

## Editors' Introduction

In April 2008, the Centre for Research in Economics and Business (CREB) at the Lahore School of Economics hosted the Fourth Annual Conference on the Management of the Pakistan Economy on the theme, "Ensuring Stable and Inclusive Growth." The Centre's director, Naved Hamid, invited a number of prominent speakers including academics, economists, current and former government officials, and other experts to present a combination of research and policy papers, which can be broadly grouped under two major headings: i) Pakistan's macroeconomy and ii) Poverty and inequality in Pakistan. These topics were selected because of their timeliness, given the increasing macroeconomic pressures facing the country, in particular those coming from the exchange rate and inflation, and the impacts on poverty that could result. The papers presented at the conference are summarized below:

### *i) Pakistan's Macroeconomy*

Shahid Amjad Chaudhry's piece opens the Special Edition with a brief review of the macroeconomy over the last few years, and lays out the major sectoral issues that remain to be tackled, including education, healthcare, energy, poverty, and public investment.

Next, Sakib Sherani's paper appeals to the new government to restore fiscal order, because without macroeconomic stability, the government will be limited in its ability to carry out appropriate monetary and fiscal policy. While Mr. Sherani cautions against the type of short term "relief" policies that can damage the macroeconomy further, he argues that macro stability and pro-poor policies can go hand-in-hand, via a broadening of the tax base and rationalization of public expenditures.

Shahid Javed Burki's paper offers policy advice, with an emphasis on industrial competitiveness, basing his assessment of the history of industrial policy, and keeping in mind the challenges faced by the country due to the current macroeconomic situation and the globalized economy. He emphasizes the importance of decentralized industrial policy making for the future success of Pakistani industry.

Hafeez Sheikh's paper critically examines economic policies of the last government, and their impacts on economic growth over the past decades. The analysis emphasizes the advantages of privatization and inefficiency caused by unchecked state dominance across all sectors in Pakistan. This paper gives proposals aimed at achieving economic prosperity and growth.

Naved Hamid's paper provides a brief outline of a development strategy for Pakistan that can achieve sustained growth. Based on the current economic conditions the paper analyzes the new drivers of growth and discusses how development strategy today must position itself to take advantage of the changes taking place globally.

Riaz Riazuddin's paper uses a unique method to look at money supply, inflation, and growth. By calculating conditional probabilities, he finds that, first, inflation is a monetary phenomenon, and secondly, there is no trade-off between inflation and growth.

Finally, Ijaz Nabi's paper emphasizes the role of the government budget in economic growth, and the particular mechanisms that should be implemented in order to make the budget more effective. These include monitoring and evaluation, public information, public-private partnerships, and a streamlined budget cycle.

### *ii) Poverty and Inequality in Pakistan*

Theresa Thompson Chaudhry and Azam Amjad Chaudhry's paper use the PSLM (Pakistan-wide) and MICS (Punjab provincial) data sets to simulate the impact of food and energy price shocks on real incomes, in order to assess the possible impact on poverty levels in Pakistan. They find that food prices have the greatest potential to increase poverty levels, given their importance in household budgets.

Rashid Amjad, G. M. Arif and Usman Mustafa's paper closely examine poverty in rural Punjab, using a new data set. Their analysis divides the rural areas into various agro-climatic zones in order to determine the major factors driving poverty in each area. They find the critical factors in poverty inequality to be urbanization, overseas migration and the labor market structure.

Ali Cheema, Lyyala Khalid and Manasa Patnam's paper use the MICS to study the geography of poverty at the district level in the Punjab. They find a wide variation in the incidence of poverty across the province, with high levels of poverty in the south, the west, and some central districts. The north has, on average, lower poverty; however the peri-urban areas of Lahore are characterized by both a high level and severity of poverty.

Sohail Jehangir Malik's paper returns to the problem of rural poverty and looks at the oft-neglected non-farm sector. In fact, workers in non-agricultural sectors make up over half of the rural poor. Following a detailed description of rural enterprises, he suggests that better access to credit and institutional reform (particularly legal and judicial) could help to develop the rural non-farm economy.

To conclude, Sajjad Akhtar's paper reassesses regional inequality in Pakistan, and looks at trends in various measures of inequality, both across provinces and across time. He does this not only for consumption, but for a variety of important social indicators, including primary enrollment, literacy, immunization coverage, and sanitation, among others.

This Special Edition of the *Lahore Journal of Economics* has been compiled from the papers presented at the Fourth Annual Conference on Management of the Pakistan Economy. The Special Edition is meant to disseminate the findings of this conference more widely throughout Pakistan, and to the wider international audience.