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ABSTRACTS

Inflation Everywhere is a Monetary Phenomenon:
An Introductory Note

NADEEM UL HAQUE and ABDUL QAYYUM

Inflation in Pakistan

MOHSIN S. KHAN and AXEL SCHIMMELPFENNIG

This paper examines the factors that explain and help forecast inflation in Pakistan. A simple inflation model is specified that includes standard monetary variables (money supply, credit to the private sector), an activity variable, the interest and the exchange rates, as well as the wheat support price as a supply-side factor. The model is estimated for the period January 1998 to June 2005 on a monthly basis. The results indicate that monetary factors have played a dominant role in recent inflation, affecting inflation with a lag of about one year. Private sector credit growth and broad money growth are also good leading indicators of inflation which can be used to forecast future inflation developments.

Money, Inflation, and Growth in Pakistan

ABDUL QAYYUM

This paper attempts to investigate the linkage between the excess money supply growth and inflation in Pakistan and to test the validity of the monetarist stance that inflation is a monetary phenomenon. The results from the correlation analysis indicate that there is a positive association between money growth and inflation. The money supply growth at first-round affects real GDP growth and at the second round it affects inflation in Pakistan. The important finding from the analysis is that the excess money supply growth has been an important contributor to the rise in inflation in Pakistan during the study period, thus supporting the monetarist proposition that inflation in Pakistan is a monetary phenomenon. This may be due to the loose monetary policy adopted by the State Bank of Pakistan to show the high priority of the growth objective. The important policy implication is that inflation in Pakistan can be cured by a sufficiently tight monetary policy. The
formulation of monetary policy must consider development in the real and financial sector and treat these sectors as constraints on the policy.

Is Inflation in Pakistan a Monetary Phenomenon?

M. Ali Kemal

The paper finds that an increase in money supply over the long-run results in a higher rate of inflation and thus provides support for the quantity theory of money. It establishes that inflation is essentially a monetary phenomenon. However, the money supply does not instantly influence the price levels; the impact of money supply on inflation has a considerable lag of about 9 months. While the study shows that the money supply works through the system in less than a year, it also points out that the system takes rather long to converge to equilibrium if shocks appear in any of the three variables, viz., GDP, money supply, and prices.

Why Does Agricultural Growth Dominate Poverty Reduction in Low- and Middle-income Countries?

John W. Mellor and Chandrashekhar Ranade

“Alternative models have to compete on the basis of their ability to give a satisfying account of some facts. Facts ask for explanations, and explanations ask for new facts”.

Robert M. Solow, Daedalus (Fall 2005)

This paper provides an explanation of the relation between agricultural growth and poverty reduction for open economies with full employment. The analysis also shows that the poverty-reducing impact of agricultural growth in an open economy is far greater if there is unemployed labour or if the supply of labour is highly elastic—conditions often thought to prevail even in open economies. The model draws attention to the critical role of the rural non-tradable sector in poverty reduction. While ample data are available to show that sector to have a large share of employment, even relative to agriculture itself, data for other variables for the sector such as the share of GDP, labour intensity, price, and income elasticities of demand are not available. Thus, an important contribution of the paper is to establish the need for such data if the processes of poverty reduction are to be understood.
Poverty and Hunger in India: What is Needed to Eliminate Them

ARVIND VIRMANI

There is a widespread impression among the Indian intelligentsia, foreign scholars, and residents of developed/rich countries that India’s economic growth has not reduced poverty, that globalisation has worsened poverty and/or income distribution, and that there are hundreds of millions of hungry people in India. These arguments are buttressed by recourse to India’s ranking on several social indicators. Esoteric debates about the comparability of survey data and gaps between NSS and NAS add to the confusion and allow ideologues to believe and assert whatever information suits the argument. What are the basic facts about poverty, income distributions, and hunger at an aggregate level? This paper reviews the available data and debates on this subject and comes to a commonsense view. It then tries to link some of the outcomes to the policy framework and programmes of the government. The paper finds that India’s poverty ratio of around 22 percent in 1999-2000 is in line with that observed in countries at similar levels of per capita income. The ratio is relatively high because India is a relatively poor/low-income country, i.e., with low average income. 90 percent of the countries in the world have a higher per capita (average) income than India. The number of the poor is very high because India’s population is very large, the second-highest in the world. India’s income distribution as measured by the Gini co-efficient is better than three-fourths of the countries of the world. The consumption share of the poorest 10 percent of the population is the sixth best in the world.

Where India has failed as a nation is in improving its basic social indicators like literacy and mortality rates. Much of the failure is a legacy of the three decades of Indian socialism (till 1979-80). The rate of improvement of most indicators has accelerated during the market period (starting in 1980-81). The gap between its level and that of global benchmarks is still wide and its global ranking on most of these social parameters remains very poor. This is the result of government failure. The improvement in social indicators has not kept pace with economic growth and poverty decline, and this has led to increasing interstate disparities in growth and poverty.

Quantifying the Extent and Nature of Risk in Alternative Cropping Patterns in Claveria, Philippines

ABEDULLAH and MUBARIK ALI

The study develops a formulation to decompose variability in profit into price and production effects. The production effect is further segregated into management and weather effects. The formulation is used to compare and decompose risk in the profit of three existing cropping patterns (corn-corn, corn-fallow, and rice-fallow) in the rainfed areas of Claveria, northern Mindanao, Philippines. High variability and low profitability of the crops in a more risky season (dry in our case) can limit cropping intensities in rainfed areas. However, intensification of the crops during the less risky season (wet in our case) can provide the necessary stake to invest in the risky season crops. Although
weather is the dominant factor in explaining total variability, this should not be interpreted as a general rule for all agricultural environments. In an environment where input intensity is high, and input-output markets are inefficient, management and price effects can dominate the weather effect.

**Determinants of Farm Revenue in Pakistan**

**GUSTAVO ANRÍQUEZ and ALBERTO VALDÉS**

Will small farm viability decline with the reduction of average farm size in Pakistan? This paper addresses the determinants of rural household and farm-related income. Using the 2001 PIDE Household Survey, the approach developed captures the potential interactions between farm returns and household, farm, and factor market characteristics (schooling, family size, land tenure and operational size, access to water, credit, and capital). Econometric results show: (a) returns to additional schooling and the revenue elasticity of operated acres increase with farm size; (b) medium and large farm renters would be willing to pay more than observed rents, implying an incentive to increase farm size at the prevailing rental values; (c) owner-operated farms, landowners who also leases in, and fixed rental tenants earn higher revenues than sharecropping tenants. The difference, however, between landowner/fix-renter income and sharecropper income varies with family and farm size, as well as water use. While these results favour farm size increase, the results also show that off-farm and non-farm income sources are relatively more important for small farmers, contributing to their viability.

**Translating Khan on Singer:**

**Global Solvent Versus Local Interpretation**

**ILHAN CAN OZEN and SEAN M. ZEIGLER**

This work focuses on Peter Singer’s book, *One World: The Ethics of Globalisation*, and a reading of it recently presented by M. Ali Khan. Khan’s response to Singer is acutely critical, but ultimately fails to situate Singer’s offering in its proper historical context. In this sense, Khan’s response is not sufficient. We demonstrate that Singer’s offering is permeated by a universalising discourse marked by asymmetric power relations clearly described by Edward Said in *Orientalism* and, more surprisingly, by Fyodor Dostoyevsky in *The Possessed*. We illustrate how Singer’s narrative and the counter-narrative of Khan represent a continuation of a longer historical disputation between the West and the East.