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The Economics of Stateless Nations: Sovereign Debt and Popular Well-being in Pakistan

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> Practical men who believe themselves to be quite exempt from any intellectual influences are usually the slaves of some defunct economist.
>
> Keynes (1936, p. 383)
>
> The high and growing debt burden is the major source of the sharp slowdown in Pakistan's economic growth … and the consequent increase in poverty incidence. …Pakistan is…caught in the vicious circle of high debt payments leading to stagnation in investment and growth, and low growth in turn limiting the capacity to service debt and reduce the debt burden.
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> Pakistan (March, 2001, p. xvii)

The Government of Pakistan believes that "high and growing" indebtedness of the government is reflected in falling investment and growth rates of the economy, leading to growing poverty of the people. This paper examines how this came to be, and whether the connections implicit in this assessment do in fact exist? On this basis, the paper also comments on the efficacy of some current policy proposals.

1. INSTITUTIONAL PERSPECTIVE

The conventional wisdom is that "persistent fiscal and balance of payments deficits are a fundamental source of Pakistan's high debt burden" [Pakistan (2001), p. xv)].[1] The State Bank of Pakistan (2001, p. 117) goes further: "This…public debt is the result of structural weaknesses in the domestic economy and the external account. Excessive government expenditures, stagnant tax revenues, high returns on government securities and inappropriate sequencing of financial reforms, led to a bludgeoning (sic.) domestic debt profile. On the external front, large current account deficits, stagnant export revenues and declining worker (sic.) remittances, effectively forced Pakistan into an unsustainable situation". All this is true, but hardly exhaustive.

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[1]This is echoed in the *Economic Survey*, which ascribes "the accumulation of external debt" mainly to "(i) persistently large current account deficit; (ii) imprudent use of borrowed resources…" and "(iii) …stagnant exports and rising real cost of external borrowing" [Pakistan (2001), p. 137].

Surely, a meaningful explanation of our present predicament should lead us to an understanding of why, and how, the government continued to incur "persistent" deficits, despite a clear appreciation of the consequences of this behaviour? The short answer to this question is that in Pakistan the government's demand for loans is infinite, while in the world the supply of loans depends in general on the availability of cyclical capital surpluses in the world economy, and to Pakistan on a number of widely fluctuating political variables.[2] As a result, whatever debt was made available to the government, on the security of the nation, was incurred and when the spigot was turned off, the government incurred more debt to finance the higher expenditures induced by earlier debt. If this is correct then the remedies presently being suggested—raise taxes and exports, lower expenditure and imports—are unlikely to be effective.

In order to examine this suggestion more closely, it is necessary to define more carefully many of the words that are commonly employed in popular and policy discussions. Who contracts public debt in Pakistan? Is it the state, the government or the administration?[3] Strictly speaking, there is no state in Pakistan; there is only an administration (military and civil officials engaged in the process of government) engaged in the task of government.

In reflecting upon "the state" in Pakistan, the first difficulty is that "the term 'state' itself is an elusive one, for it is so associated with modern European conceptions that in some respects it is not appropriate to apply the term to the institutions of these countries".[4] Even so, although there is "a community" that has a monopoly—more or less—over coercive ability within the territory of Pakistan, it has failed to devise institutions that confer legitimacy over the use of this force.[5] This is true despite the fact that there has always been an ongoing effort to build a state,

[2]On debt cycles, see, among others, Suter (1992).

[3]In Max Weber's classical definition, "a state is a human community that (successfully) claims the monopoly of the legitimate use of physical force within a given territory" [Almond and Coleman, p. 5]. The administration, in the sense of a salaried class of administrators, is a component of the state. Government, the act by which a few impose their will upon the many, can be through a state (as it emerged in Western Europe) or through other arrangements.

[4]Banuazizi and Weiner (1987, p. 7). "The state implies a sovereign authority, a sovereignty based upon both consent and coercion. The state is associated with a particular bounded territory over which it exercises a monopoly of coercive authority. Legitimacy implies myths and symbols which provide a kind of ideological rationalisation and justification for this monopoly of coercive authority. In modern Europe the expansion of the state was linked to the expansion of the monarchies at the expense of other authorities, notably the church and feudal magnates. Initially the authority of the modern European state rested on the notion of the sacredness of the office of the king; subsequently, the notion of the sovereign state rested on conceptions of legal rights on the part of citizens in relation to authority, on sovereignty as an inalienable right of the people and, above all, on the capacity of the state to command resources". [Banuazizi and Weiner (1987), pp. 7-8.]

[5]The word "institutions" is used in its technical sense: *institutions* "are the humanly devised constraints that shape human interaction," while *organisations* "are groups of individuals bound by some common purpose to achieve objectives" [North (1990), pp. 3, 5].

initially by the politicians and since 1958 by the military.[6] We need not be detained by the reasons for the failure of "the few" who came to and have held the helm of affairs in post-colonial Pakistan to agree on questions of authority and coercion, a subject that has been and continues to be warmly debated—in tea houses, drawing rooms, the popular press, poetry and academic prose. For the purposes of this paper it should suffice to note that there is no state, in any meaningful sense of the word, in Pakistan.

In the absence of any agreed scheme for legitimising the exercise of power, electoral politics and the political governments that ensue from time to time are a creation of the administration. Consequently, all references to state or government in Pakistan are in fact a reference to what in Pakistan is called the bureaucracy. In the absence of any formal or informal institutional constraints on the bureaucracy, the amount "Pakistan" has borrowed has been limited only by the willingness of lenders to provide loans. If this perception is correct, then Pakistan's public debt is less "the result of structural weaknesses in the domestic economy and the external account" than of weaknesses in the structure of domestic politics and governance and these weaknesses are the "fundamental source" of "persistent fiscal and balance of payments deficits" as well as "Pakistan's high debt burden" [The State Bank of Pakistan (2001), p. 117 and Pakistan (2001), p. xv, quoted above].

Before turning to a review of the impact of high debt on growth and poverty, it is worth considering the relevance and efficacy of popular perceptions of "governance" as a panacea, especially in what might be called stateless nations. Once again, it is useful to define terms. Although in Europe societies came to be governed through a set of historical arrangements referred to as the state, it is possible to have a government—arrangements by which "the few" impose their will upon "the many"—without a state.[7] Governance, then, can be defined quite generally as the manner of government.[8] Although there are no agreed definitions, there is also a need to distinguish "good government"—presumably, a just and benevolent

[6]Banuazizi and Weiner (1987, p. 8): "[In the case of Afghanistan and Iran the monarchs, and] in the case of Pakistan the military rulers, aspired to create modern states with an exclusive monopoly of coercive authority and control over the entire territory over which they had international judicial authority and to gain some form of popular legitimacy".

[7]The vocabulary of "the few" and "the many" is an attempt to abstain from specifying a defining quality of those who exercise power, implicit in terms like the ruling class, the èlite, the 'salariat', 'insiders vs. outsiders' etc.

[8]This is consistent with a recent definition: "We define governance broadly as the traditions and institutions by which authority in a country is exercised. This includes (1) the process by which governments are selected, monitored and replaced, (2) the capacity of the government to effectively formulate and implement sound policies, and (3) the respect of citizens and the state for the institutions that govern economic and social interactions among them." Kaufmann, Kraay, Zoido-Lobatón (October 1999, p. 1). Note, however, that the idea of "citizens" is problematic in the context of Pakistan (and similar stateless nations). Also, the omission of "political" in (3) is curious.

government whether despotism, democracy, or some other arrangement[9]—from "good governance," which would refer presumably to the preferred manner of (or arrangements for) governing. While these lead naturally to a definition of "misgovernment," it is not clear what "misgovernance" means.[10]

In the light of this discussion, what does "good governance" mean in a stateless nation? Does it mean the establishment of a state, a la Europe? Or can we do with improvements in the stateless governance that exists, with an eye on final outcomes? In which case, general homilies on governance will not do. Instead proposals that are carefully tailored to the institutional circumstances of Pakistan would have to be crafted. Without an answer to these questions, statements like "The issue of improving governance is central to fighting poverty, and thus cuts across all the elements of Pakistan's poverty reduction strategy" are hard to understand, much less evaluate as a sensible policy proposal.[11] It is equally difficult to understand how the following general statement by an aid agency would be applicable to Pakistan (and similar countries):

> For the poor good governance is not a luxury. The quality of governance determines whether they achieve their rights and receive basic services. In the past, most of our effort went into improving the efficiency of government through civil service and revenue reform, policing, local government and public enterprise privatisation. We now recognise that we should address wider issues as well including political systems and corruption if governments are to be more responsive to the needs of poor people.
>
> Our new approach will cover a number of strands—democratic accountability, fundamental freedoms, corruption, service delivery for all, due process rights and security—which, when brought together should lead to governance which is representative of, and accountable to all its people and effective in realising their rights.[12]

Surely this would call for bringing about a democratic revolution, before any progress is made on improving governance.

[9]Lord Lytton to Lord Salisbury (11 May, 1877): "I am convinced that the fundamental mistake of able and experienced Indian officials is a belief that we can hold India securely by what they call good government; that is to say by improving the condition of the ryot, strictly administering justice, spending immense sums on irrigation works, etc. Politically speaking, the Indian peasantry is an inert mass. If it ever moves at all, it will move in obedience, not to its British masters, but to its native chiefs and princes… The only political representatives of native opinion are the Baboos, whom we have educated to write semi-seditious articles in the native Press, and who really represent nothing but the social anomaly of their own position…." [Stokes, p. 286)].

[10]See, for example, Kaufmann, Kraay, Zoido-Lobatón (October 1999, p. 1): "In recent years there has been a surge of interest in the consequences of governance and misgovernance for development".

[11] Pakistan (November 2001, p. 3).

[12]Posted under "Who We Are" on the site of the Governance Department, DFID.

2. THE RECORD: DEBT, GROWTH, AND POVERTY IN PAKISTAN

In looking at the data, a distinction can be made between the experience of United Pakistan (1947–71) and Contemporary Pakistan (since 1971). In the first period, four phases can be identified: (i) reconstruction and self-reliant development (1947–53), (ii) preparation of the First Five-Year Plan, with US intellectual and financial assistance (1953–58), (iii) the "miracle" years of aid-financed "crony" capitalism (1958-65), and (iv) disintegration leading to the secession of East Pakistan (1965–71). The souring of the "miracle" of aid-financed growth marked the beginning of the emigration of a growing class of bureaucrats, professionals and other influential persons from Pakistan, who have played a significant role in Pakistan since the 1980s.

In the contemporary period, four phases can be identified: (i) the Islamic Socialism of Bhutto (1971–77), in which an effort was made to correct the excesses of the "miracle" years, (ii) the Islamic Capitalism of Zia-ul-Haq (1977–88), which undid Bhutto's nationalisation but continued to pursue populist policies, albeit with appeal to Islamic (rather than socialist) values and symbols, (iii) the period of State Capture by expatriate groups in league with international and national civil servants (1988–99), during which a chaotic programme of economic liberalisation ("structural adjustment") was implemented with dire consequences, and (iv) the present period of military rule (since October 1999), in which the anti-national effects of state capture are being undone without any appreciable shift in economic strategy or policies.[13] Basic data on debt, growth and poverty in Pakistan are presented in Table 1 for these periods, along with an indication of global and domestic political regimes, Pakistan-US relations, and the period of intensive IMF programmes.[14]

Public Debt

The key to the unrestrained rise in public debt in Pakistan lies in the nature of public finance in stateless societies and the international political economy of capital

[13]A more extended discussion of the logic of these characterisations and an appraisal of key developments during these periods see Zaman (1998).

[14]Data on growth are based on the national accounts, which are available continuously from 1950. The series now exclude the former East Pakistan, but suffer from some deficiencies of coverage and continuity (mainly services and the informal sectors, and prices and deflators). External debt data were cleaned up in 2001, following the recommendations of the Debt Reduction and Management Committee [Pakistan (2001)]. Earlier data, not comparable with the fresh estimates, is available from government publications. Data on military debt is reported to the IMF/WB, but is not made public. Details on the exact impact of recent debt relief are not readily available. Estimates of poverty indicators are based mainly on the Federal Bureau of Statistics' 11 household income and expenditure surveys (carried out between 1963-64 and 1996-97) and 4 integrated household surveys (carried out in 1991, 1995-96, 1996-97, and 1998-99), and the Pakistan Institute of Development Economics' socio-economic survey in 1998-99.

Table 1

Debt, Growth, and Poverty in Pakistan, 1950-2001
(Average Annual Rates of Growth, % Per Annum)

Geographical Boundaries:	United Pakistan (1947-71)		Contemporary Pakistan (1971 – …)			
Global Political Regime:		Cold War (1949-89)				Pax Americana
Pakistan-US Relations (G–Good, B–Bad)	G ('54-62)	B ('65-81)		G ('81–98		B ('98-01)
IMF Programmes				1980-83	'88-91, 93-96, 97-00	
Domestic Political Regime (C–Civil, M–Military)	C	M	C	M	C	M
Growth of:	1950–58[a]	1958–71[a]	1971–77	1977–88	1988–99	1999–01
Domestic Debt Outstanding	–	–	–	–	15.8	11.7
Medium and Long-term External Debt [b]	35.4	5.1	7.5	1.6	0.8	0.5
Real GNP Per Capita	0.9	4.2	3.3	3.0	0.4	1.4
Real GDP at Factor Cost	3.3	6.2	4.8	6.6	1.0	3.2
Agriculture	*1.8*	*4.3*	*2.2*	*3.9*	*1.0*	*1.7*
Large-scale Manufacturing	*19.8*	*12.1*	*2.3*	*9.4*	*1.1*	*4.3*
Employment	–	1.6	3.0	2.4	0.4	2.2
Agriculture	–	*0.8*	*1.8*	*2.0*	*0.2*	*2.3*
Large-scale Manufacturing	–	*3.6*	*3.0*	*1.7*	*-0.2*	*2.1*
Changes in Poverty (All Pakistan)		1964–70	1970–79	1979–88		
All Pakistan		Rise	Fall	Fall	Rise	Rise
Rural Areas		Rise	Fall	Fall	Rise	Rise
Urban Areas		Fall	Fall	Fall	Rise	Rise

Source: On debt and growth, published statistics from Government of Pakistan and State Bank of Pakistan publications; on poverty, consensus views in the literature, as summarised in Arif (2001).
Note: Except for 1999-01 [and domestic debt–revise OLS], all growth rates have been calculated by fitting an ordinary least squares trend.
–not available.
[a](West) Pakistan only.
[b]Non-military public and publicly guaranteed debt outstanding and disbursed.

supply. Lacking legitimacy, governments since the early 1950s have found it more congenial to raise foreign loans in return for economic and political concessions than to raise taxes. The historical pattern of commitments and disbursements of medium and long-term external public debt is illustrated in Figure 1.

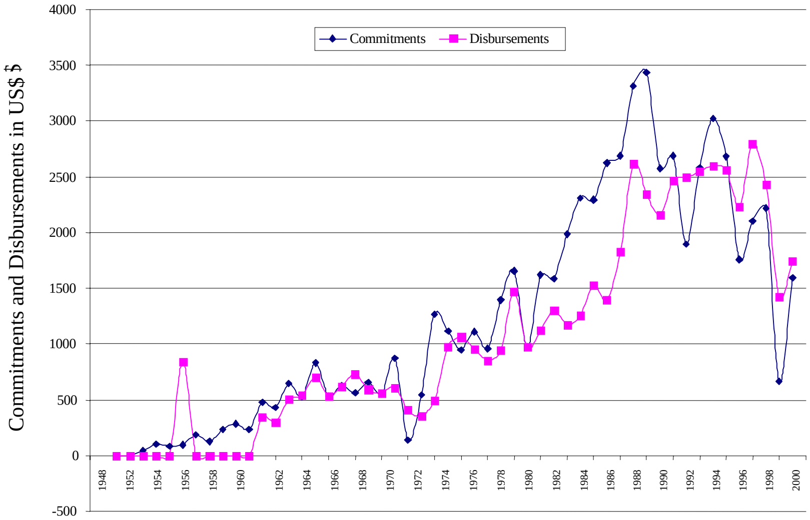

Fig. 1. Pakistan: Commitments and Disbursements of M&LT External Public Debt.

The availability of external capital—and hence the ability to incur external debt—has been determined by the status of Pakistan's relations with the US. In general, the availability of loans to the government has spiked due to regional crises and has nose-dived due to domestic developments. Sharp increases in aid availability, such as the one being envisaged presently, occurred in the wake of the revolution in China (1949), in Iran and the Russian invasion of Afghanistan (both in 1979), and the American invasion of Afghanistan (October 2001). Equally sharp downturns followed war with India (1965), the detonation of a nuclear device (May 1998), and the military takeover (October 1999). The availability of US military and economic loans has always had a multiplier effect in inducing bilateral and multilateral economic loans.

Economic Growth

It is widely believed that whatever the ill effects of the neglect of the poor—and recourse to foreign "aid"—economic growth in Pakistan was spectacular in the "golden 1960s" and even over a longer time period, fairly good. Some new data that has emerged refutes this. Over the long term, Pakistan along with Myanmar are the only two countries in the world to have suffered a fall of two quartiles in relative income position, among forty two major nations, in the course of the twentieth century (Table 2).

Table 2

Changes in Nations' Relative Income Position[1]

1900 GDP Per Capita Group		2000 GDP Per Capita Group: Lowest Quartile	Centre Low Quartile	Centre High Quartile	Highest Quartile
Lowest Quartile	Egypt ($509)		Egypt ($2,279)		
	India ($625)		India[3] ($1,880)		
	China[2] ($652)				
Centre Low Quartile	China[2] ($652)			China[2] ($6,283)	
Centre High Quartile	China[2] ($652)				
	Myanmar ($667)	Myanmar ($1,079)			
	Pakistan ($687)	Pakistan ($1,773)			
	Brazil ($704)		Brazil ($5,355)		
	Indonesia ($745)		Indonesia ($3,136)		
	Taiwan ($759)				Taiwan ($16,854)
	Thailand ($812)		Thailand ($5,720)		
	Peru ($817)		Peru ($3,797)		
	Venezuela ($821)				Venezuela ($7,643)
	South Korea ($850)				South Korea ($14,293)
	Columbia ($973)		Columbia ($5,514)		
	Philippines ($1,033)		Philippines ($2,442)		
	Japan ($1,135)				Japan ($20,616)
	Mexico ($1,157)		Mexico[5] ($5,721)		
	USSR[4] ($1,218)		USSR[4] ($3,686)		
Highest Quartile					

Source: IMF (May 2000, p. 157). Nations that remained in the same GDP per capita Group quartile have not been shown.

[1]To partition the population of the 42 sample countries into income quartiles, the population of China, India, Russia, and Mexico were split and partially allocated to different income quartiles. GDP per capita in constant 1990 dollars at purchasing power parities for each country and period is given in parentheses.

[2]In 1900 China's population of the 42 sample countries actually filled the entire centre-low-income quartile, spilling over into both neighbouring quartiles. In 2000 it straddled the borderline between the two upper-income quartiles.

[3]India's population straddled the borderline between the two lowest per capita income quartiles in 2000.

[4]Former USSR. The former USSR's population straddled the borderline between the two upper income quartiles in 1900.

[5]Mexico's population straddled the borderline between the two centre income quartiles in 2000.

More immediately, however, did the government's ("high and growing") indebtedness since the 1980s cause the nation's production growth to slow down? It probably did, but not entirely through the mechanisms that are popularly identified in this process. Conventional wisdom has it that capital formation (or investment) has a direct multiplier effect on economic growth—a view characterised as "capital fundamentalism" [Easterly (1997)]. In this view, high public debt affects growth in two ways. First, the burden of debt servicing reduces public saving, and hence public investment. Second, the government's demand for credit raises interest rates, which in turn lowers private investment.

The idea that the rate of investment is a proximate determinant of the rate of economic growth has a long and venerable history:

> The central problem in the theory of economic development is to understand the process by which a community which was previously saving and investing 4 or 5 percent of its national income or less, converts itself into an economy where voluntary saving is running at about 12 to 15 percent of national income or more. This is the central problem because the central fact of development is rapid capital accumulation (including knowledge and skills with capital). [Lewis (1954), p. 155].

As an appreciation of a puzzle in the economic history of Western Europe in the nineteenth century this was certainly true. As a timeless proposition, however, the statement was patently false. In the early 1950s, however, the US was looking for an ideology to sponsor in competition with communism, and a formula to rationalise the distribution of US aid. Lewis's reduction of development to growth, the suggestion that growth was a multiple of the investment rate, itself determined by the saving rate, proved both convenient and convincing. Apart from its simplicity, it provided a ready formula for assessing the "investment requirements" of any target rate of growth and, by deducting saving, the "aid requirements" of every country on a seemingly rational basis. Despite its bureaucratic convenience and hence its long life, however, there was no theoretical justification or empirical support for this view of economic growth.

In fact, the more sophisticated view based on the idea of an aggregate production function, that variations in economic growth could be explained by variations in factor inputs also failed to find empirical support. Faced with this theoretical embarrassment economists came up with the idea of "total factor productivity" to rescue the aggregate production function. Based on an extensive review of the professional literature Easterly and Levine (2001) provide a convincing case for abandoning this charade that has underpinned policy discourse during the Cold War era. Instead, they find the following five stylised facts about economic growth:

> (1) The 'residual' (total factor productivity, TFP) rather than factor accumulation accounts for most of the income and growth differences across countries. (2) Income diverges over the long run. (3) Factor accumulation is persistent while growth is not, and the growth path of countries exhibits remarkable variation. (4) Economic activity is highly concentrated, with all factors of production flowing to the richest countries. (5) National policies are closely associated with long-run economic growth rates. [Easterly and Levine, 2001), p. 177].

This is fully consistent with the argument advanced in this paper, except that we would identify the 'residual' with institutions (including governance), rather than total factor productivity.[15] With this shift, this paper identifies the structure of institutions and institutional developments as the proximate determinant of both the rise in debt and the fall in growth.[16] A second major factor that has contributed to the slow down in economic growth and the rise in poverty since the late 1980s (see Table 1 above) has been the government's inability to resist the policy prescriptions that came, principally from the International Monetary Fund (IMF), along with the loans during this period. It is in this backdrop that the government's inability to provide infrastructure and services has affected growth adversely.

Poverty

We have said that characteristics of institutions associated with a stateless nation are the principal cause of runaway public debt but factors other than the growing indebtedness of the public sector—including the implementation of IMF financed adjustment policies—account for the deceleration in national output growth since the late 1980s. This raises two questions. First, did decelerating national growth accounts for growing poverty in Pakistan? Second, whether adjustment programmes also contributed to rising poverty? Before addressing these questions directly it may be useful to note the severe conceptual and empirical constraints that confront the student of poverty.

Estimates of poverty are based mainly on either survey data or national accounts estimates.[17] In a recent article, Deaton (2001) notes the many practical difficulties with data based on both these sources and the disparities between them, and concludes that "the World Bank should back away from its current too-concentrated focus on income headcount numbers. It should emphasise a much wider range of other measures, focusing on deprivations that may be more important than deprivation of income." In the light of this suggestion research on Pakistan needs to go beyond the World Bank approach to address some of the concerns that underlie and motivate this recommendation. Until this happens, however, we have no option but to work with the income headcount numbers that continue to be used to measure poverty.[18]

[15]The bulk of economics explores short-term problems by recourse to social science methods. In the exploration of long-term change—or development—however there are two distinct traditions within economics: social science (neo-classical economics) and the humanities (economic history and institutional economics). As Rostow (1984, p. 231) puts it: "I came to appreciate Marshall's wisdom in asserting that if one pushed beyond the propositions of static short-period equilibrium, one must deal with 'real life,' 'the high theme of economic progress,' and 'society as an organism.'"

[16]This is also the view of Bhatti (2002).

[17]International comparisons also require either simple or purchasing power parity exchange rates. The latter are revised regularly "play[ing] havoc with poverty estimates" [Deaton (2001), p. 125].

[18]For estimates of poverty in Pakistan see Arif, Nazli and Haq (2000); Kemal, Irfan and Arif (2001); Jafri (1999) and Ali and Tahir (1999).

Does growth lead to a reduction in poverty in Pakistan? This question has been addressed in the literature in the context of the adjustment programmes pursued by government since 1988, with IMF finance and intellectual support. The view that adjustment programmes contributed to falling growth and rising poverty seems to be near unanimous. Most recently, Bengali and Ahmed (2002, p. 18) find that adjustment programmes pursued since 1988 have emphasised stabilisation at the expense of growth, a policy "that has contributed directly to the increase in unemployment and poverty." Similarly, Kemal (2002, p. 17) notes that "over the ten year period from 1987-88 to 1997-98, the tax burden on the poorest increased by 7.4 percent while it has declined by 15.9 percent for the richest households." In addition to a more regressive tax structure, adjustment programmes resulted in reduced subsidies, development expenditures, and credit to the private sector "and as such impacted adversely on output and employment" [Kemal (2002), p. v]. Earlier Amjad and Kemal (1997) had also come to similar conclusions: "policies pursued under the Structural Adjustment Programme have tended to increase the poverty levels…"[19] In Pakistan therefore there seems to be a consensus that adjustment programmes have contributed to increased poverty.

3. FORMULATING POLICY DIRECTIONS

In this concluding section, we review the implications of the perspective on debt, growth and poverty in this paper for the crafting of policy proposals. Before doing so, however, it is important to define what is meant by policy.

It should be obvious that policy is a course of action for "the few" (or the government) and not for the society or the nation as a whole. Since the passions and interests of the few are often at variance with if not in direct opposition to those of other groups in society, policy design and implementation become "strategic" activities. Strategic, in the sense that the final outcome depends on the relative success of competing groups in society who are all too aware of each other and seek to foil opponents in the attainment of their objectives. In order to qualify as a policy proposal, the proposal should:

(1) Not be "Agency-Free" in the sense that the proposal should identify clearly who will undertake the action that is expected to produce the desired result. (A good example of an agency-free proposal is given in the children's story in which the mice propose to "bell the cat" to protect their lives. The proposal is technically sound. If done, it would have the intended result, but it does not identify the Agency who will do it.)

(2) Be within the Capability of the proposed Agency of action. (Thus the proposal that Mouse X should bell the cat is not agency-free, but is beyond the capability of the identified agent.)

[19]See also Zaman (1995).

(3) Not be against the inherent Nature of the identified Agent, or so against the Agent's interest that the Agent would be unlikely to undertake what is expected of him within the limits of such persuasion as is proposed to be used. (Thus the proposal that the rich give away their wealth to the poor would not qualify as a policy proposal.)

(4) Be "Instrumental"—in the sense that instrument used to achieve the intended results should be independent of the target. (Thus the proposal to reduce the deficit by raising revenues and lowering expenditures is not a policy proposal. It is a tautological re-statement of the wish that the problem be solved. By contrast, the proposal to educate women in order to lower fertility rates is a policy proposal because it exploits a behavioural relationship—between education and fertility—in choosing an instrument to act on a target.)

Finally, while proposals that meet these four criteria would qualify as policy proposals, they need not be good policy proposals. A good policy, while harder to define, anticipates the existence of opposing groups and forces in society and seeks to succeed by creating a sufficiently wide coalition of different groups in society that can prevail over opposing groups with the help of government. On these criteria, however, none of the current proposals for reducing sovereign debt or increasing popular well-being would qualify as a policy proposal much less a good policy proposal.

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