

ABSTRACT

ECONOMIC GOVERNANCE IN PAKISTAN

The paper's main thesis is that the difficulty Pakistan has faced in maintaining macro-economic stability, sustaining economic growth and delivering public services to the poor can be ascribed to weak economic governance and gradual decline in the capacity of key institutions.

To strengthen economic governance a non-partisan long term strategic approach is required in which narrow political considerations are set aside and a concerted effort is made to strengthen the key institutions that form the essential core of economic governance. As the capacity of these institutions takes several decades the temptation by incoming governments to abandon or neglect institutions or policies, projects and programs inherited from the previous regime should be seriously curbed. The tendency of starting with a clean slate every time a new government ushers in power without achieving tangible results is painful and also politically costly. It is better to build and consolidate on the previous programs and policies, fine tune and modify them according to the changed circumstances and experiences. The gains become visible during the incumbency period of the incoming government that can then claim credit for the realization of those achievements.

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The questions that are commonly raised today are: Were the economic achievements of the period 2000 – 2007 ephemeral in nature? Was there fudging of data and facts to depict a rosy picture? Why has the economy that was supposed to be so robust fallen so sick all of a sudden?

The single common answer to all these questions lies in the quality of economic governance and decision making and the capacity of the institutions that are key to the economy. Pakistan's main problem in holding on to macro-economic stability, sustaining economic growth and delivering public services to the poor is due to weak governance and a gradual but perceptible decline in institutional capacity. Subordinating economic management to gain short term political gains exposes the country to unforeseen but severe risks. Lack of timely actions and postponing critical decisions needed for the adjustment of imbalances led to the derailing of the economy from the tracks.

The problem was further compounded by adverse exogenous developments both within and outside Pakistan. Surging terrorism, energy shortages, capital flight, political uncertainty, and lack of clarity about economic direction during the transition to civilian rule intensified the difficulties. International environment and the inability to respond to the worsening environment exacerbated the situation. Terms of trade shock due to fuel and food prices have caused income losses of over 11 percent. The recent global financial crises had unhealthy spill over effects such as fear, panic and malfunctioning of money markets.

Had there been a strong and well functioning structure of economic governance at the Federal, Provincial and Local Governments without too much

concentration of powers at the Centre, an effective mechanism for coordination among these various tiers, a fairer distribution of national financial resources, and agreed modalities for dispute resolution, the impact of these adverse domestic and international shocks could have been felt less poignantly. These intervening shock absorbers of good governance would have dampened to some extent the sudden sharp and full impact on the economy.

The agenda for improvement of economic governance has not been pursued faithfully in Pakistan as its implementation spans over several decades while the elected and military governments have short time horizons. The elected governments, in their pursuit of winning the elections and the military governments in their attempts to gain legitimacy, get bogged down in ad-hoc and at times populist measures without addressing the root cause, i.e. the building of institutional capacity to deliver improved living standards for the majority of the population and setting up a viable governance superstructure. Personalized decision making according to the whims and caprices of individuals in power has displaced informed and well thought out institutionalized processes.

The changes in political regimes have caused disastrous consequences for economic governance in Pakistan. During the 1990s the changes were too frequent and chaotic. Narrow political considerations and scoring points over the outgoing regimes by depicting the state of economy in much worse shape than it actually was and knee-jerk actions in abruptly discontinuing the policies, projects and programs inherited from the previous regimes created perverse effects. As institutions take a long time to nurture, the implementation of projects is spread over a multi year period and the impact of policies is felt with considerable time lag, premature abandonment by successive regimes of the policies inherited from their immediate predecessors caused more damage than good. The incoming government started all over again with a clean slate and by the time it put in place its own policies, programs and projects, either it was overthrown forcibly or had to step down before completing its tenure. The incoming government begins

the cycle again with a fresh set. No wonder, the majority of the populace never witnesses any benefits or gains to them while the national exchequer is constantly drained due to the unending costs incurred by every successive regime. We should therefore remain wary of measures that may have a powerful superficial appeal in the short term but have adverse consequences in the medium to long term.

What is the effect of this unending cycle of politically motivated poor economic governance on the majority of the population? A sense of deprivation and denial of basic economic rights creates feelings of cynicism, negativism and frustration. The credibility of governments in power – any government – is completely eroded. Distrust of ‘government’ becomes so widespread and credibility of ‘government’ so low that unfounded and unsubstantiated rumours, mudslinging and suspicion about their motives assume a momentum of their own. In the last six to seven years the media, taking advantage of this widespread lack of credibility of the government, have taken over the role of opposition party and have thus accentuated the feeling of negativism. Markets, on the other hand, function on sentiments. If market participants have confidence in the government and its institutions the overall result is stability in the markets. But if there is lack of credibility, an air of uncertainty, and crisis of confidence, the markets become nervous and jittery and we witness a lot of volatility. However good and sound the policies may be under these circumstances of low credibility and mistrust their implementation becomes problematic. Credibility is a fragile thing and once lost takes a long time to re-establish. Research in modern behavioral economics has shed light on the relationship between psychological effects and the response of economic actors.

A society with positive attitude will give enterprises far greater freedom to compete than a society that perceives businesses to be unethical or in cahoots with the government for their personal aggrandizement. Patronage and cronyism in form of licenses, tariff concessions, tax exemptions to only a selected few or

sale of public assets to the favorites of the rulers or appointments to key public offices not on merit but on the basis of loyalty, affiliation and friendship sharpen the negative sentiment. That's why the program of privatization of public enterprises, economically desirable and so badly needed, has almost been abandoned ever since the perception, right or wrong, gained currency that the Pakistan Steel Mills was being sold for too low a price to the cronies of the government.

Economic governance is not only the formulation and announcement of policies such as Monetary and Fiscal policies but is a much broader concept. The essential ingredients of good economic governance are Participation, Transparency, Credibility, Rule of Law, Efficiency and Accountability. These ingredients have been captured directly or indirectly through a number of governance indicators which have been developed and refined over time. The most commonly used indicators are a composite of (a) Voice and accountability (b) Political stability (c) Government effectiveness (d) Regulatory burden (e) Rule of law and (f) Corruption.

We have extensively covered the issue of credibility earlier. If we turn to participation, the common view is that the Centre has assumed too much powers and authority and this excessive concentration of powers has led to inefficiency, social fragmentation, and ethnic divisiveness. Devolution of powers to Local Governments introduced in 2001 was a step in the right direction but has not been fully implemented either in letter or in spirit. Worse still the whole system that is not yet fully in place according to the original design, is at risk of being overthrown by the incoming government simply because it was the handiwork of the previous government. Instead of fine tuning and removing the deficiencies and weaknesses in the system revealed during its implementation in the last seven years the baby is being thrown out with the bath water. It will take another five to six years before a new system in tune with the thinking of the present ruling parties gets going in full swing. But there is no guarantee that the new

government that replaces the present one may not have different ideas of its own. In the meantime the devolution of powers to local governments will remain in a state of animated suspension. This absence of continuity in our governance structure, however imperfect it may be, has more hazards than is generally realized. This dilly-dallying will not strike at the problem of too much concentration of powers in the hands of the Centre and this, in turn, will intensify the ill feelings among the smaller provinces.

Transparency in the actions of the Government can be achieved by several means, i.e. hearings of Parliamentary Committees, Question hours in the National and Provincial assemblies, Freedom of Information Act, removal of several clauses of the Official Secrets Act, introduction of E-government and investigative reporting by competent and responsible journalists. Most of these measures exist but more in form rather than substance. We go through the rituals without seriously attempting to reveal much. Excessive liberties exercised by some of the media representatives in assassinating the character of political leaders or public servants without substantiation or evidence would prove to be more detrimental to the cause of disclosure and transparency.

Rule of Law has been a hot topic of debate and discussion in Pakistan since March 2007. The Lawyers' movement demonstrated that if a particular community gets rallied around a legitimate cause it can make a difference. But as the momentum dies down it is not clear if a common citizen is any better off today in terms of access to justice, speedy redressal of grievances, enforcement of contracts or property rights. The rhetoric about the rule of law is loud but the reality is far more sobering.

Efficiency as measured by Government effectiveness either in maintenance of security of life or property, law and order, delivery of basic services has rapidly declined over time. Most institutions entrusted with these responsibilities at the time of independence were relatively well run. But the

opposite is true after 60 years. It is only a rarity that a public institution is found to be functioning smoothly and effectively. The differential treatment meted out to the well-to-do and influential segments on one hand and the rest of the population on the other violates the principle of fairness and good governance. But this is the norm and not the exception. With each change of government a new cast of political elites and well connected influentials occupy the space.

A number of laws and institutions exist in the name of Accountability in Pakistan. Starting from the Public Accounts Committees at the Federal and the Provincial Assembly level there is a plethora of Committees, Bureaus, Task Forces, Departments, and Wings that are charged with this responsibility. National Anti-Corruption Strategies are formulated and announced with a big bang and a lot of fanfare. National Accountability Bureau made a very promising start and instilled some fear and induced a deterrence effect but this was only for a short period of initial three years of Musharraf Government. Soon after, political compulsions gave way to a pragmatic approach whereby the impartiality and neutrality of the NAB came under serious questioning. Thus despite a very strong legal instrument and a well organized infrastructure of investigation, prosecution and courts, the practice of true accountability was once again set aside. Accountability has therefore lost its true sense and meaning in the vocabulary of governance and instead has become associated with retribution, settling political scores and a tool for winning over opponents and haunting the recalcitrant.

CONCLUSION

The above survey demonstrates that economic governance requires a non partisan, long term strategic approach in which narrow political considerations are set aside and a concerted effort is made to strengthen the key institutions that form the essential core of economic governance. As the capacity of these institutions takes several decades the temptation by incoming governments to

abandon or neglect the institutions or policies, projects and programs inherited from the previous regime should be seriously curbed. The tendency of starting with a clean slate every time a new government ushers in power without achieving tangible results is painful and also politically costly. It is better to build and consolidate on the previous programs and policies, fine tune and modify them according to the changed circumstances, experiences, and preferences. The gains become visible during the incumbency period of the incoming government that can thus claim credit for the realization of those achievements. While it is true that the ruling party wins the elections on the basis of its manifesto and mandate the political costs of large scale and across-the-board dismissal of everything initiated by the previous governments in form of economic dislocations, increased uncertainty and erosion of confidence far exceed the benefits during the limited life cycle of any incoming regime.

It is high time that this highly charged emotional, rhetorical and blame game approach is replaced by a more sobering, painstaking, time consuming brick-by-brick building of the blocks that strengthen the foundations that can support the superstructure of key institutions of economic governance in the country.