BY ROBERT LOONEY

It's hardly a secret that U.S. aid to Pakistan has failed to meet its political objectives – that the $20 billion given to this strategically critical country since 9/11 has generated little goodwill for the United States or cooperation in the war in Afghanistan. What may surprise, though, is that aid targeted at improving Pakistan's economy has also been a bust, perhaps even reducing the pace of development. Indeed, geostrategic considerations have willfully blinded us to the hard-won lesson that economic aid that is not carefully targeted on bottom-up programs in failed states like Pakistan is likely to be counterproductive.

As with military assistance, the United States has often threatened to withhold economic aid in retaliation for all manner of bad behavior. These warnings have fallen on deaf ears, though, in large part because Islamabad is secure in the belief that the United States would not risk any action that might trigger Pakistan's economic collapse – and subsequent loss of control over the country's nuclear arsenal to terrorists or to an overtly hostile government.

Such a collapse is not out of the question: the Pakistani economy is in terrible shape, especially when contrasted with its potential. While the economy did grow at a fairly rapid clip through much of the past decade on the strength of buoyant textile exports, per capita income measured in terms of purchasing power is still a miserable $2,500 – less than that of Yemen or Nicaragua. Officially measured unemployment hovers around 15 percent, and is probably much higher in reality since millions of Pakistanis eke out a living as part-time day laborers. The military absorbs a formidable chunk of the government budget, and corruption siphons off a hefty piece of the rest, starving services ranging from education to health care. One sadly indicative statistic: 62 out of every 1,000 infants die at birth, about the same proportion as in Uganda or Laos.

But economic aid isn't the Atlas holding up Pakistan's world. In fact, the evidence suggests that foreign aid may actually be undermining economic progress. A recent analysis by Pakistani economists Muhammad Abdul Wahab and Vaqar Ahmed concludes that 40 years of foreign assistance has been wasted. Worse, it has played the role of chewing gum and bailing wire to sustain bad-business-as-usual, insulating the government and military from any sense of urgency about economic reform. Why even try to buck the

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generals, secret police, landowners and senior bureaucrats if the United States – and now China – could be counted on to rescue the Pakistani government from policy errors, political inertia and natural disasters?

Reform pledges emerge from Islamabad with dreary regularity, only to die when the money delivered in return is used up. The latest, made in 2008 as the *quid pro quo* for a three-year, $11.3 billion bailout from the IMF to contain inflation and currency depreciation, has fared no better than earlier ones. In the past four years, the government has run through four finance ministers, three central bank governors and four finance secretaries, none of whom apparently could convince powerful interests to mend their ways. As Shahid Javed Burki, a former World Bank vice-president who served as a caretaker finance minister in the 1990s, notes, "even the economic elite – the owners of assets in industry, agriculture, commerce and finance – felt that growth was not necessary since their interests were well served by the way the economy was operating."

Although some reforms have been undertaken to broaden the tax base and increase transparency, Pakistan's tax system remains complex and inefficient. Its judicial system is both overburdened and corrupt, and suffers from poor security. Restrictions on foreign investment and state involvement in the economy remain serious drags on economic dynamism. No surprise, then, that Pakistan scored 123rd out of 183 countries on the 2011 Heritage Foundation Index of Economic Freedom — worse than it did in 1995.

If economic aid has actually hindered growth and, at best, bought donors little in political or military terms, could one imagine circumstances in which it would make sense? Conceivably.

World Bank research on "fragile states" in Africa – "fragile" is a Bank euphemism for "failed" – suggests that aid carefully targeted at building the institutions that buttress market economies (property rights, rule of law and the like) can make a difference. It's unclear, though, whether the United States, whose priorities in Pakistan are military and political, is up to the challenge.

Current U.S economic assistance to Pakistan is largely top-down and shifts from one set of objectives to the next along with geopolitical considerations.

What's needed is a more consistent, bottom-up approach – one, ironically, that's already been spelled out in the almost-independent Pakistani Planning Commission's own New Growth Framework. The Framework proposes that the country move toward radically freer markets, giving the country's ample population of entrepreneurs room to shed the baggage of greedy bureaucracies and incumbent monopolists. Of course, there's an element of naiveté here. While the plan certainly looks good on paper, why would domestic

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stakeholders allow it to be implemented?

Why, indeed.

But that's not a good enough reason to abandon what leverage the United States and the multilateral lenders have to make reform a bit more realistic option. A first step would be suspension of U.S. economic aid, which might provide the shock needed to spur the Pakistani government to make promises (albeit unenforceable ones) to implement the Framework. If Islamabad at least went through the motions, the United States might then substitute carrots for the stick by underwriting some of the costs of the program through contributions to the World Bank's ongoing aid efforts in Pakistan. The Bank, unlike the United States, has the proven ability to monitor how the money is spent – and some willingness to risk the wrath of the nice folks in Islamabad who prosper even as Pakistan doesn't.

There have always been plausible reasons not to try a tough-love approach, and surely the same rationalizations for taking the path of least resistance would surface if we got serious about Pakistani economic development now. But maybe the time has come to recognize that hitting our heads against Pakistan's iron wall of greed and paranoia is pointless. Besides, it would feel so good to stop.