agreed on a Policy Framework Paper (PFP), which was to serve as the basis for the present IMF programme.<sup>9</sup> To support the Moeen Qureshi government, the IMF rushed through an SDR 265.4 million standby on September 16, 1993, in record time, in what was later described as "a bridge" to a more comprehensive programme.<sup>10</sup> As a result, once again, when the government of Prime Minister Benazir Bhutto took office on October 19, 1993, it was presented with a *fait accompli*.<sup>11</sup> In February 1994, therefore, the government of Pakistan capitulated, once again, to the pre-negotiated demands of the IMF.<sup>12</sup>

<sup>7</sup> An eventful episode in Pakistan's history. In 1993, the constitutional amendments of President Zia-ul-Haq, designed to provide for oversight of political governments by the President on behalf of the army within the constitutional framework, were put to test. On April 18, assemblies were dissolved by President Ghulam Ishaq Khan for the second time (the first time was on May 29, 1988); on May 29, the Supreme Court restored the dismissed Prime Minister Mian Mohammad Nawaz Sharif, limiting severely the constitutional authority of the President to dissolve the assemblies; on July 18, the army orchestrated the resignation of the President and the Prime Minister, and imported Moeen Qureshi, a former IMF/WB staff member settled in the United States for some 30 years, as the caretaker Prime Minister. (Reminiscent of August 14, 1947, Moeen Qureshi handed over power to Prime Minister Benazir Bhutto on October 19, 1994, and went home to the United States of America)

<sup>8</sup> This is not only contrary to conflict of interest rules of the IMF/WB, but also raises important legal questions about the validity of the letter of intent signed by the subsequent government, if it can be established that the letter was drafted not by government officials but by staff members of IMF/WB.

<sup>9</sup> At the February 1994 meeting of the IMF Board, the Executive Director for Germany referred with some satisfaction to "the adjustment policies initiated by the previous caretaker administration in close cooperation with the Fund." For a critique of the Moeen Qureshi blueprint for economic reforms, see *Zaman* (August 23, 1993); and of the associated initiatives on interest rate policy, *Zaman* (August 21, 1993) — in response to which, the State Bank reversed its policy a few months later.

<sup>10</sup> The bulk of the standby, SDR 177.4 million, remained undrawn, when it was replaced by the ESAF/EFF in February 1994.

<sup>11</sup> On December 1, 1988 also, the interim government had signed a three-year structural adjustment agreement with the IMF, which was approved and notified later. Apparently, the IMF had consulted both political parties, and the bureaucracy had advised them both that by letting the interim government sign the letter of intent, their governments would avoid the odium which was bound to accompany the agreement.

<sup>12</sup> That the government may have adopted capitulation as a considered strategy is suggested by similar subsequent actions on a number of fronts. Commenting on Pakistan's bilateral agreements with the United States and the European Community, negotiated late in 1994 under the Multifibre Arrangement, U.S. negotiator Jennifer Hill is reported to have said that "both she and [U.S.] textile industry officials involved in the talks were candidly surprised at the breadth of the Pakistan commitments, which will transform the Pakistan market for textiles and apparel *in a matter of months*" [italics added]. Micky Kantor, U.S. Chief Trade Representative, is reported to have singled out the Pakistan agreement for comment: "it is a landmark agreement permitting imports of US textile and clothing in Pakistan at reduced tariff [from 10 per cent for yarn to 35 per cent for apparel]." He called it "a victory for American textile and clothing workers." See *Society* (1994).

The immediate impact of the agreement has been to further undermine domestic processes, practices and institutions of governance. In particular, the Eighth Five-Year Plan (1993-98), three years in preparation, became an irrelevant document months before it was approved by the highest constitutional body in the land, the National Economic Council, in mid-1994; just as the Seventh Plan (1988-93) had been subverted by the 1988 IMF agreement months after its approval. Moreover, with the secrecy which must surround the implementation of IMF agreements, economic management of a nation of over 120 million has passed into the hands of at best four or five individuals, and normal processes of economic decision-making have been subverted. This has not only had negative consequences for the quality of decisions being taken, but also for the health of the institutions of decision-making themselves. With the subversion of planning institutions and the erosion of management abilities of government, the IMF agreement has become the government's only plan for economic action, a role for which it is neither designed nor is adequate. Moreover, with the institutional decay engendered by such agreements over the last decade, the government no longer possesses the capacity to monitor even this limited plan of action, and is relying entirely on the IMF/WB to look after its interests.

Does the IMF then think that this is a good programme? On February 22, 1994, when the Board of Directors of the International Monetary Fund (IMF) in Washington, DC, approved the unusual,<sup>13</sup> back-to-back 3-year Enhanced Structural Adjustment Facility (ESAF) and an Extended Fund Facility (EFF) for Pakistan, there was a feeling in Washington that the event was momentous – for once, perhaps even more so for the IMF, than for Pakistan. In the discussion which took place in the IMF Board, however, it was felt that the IMF had overreached itself. Despite prior commitments, the IMF staff, in keeping with regular practice, had put forward an initial, negotiating position. To their surprise, the newly elected<sup>14</sup> government of Pakistan had caved in completely, without any real effort to negotiate. As a result, the IMF staff had carried home an embarrassingly rich trove of conditions agreed to by the government. Reminiscent of the trial of Warren Hastings, IMF staff had to answer to their Board whether it was wise to coerce governments to this degree.

Board Members, representing the OECD countries expressed a guarded satisfaction at the promises extracted by the IMF staff from the government of Pakistan, but were sceptical of the likelihood of their being realised. The government's promise to reduce "unproductive" defense expenditures came in for praise, although the German Executive Director complained that defense expenditures were still far

<sup>13</sup> This was the third case of blending ESAF and GRA resources: the first was an ESAF/Standby to Guyana; the second, an ESAF/EFF for Zimbabwe. The IMF's policy on the issue, which is still evolving, seems to allow for considerable discretion in the matter to the IMF.

<sup>14</sup> The People's Party government of Prime Minister Benazir Bhutto had taken office on October 19, 1993.

too high. A number of Executive Directors noted both that the staff's appraisal of Pakistan's performance and hence, prospects, was rosier than facts would warrant, and that programme projections were unrealistically optimistic – the GDP growth projected for 1993-94, and hence for subsequent years, was clearly too high (as was later borne out); the assumption of a 10 per cent per annum improvement in the terms of trade was unrealistic; and the assumption that administrative measures would be sufficient to compensate for the revenue losses from trade liberalisation, was more a hope and a prayer than a realistic assessment of possibilities (as later events would bear out, leading to the breakdown of the programme in early 1995).

Assimilated Afro-Asian members of the Board, reflecting little more than the anomaly of their own positions, were moved to new heights of naivete, by pleading for magnanimity by the industrial countries for a borrower that had surrendered so completely. The Executive Director for Iran, a former IMF staff member, who also represents Pakistan, after the usual disinformation about government commitment, enthusiasm, and agreement, expressed the hope that such a "dramatic opening up of the economy" by Pakistan will be reciprocated by Pakistan's trading partners! The Executive Director for Egypt, a former IMF staff member who had been instrumental in the design and negotiation of the abortive 1980 and 1981 extended arrangements, called it "one of the most comprehensive, far-reaching and front-loaded<sup>15</sup> ESAF/EFF programs to date" but was moved to observe that "It is somewhat ironic and disappointing that Pakistan's ambitious trade liberalization effort is being met only part way in terms of better access to its major export markets" (in reference to industrial country quotas against Pakistan's exports). The Saudi Alternate Executive Director, his affection for Pakistan overwhelming his appreciation of global economic realities, urged that "*all* restrictions on Pakistan's exports be removed as quickly as possible" (italics added)!<sup>16</sup>

It is clear therefore that the government's faith in the IMF's technical excellence, as a guarantee of the excellence of the programme that it is dutifully implementing in Pakistan is misplaced. Anyone familiar with the proceedings of the Board discussion on the Pakistan programme will come to the clear conclusion: (i) that the IMF does not believe that the programme will work, and (ii) that the conditions to which Pakistan has agreed are regarded by the staff and the Board of the IMF as "truly daring" and "mind-boggling".<sup>17</sup> The government would be well-advised therefore to take urgent steps to form an independent view of the course that it is pursuing, with blind faith in the wisdom of the IMF. For that matter, it would

<sup>15</sup> That is, "loaded" with prior policy actions which the government undertakes to gain the IMF's goodwill.

<sup>16</sup> For the record, according to a 1993 World Bank study, Pakistan would stand to gain US\$ 1,492 million per year from the removal of trade barriers against Pakistan in OECD countries. This would be equivalent to a 58 per cent increase in 1988-89 export receipts; or 75 per cent of 1991 debt service payments; or 125 per cent of 1991 Official Development Assistance (ODA). See *Zaman* (March 1994).

<sup>17</sup> "It is mind-boggling," said the Alternate Executive Director for Russia, "to think of a country reducing tariffs



also behave the IMF to take a fresh look at the corrective measures that it can take to protect the interests of its masters. In our view therefore the present programme is yet another example of misgovernment and folly.

### Perceived as Counterproductive in its Own Time

Why is the present programme folly? Let us examine the first qualifying criterion for this judgement: Is the pursuit of this policy contrary to self-interest seen as being counter-productive in its own time? The answer has to be, yes.

No one believes that at the conclusion of the programme, Pakistan would have achieved the three objectives which IMF programmes, ostensibly, are designed to achieve: (i) balance of payments viability – meaning, that at the conclusion of the programme, there will be no further need for extraordinary external financing; (ii) price stability; and (iii) sustainable growth – where sustainability can embody much more than just a concern for ecology, population, and other fashionable concerns of the day. By these criteria, the first point that can be made is that on all three counts, all previous IMF programmes in Pakistan have failed. On this much at least, Western governments, the IMF, the twin bureaucracies, the government of Pakistan, and what have been called the chattering classes of Pakistan, are all agreed. The second point is that the present programme is no different from the previous programmes.<sup>18</sup> The final point, therefore, is that there is no reason to expect that this programme too will not fail.

Once again, evidence for this can be provided from the IMF itself. There is ample evidence that the IMF Board was aware in February 1994 that the programme it was approving will fail to achieve its objectives. The Executive Director for Germany informed the gathering that he was aware not only of the "risks" to the programme from "adverse exogenous shocks" and from "the well-known inertia in the social and political area," but of the fact that "on several occasions in the past

by 20 per cent per year, on the average, for the next three years. It means a loss of something like PRs 35 billion between now and then." Another speaker noted that "It is true that certain measures were supposed to be making up for the revenue loss, but it is always hard to let go of the bird in the hand. The fact that the authorities were willing to let it go," he ascribed not to the government's departure from common sense, but to evidence of the government's commitment to the programme.

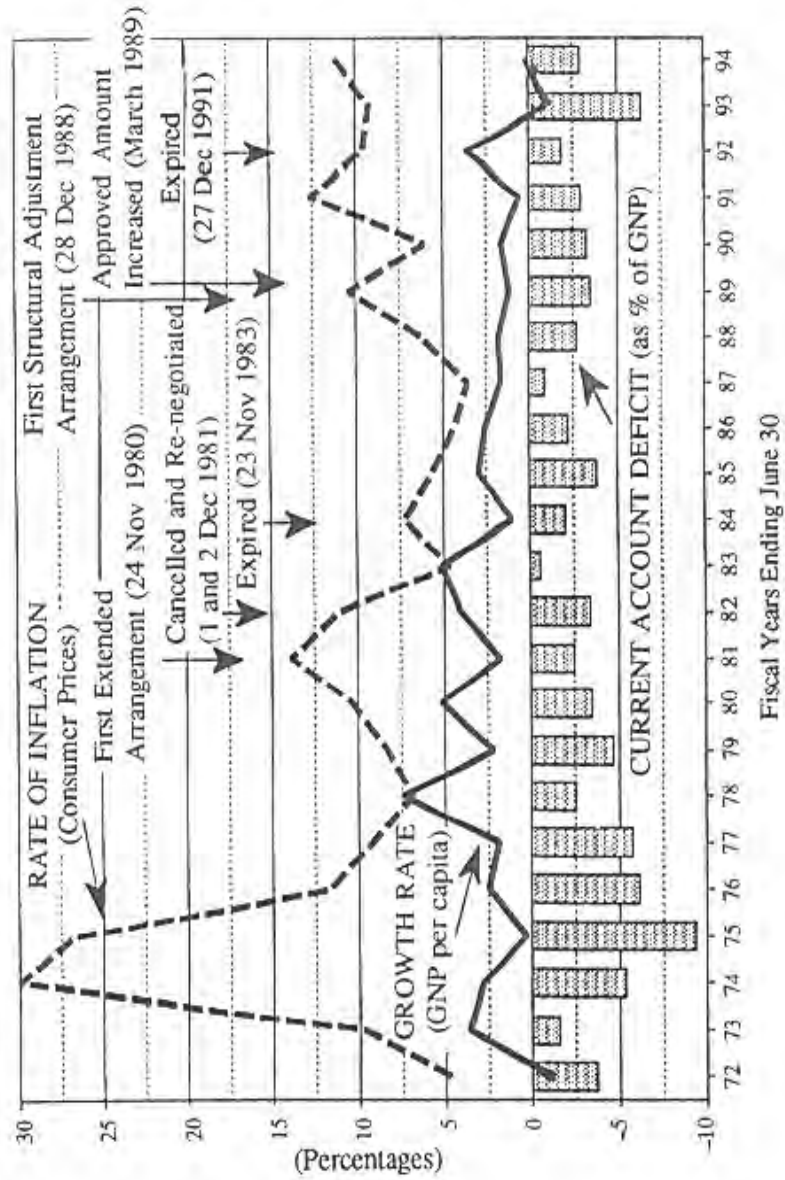
<sup>18</sup> This point can be contested on three counts: (i) convertibility of the rupee, (ii) autonomy for the State Bank of Pakistan (SBP), and (iii) the tax on agricultural income. In response, it should be noted that: (i) under the IMF programme, the original government proposal of full current account convertibility [advanced definitively in Ahmed, et. al., (April 1991)], has been considerably diluted (to IMF Article VIII convertibility) to appease the State Bank; (ii) in Pakistan, autonomy (both of government and the SBP) is the *problem*, accountability is the *solution*, with the result that in our institutional context, the issue of autonomy for the State Bank resolves into a question of whether the SBP reports directly to the IMF, or through the Ministry of Finance; and finally, (iii) that the manner in which the tax has been levied on agricultural incomes is unlikely to achieve the key, if not any of the aims of long-standing proposals on this subject (for the last, see Zaman, 1989), while the fact that it has been done ensures that no further action will be possible in this area for at least the next decade.

Pakistan had launched comprehensive adjustment efforts that achieved initial success, but which tended to falter afterwards." The Canadian Executive Director, seeking refuge in Homer and Freud, thought that "fiscal backsliding" had been "the Achilles' heel of past programmes, and has undone or emasculated many other good economic reforms and adjustment efforts." Yet another recognised that the programme is "ambitious" and "will not be easy" to implement. The Executive Director for Japan summarised the sentiment of the Board: "Pakistan has concluded two stand-by arrangements with the Fund and one structural adjustment arrangement so far. Unfortunately, however, external viability has not been improved through such arrangements!" His statement, reflecting the mood of the Board, was general, it did not exclude the present arrangement. In sum, the IMF approved the programme, as a triumph of hope over experience, knowing that it would fail (as it did, in early 1995).

There is every reason to believe, then, that the first criterion of folly – that it must have been perceived to have been counterproductive in its own time, and not merely by hindsight – was amply met both by the government, whose faith in the IMF overwhelmed its judgement, and by the Board of Directors of the IMF, who continued "to work the levers" despite a clear appreciation of the futility of their own actions. As financial agents of the United States of America, and its allies, the perceptions of the IMF Board can be taken to be indicative of the perceptions of their principals. The financial bureaucracy in Pakistan, as well as the political government (whose time horizons are much shorter than those of the bureaucracy), was clearly under no illusions on this score either. The only question which remains then is, were (and are) feasible courses of action open to any or all of them?

#### Were (and Are) Feasible Courses of Action Available?

In other words, were there feasible courses of action which would have led to external viability, price stability, and sustained growth? Once again the answer is yes. It is widely recognised that at the root of all three is the problem of fiscal discipline. Neither logic nor experience (in Pakistan, or elsewhere) suggests that this can be achieved by the sale of letters of intent, of three years duration, to the IMF. Moreover, anyone familiar with the dynamics of governance in Pakistan (and elsewhere) would realise that if by a magic wand the budget deficit (and, for good measure, all domestic and external debt) was in fact reduced to zero today, the government would be back in debt, incurring unsustainably high fiscal deficits within a very short time. The IMF's solution, then, of raising revenues and reducing expenditures in order to reduce the deficit, is not a solution at all, it is merely a restatement of the problem. The real solution must lie in putting in place mechanisms which change government *behaviour*. Of this the IMF has neither knowledge, nor experience. The real solution therefore must lie in legislative measures,



**FIGURE 1**

Growth, Inflation, and External Viability, 1972-94  
 (Also Showing Timing of Past IMF Arrangements)

enforcement mechanisms, and institutions and processes for review and corrective action.

This is not an isolated insight. By 1985, in the wake of the abortive first EFF from the IMF, this view had been put forward in government. By 1987, a proposal, on the pattern of the Gram-Rudman legislation in the United States, adapted to our circumstances, had been worked out, and a fragile consensus on it had been reached within the Planning Commission. The key problem was to persuade the finance ministry, whose clout would have been reduced, the military, who would bear the brunt of the fiscal discipline, and the government, whose powers of discretionary spending would be curtailed. In the same year, the proposals had been discussed with the military bureaucracy, and had been more firmly accepted by the main economic decision-makers of the time.<sup>19</sup>

Late in 1987, as part of the preparatory effort on the Seventh Plan (1988-93), these proposals were put before Prime Minister Mohammad Khan Junejo, who had taken office in late March 1985. In the twilight between martial law and democracy, the Prime Minister thought it wise to constitute a committee of parliamentarians to review the proposals and formulate their recommendations. Despite the customary distaste of the bureaucracy for politicians, the committee held several meetings, and in the end approved the proposals. They were then embodied in the Seventh Five-Year Plan (1988-93), and were processed through the elaborate consensus building process which characterises plan approval. This process culminated in the approval of these proposals by the National Economic Council (NEC), the highest constitutional body in the land, chaired by the Prime Minister, and including the Chief Ministers of all provinces, among others. On May 29, 1988, however, the government was dismissed and the assemblies dissolved. The Seventh Plan, however, was once again put before a newly constituted NEC, and was approved again.<sup>20</sup> In late 1988, then, there was every reason to expect that the new political government would endorse these proposals. Proposals, which would have put in place durable mechanisms, processes and institutions of fiscal discipline in the country.

But this was not to be. During this period, for reasons internal to the IMF, visiting IMF missions had been urging the government to enter into an extended arrangement with the Fund. They were well aware of the proposals which had been approved by NEC.<sup>21</sup> Unfortunately, these proposals had not been worked out in consultation with them, and no credit would have accrued to the IMF or its staff had they been put in place. In November 1988, elections were held, the People's Party

<sup>19</sup> These dates, cited from memory, need to be re-checked.

<sup>20</sup> On both occasions, Punjab was represented by Chief Minister Mian Mohammad Nawaz Sharif, who would become Prime Minister on November 2, 1990.

<sup>21</sup> As was everyone else at the time. In an apparent reference to these proposals, for example, the Financial Times, London, reported, wrongly, that the government of Prime Minister Junejo had been dismissed because of its proposals to curb military spending!

emerged victorious, and it was anticipated that Mohtarama Benazir Bhutto would inaugurate the first undiluted democratic government in Pakistan after 11 years of martial law and supervised democracy, when she would take her oath of office on December 2, 1988. One day before, however, on the last day in office of an interim government, the government and the IMF entered into a three-year structural adjustment arrangement. The arrangement restored the primacy of the finance ministry in financial affairs, put in place the mechanisms of secrecy under which such arrangements are implemented (and which provide equal cover also to fiscal indiscipline by government), and undermined the Seventh Plan, along with the proposals which – it could be seen at the time, and is now amply clear with hindsight — would have much better achieved the aims of the IMF programme than the SAF.

Superior, feasible alternatives to the IMF programme, then, were available in 1988, as they were in February 1994, when the present agreement was signed. What was the source of the government's and the IMF's folly? Wooden-headedness, as Tuchman would have it. In the government's case, a wooden-headed faith, bordering on delusion, maintained against all direct and indirect evidence, that the IMF/WB are the best guardians of the national interest, and a deep-rooted sense of helplessness, overcoming all motivation for independent action. In the IMF's case, a wooden-headed assessment of the fiscal problem "in terms of preconceived fixed notions" of the IMF programming model, "ignoring or rejecting any contrary signs" or alternative proposals, and "acting according to wish while not allowing oneself to be deflected by facts..." The government may have relied exclusively on its faith in the IMF, and perhaps a desire to please the Americans, but in February 1994, when the IMF Board met to consider the present programme, they had no illusions that the 1988 SAF which they had approved had not succeeded in its objectives. The programme they approved was perceived as counter-productive even as they approved it. Superior feasible alternatives were available before, and at the time. All mistakes are contrary to self-interest, but as Barbara Tuchman reminds us, "it qualifies as folly when it is a perverse persistence in a policy demonstrably unworkable or counter-productive". By all criteria, then, the government's accession to the present IMF programme, and the IMF's approval of it, qualifies as folly.

### Conclusion

What can be done? It would not be appropriate for us to formulate recommendations for the IMF/WB, or their principals, the United States of America and her allies. Nevertheless, questions can be posed about the degree to which the IMF/WB have adapted themselves to the demands that are being and will be, placed upon them, in the making of the new world order by the United States of America in the coming decades.<sup>22</sup> It is no longer a secret that policy-based lending evolved from *ad*

<sup>22</sup> The outlines of this new order are examined in Amin [March (1994)] and Mustakoji [March (1994)]. A key

*hoc* practice, to subsequent theoretical justification, first at the World Bank and then at the IMF.<sup>23</sup> In the rush of events, both the practice which evolved, and the justifications which were found for those practices, were not well thought out. Is it not reasonable to ask that if the IMF/WB are to undertake the role of global financial governance, then should their staff not be trained with a wider inter-disciplinary institutional-historical perspective, rather than the narrow evangelical utilitarianism, which has characterised their training so far?

This would equip them far better to conduct a "dialogue" with borrower governments, through which it was initially thought that they would educate their borrowers into a rational utilitarian outlook. With the structure of management and career development in the IMF/WB, however, the imperative to prevail has overwhelmed any concern for persuasion and education. At the first sign of substantive disagreement, the IMF/WB staff seek out new coalitions within government, and find ready accomplices in the bureaucracy and the government, who can sell letters of intent made out to the IMF/WB's demand for the right price. In this situation, economic reform where it occurs is at best a fortuitous by-product of policy-based lending, its main product being the cultivation of docility among borrowing nations.

Is this wise for the United States of America? Indeed, are the larger foreign policy aims of the United States, within which the role of the international financial institutions will be defined, the most conducive for the achievement of US aims and objectives?<sup>24</sup> These important questions, highly relevant to the discussion so far, are clearly beyond the scope of this paper.<sup>25</sup> Suffice it to note, however, that in the case of Pakistan, the IMF was not without its own doubts about "the prior actions that require parliamentary approval which we [the IMF] sometimes demand of countries."<sup>26</sup> Concluding the discussions at the Board, the Executive Director for Pakistan expressed his doubt about the wisdom of "the political measures being asked for" by the IMF in Pakistan (and elsewhere). "The Fund," he said, "ought to be careful in judging whether or not it wanted to impose such a burden on political processes. In some cases, such an *imposition* might be interpreted as the Fund trying

assumption which underpins the new strategy, and is of direct relevance to Pakistan, is that US interests are best served by seeking to re-enact its triumph over "Godless communism" by inducting Islamic "fundamentalism" into this role in the coming decades. The original framework for this perspective is provided by Lewis [September (1990)], and Huntington [Summer (1993), September/October (1993)]; an important critique, among the vast literature inspired by the Lewis-Huntington thesis, is Ajami [September/October (1993)].

<sup>23</sup> See, for example, Stern with Ferreira [November (1993)], Zaman (1993).

<sup>24</sup> As Huntington (1993) notes: "Through the IMF and other international economic institutions, the West promotes its economic interests and imposes on other nations the economic policies it thinks appropriate."

<sup>25</sup> For both Pakistan and the United States of America, there are important lessons in the turn of the century experience of European countries with the Ottoman Empire, in achieving goals similar to those of the IMF today. See Blaisdell (1929). On US-Pakistan relations, more specifically, see Zaman (1985), (1988).

<sup>26</sup> Argentina, Brazil, Egypt and Jordan were cited as other countries that were coerced in this manner in recent years.

to micro-manage the political process, or worse yet, trying to force certain compromises that burden the political process in fledgling democracies" [italics added]. There could not be a clearer statement on the political role of the IMF, which is strictly forbidden in its charter. It would behove the government also to reflect on these concerns.

We shall conclude then by outlining the options open to the government of Pakistan. It should be clear that the government presently does not have any economic strategy, other than the IMF programme, which is widely expected to fail. It should be equally clear that the present IMF programme is not working – economic growth is down, inflation is up, the extent of unemployment remains unknown, and above all, there is no evidence of any structural improvement in the balance of payments (the export rate has fallen).<sup>27</sup> It is imperative, therefore, for the government to devise and adopt such a strategy, in any manner it sees fit. A comprehensive overall strategy, which is independent of the ideological commitments of the two leading political parties, is available in the *Approach Paper for the Eighth Five-Year Plan*, which was approved by the National Economic Council.<sup>28</sup> The Eighth Plan document does reflect some of that thinking but both the *Approach Paper* and the *Plan* have been displaced by structural adjustment programme of the IMF (and, to some extent, by the Social Action Plan of the World Bank).

Within the medium to long-term strategy outlined in the *Approach Paper*, the short-term component of any revised strategy which is devised must aim at the achievement of the following objectives: (i) Establishing mechanisms, processes and institutions of fiscal discipline, under cover of legislation, along the lines of the Seventh and Eighth Plan proposals, and as outlined by Prime Minister Benazir Bhutto in a recent speech; (ii) Until these institutions are established, initiatives to liberalise exchange and trade should be placed on hold;<sup>29</sup> (iii) A package of measures to step up the domestic rate of investment, including tariff protection to industry, if necessary, should be devised and implemented; (iv) A package of measures to promote exports, including the creation of institutions and processes for active government intervention in export promotion, to supplement incentive-based policies, if necessary, should be devised and implemented; (v) A committee or a commission should be set up to make recommendations on modernization of national economic management, including through supportive legislation, as necessary; and finally, (vi) Until these initiatives are underway, the government should

<sup>27</sup> *Zaman* [August 20, (1994)].

<sup>28</sup> Government of Pakistan (1991).

<sup>29</sup> Aided by IMF/WB propaganda, the government of Pakistan has radically misunderstood the Korean experience of development. For a recent appraisal, see Asimiero (March 1994), and earlier, the papers in Butari (1991). A critical appraisal of the Korean experience with comparisons to Pakistan is provided in Zaman (1989); see also the review by Roseai (1989).

notify the IMF that it does not seek to draw on the undisbursed balance of the ESAF and EFF resources.

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