

## **Institutions of Restraint: The Missing Element in Pakistan's Governance**

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Governance and Institutions are not ends in themselves but it is well known by now that good governance and effectively functioning institutions are required, along with sensible policies and well designed public investment, to improve resource allocation and comparative advantage, enhance productivity, facilitate more efficient markets and distribute the benefits of growth more equitably in any economy.

How do Governance and Institutions interact? Governance refers to the manner in which power is exercised in the management of a country's economic and social resources. Good governance requires checks and balances in a country's institutional infrastructure, such that politicians and bureaucrats have the flexibility to pursue the common good, while restraining arbitrary action and corruption. The state's monopoly on coercion, coupled with access to information not available to the general public, creates opportunities for public officials to promote their own interests, or those of friends or allies, at the expense of general interest. The probabilities for rent seeking and corruption are considerable.

A variety of institutional mechanisms can provide the checks and balances that will lead to good governance and reduced corruption. To be enduring and credible, these mechanisms need to be anchored in core state institutions. Power can be divided horizontally among judiciary, the legislative and the executive, and vertically between central, provincial and local authorities.

Beyond the institutions within the state structure, voice and participation from civil society e.g. vigilant NGOs and watchdog bodies, independent but impartial media, user participation surveys, public dissemination of governance benchmarks—can exert external pressures for better government performance and reduced corruption.

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*Author's Note:* The views expressed in this article are his personal views and do not represent those of the World Bank, its management or the Executive Directors.

In addition to formal institutions, informal institutions also exist and in many instances are equally powerful. Examples of informal institutions are trust, values and norms. Trust has been found to play a positive role in the functioning of large public and private organisations while political norms usually constrain the behaviour of politicians and bureaucrats.

The main functions of the public sector institutions can be classified into three broad categories—policy-making, service delivery and oversight and accountability. This paper does not cover the policy-making and service delivery aspects of the public sector but focuses on oversight and accountability functions. Together with the voice and participation from civil society (through NGOs and watchdog bodies, independent but impartial media academics, researchers, think tanks and professional bodies) and external bodies to which Pakistan belongs (UN, World Bank, IMF, WTO etc.) these institutions of oversight and accountability in public sector are lumped together as institutions of restraint.

The term “institutions” needs to be defined more precisely so that the subsequent discussion is better focussed. We adopt the definition used by “new institutional economics”. Institutions are rules that shape the behaviour of organisations and individuals in a society. They can be formal (Constitutions, Laws, regulations, contracts, internal procedures) or informal (trust, values and norms). For economic analysis, it is useful to distinguish between two sets of institutions: markets and hierarchies. *Markets* are a set of institutions that set the stage for conducting discrete and impersonal transactions, without requiring continuous contractual relationship. *Hierarchies* are sets of rules for making transactions based on vertical lines of decision-making authority. They are distinct from organisations which are set of actors who collectively pursue common objectives. Institutions constitute the incentive structure for the behaviour of organisations and individuals.

This paper addresses five set of questions: (a) Why do institutions matter? (b) How do we measure ‘Governance’? (c) How does Governance measure up in Pakistan? (d) What are the institutions that can make the difference in improving governance in Pakistan? (e) How can we strengthen these institutions of restraint?

### **WHY DO INSTITUTIONS MATTER?**

Recent empirical research aimed at isolating the factors affecting economic growth and development have come up with a number of interesting results. Cross-country regressions on growth, popularised by economists such as Robert Barro, have made use of availability of large data sets as well as information on new variables which were not always considered relevant by economists. This new research has focussed on the influence of political—institutional variables, social capital and trust, corruption etc. A review of this literature provides fresh insights

and broadens our understanding about the development process. Some of these facts are beyond the policy prescriptions which economists are so fond of and fall in the realm of other social scientists and political leader but there are yet a number of institutional factors which are amenable to change.

Alesina's survey of literature (1997)<sup>1</sup> indicates that four sets of political institutional variables have been used in cross-country regressions on growth: (i) variables capturing the quality of government and institutions such as measures of corruption; (ii) protection of property rights and enforcement of contracts; (iii) institutional variables, such as whether the country is a democracy or not; (iv) the socio-economic characteristics of the country such as initial income inequality and ethnic or religious composition.

Many of these political-institutional variables appear to be highly co-related. According to Alesina, one possible interpretation of this observation is that good things go together—that political stability, an efficient bureaucracy, and low levels of corruption are positively associated. Second, many good institutional features are strongly co-related with per capita income. Good institutions facilitate growth, and at higher income levels it is easier to maintain political stability and efficient institutions.

When the values of many political-institutional variables are compared for the ten slowest and ten fastest growing economies in the sample the results are striking. The ten slowest-growing economies tend to be more ethnically fractionalised and more politically unstable. They also tend to have much poorer indicators of the rule of law and institutional quality, much higher black market premiums and greater income inequality.

Among the variables measuring political instability, variables measuring government fragility (frequency of government changes and coup d'états) and variables sociopolitical instability (political assassinations, riots and revolutions) can be distinguished.

Alesina *et al.* (1996)<sup>2</sup> suggest that a much better way to measure the effect of uncertainty about government survival is not the actual occurrence of a government change but the uncertainty in expectations caused by the underlying probability of a government collapse. Following this procedure they find that government fragility has a negative effect on growth.

The variables measuring social conflict, such as assassinations, demonstrations and strikes, tend to be significant: more instability is harmful for growth. An index of sociopolitical instability is empirically found to have a negative effect on growth;

<sup>1</sup>Alesina, A. (1997) "The Political Economy of High and Low Growth". World Bank Annual Bank Conference on Development.

<sup>2</sup>Alesina, A. *et al.* (1996) "Political Instability and Economic Growth". *Journal of Economic Growth* 1: (June) 188–212.

more instability reduces investment. A plausible interpretation is that political instability creates uncertainty and undermines investor confidence for two reasons. First, frequent government changes may make the policy environment unstable, leading to policy uncertainty. Second, signs of even more extreme instability may threaten property rights, leading to even more acute loss of investor confidence.

The results on bureaucratic quality, rule of law and corruption are very clear and strong. All these variables are strongly significant indicating that weak institutions have strong and significantly negative effects on growth. Rodrik (1997)<sup>3</sup> convincingly shows that bureaucratic quality explains much of the difference between the most successful and least successful East Asian economies.

Bureaucratic inefficiency and institutional quality influence growth for several reasons. Inefficient and corrupt bureaucracies require lengthy and expensive procedures for opening business, which may reduce foreign investment and channel domestic investment toward the underground economy. An inefficient bureaucracy also provides a low level of productive public goods for given levels of taxation. And for enforcement of the law, especially poor enforcement of contracts, make investment activities costly, uncertain and risky for domestic and foreign investors.

Mauro (1998)<sup>4</sup> presents evidence that corruption not only reduces private investment but also worsens the composition of public expenditure. For example he finds a negative and significant relationship between corruption and government expenditure on education. As educational attainment is an important determinant of economic growth this finding is a cause for concern.

In an earlier study<sup>5</sup> Mauro had estimated that an improvement in the corruption index was associated with an increase in the investment rate by 2.9 percent of GDP. Similarly, an improvement in the bureaucratic efficiency index is associated with increase in the investment rate by 4.75 percent of GDP. As investment is a robust determinant of growth, corruption lowers economic growth. Mauro confirms this link between corruption and growth and estimates that an improvement in the corruption index is associated with a 1.3 percentage point increase in the annual growth rate of GDP per capita.

As institutional efficiency persists over time, bad institutions play a considerable role in bringing about low economic growth, thus leading to poverty.

Many developing countries offer substantial tax incentives to lure foreign investors to locate in their countries. Wei (1998)<sup>6</sup> found evidence that corruption discourages foreign investment. He has estimated that if India could reduce its

<sup>3</sup> Rodrik, D. (1997) "TFPG Controversies, Institutions and Economic Performance in East Asia". Cambridge, Mass. NBER. (NBER Working Paper 5914.)

<sup>4</sup>Mauro, P. (1998) "Corruption and the Composition of Government Expenditure". *Journal of Public Economics* 69: 263–279.

<sup>5</sup>Mauro, P. (1995) "Corruption and Growth". *Quarterly Journal of Economics* 110:3 681–712.

<sup>6</sup>Wei, S. (1998) "How Taxing is Corruption on International Investors?" Cambridge, Mass. NBER (NBER Working Paper 6030.)

corruption level to the Singapore level, its effect in attracting foreign investment would be the same as reducing its marginal corporate tax rate by 22 percentage points. His research suggests that developing countries would have attracted as much or even more foreign investment without any tax incentive if they could get domestic corruption under control.

Keefer and Knack (1996)<sup>7</sup> find that measures of social capital and trust using data from surveys of individual attitudes are positively and significantly associated with growth. They find that trust and civic norms are stronger in nations with institutions that restrain predatory actions of Chief Executives. They argue that economic activities that require some agents to rely on the future actions of others are accomplished at lower cost in higher trust environments. Individuals in high-trust societies are also likely to divert fewer resources to protecting themselves—through tax payments, bribes and private security services—from unlawful violations of property rights. Low trust can also discourage innovation. If entrepreneurs must devote more time to monitoring possible malfeasance by partners, employees and suppliers, they have less time to devote to innovation in new products or process.

Government officials in societies with higher trust may be perceived as more trustworthy, and their policy pronouncements as thus being more credible. To the extent that this is true, trust also triggers greater investment and other economic activity. Promises by central bankers that they will not raise interest rates, assurances by ministries of finance that a nominal exchange rate anchor will remain fixed and guarantees that tax legislation will not be rapidly amended are all likely to be more credible in societies where people trust each other more. As a consequence, in such societies people adopt more appropriate horizons in making investment decisions, and choose production technologies that are optional over the long, rather than short, run.

Borner, Bruvetti and Weder (1995)<sup>8</sup> use survey data to assess directly the credibility of the policy environment and of contract enforcement and conclude that these variables measuring institutional quality are very important.

Commander, Davoodi and Lee (1997),<sup>9</sup> using a large data set, have come to the conclusion that it would take 22 years for a country with a small government and good institutions to double its per capita income, whereas it would take 239 years for a country with a large government and weak institutions to do the same.

Cross-country evidence shows that the issues of Voice, Participation and Influence do not only affect equity but have an impact on the overall efficiency of

<sup>7</sup>Philip Keefer and S. Knack (1996) "Does Social Capital have an Economic Pay off? A Cross-Country Investigation". University of Maryland, College Park, Dept. of Economics.

<sup>8</sup>Borner, Bruvetti and Weder (1995) "Political Credibility and Economic Development". New York: St. Martin's Press.

<sup>9</sup>Simon Commander, Davoodi and Lee (1997) *The Causes of Government and the Consequences for Growth and Well Being* (World Bank, PRE WP 1785).

projects and economic growth. A functioning legal system enhances investment and hence employment opportunities and thus supports overall economic expansion but if designed and monitored by those affected by the system it can also provide security to the poor and empower the poor vis-à-vis the local power structures.

The most revealing evidence about the relationship between Governance and Poverty Reduction has come from the recent studies on the Voice of Poor.<sup>10</sup> The poor are emphatic in their grievances against the extortion, harassment and humiliation at the hands of the Police and other state functionaries. They believe that they are powerless vis-à-vis the high handed and arbitrary behaviour of the state organs and this powerlessness is one of the dimensions of their continued poverty.

To sum up, well functioning institutions do affect economic growth and distribution through a variety of channels:

- (a) The predictability, transparency, enforcement of contracts, efficient and honest bureaucracy and tax collection facilitate inflow of foreign investment and discourage domestic investment from flowing into the underground economy.
- (b) A reduction in the incidence of corruption is associated with an increase in the rate of per capita growth.
- (c) Presence of trust and social capital help reduce transaction costs and avoid diversion of resources towards security and protection of life and property.
- (d) Strong and inclusive institutions reach out to the poor segments of the population and assist them in the delivery of basic social services.

#### HOW DO WE MEASURE “GOVERNANCE”?

The recent empirical literature on the subject has relied on a number of subjective and objective indicators of the quality of institutions. The subjective indicators are in fact indicators of perception derived from surveys of international and domestic interests or from international political and economic consultants who deal with the business in these countries. The respondents answer to a variety of questions relating to governance on a categorical scale and those are then presented as average ratings for the country. The quality of those country ratings, of course depends largely on the knowledge and biases of the respondents. Objective indicators deal with the legal system, tax administration etc. These are very few examples of robust objective indicators.

Kaufman *et al.*<sup>11</sup> have recently made an attempt to develop aggregate governance indicators for a large set of countries. They have used six clusters of indicators and grouped them under three categories: (a) the process by which governments are

<sup>10</sup>World Bank, *Consultations with the Poor* (Washington, D.C. 1999).

<sup>11</sup>Daniel Kaufman *et al.* *Aggregate Governance Indicators* (Washington, D.C. World Bank Institute, 1999).

selected, monitored and replaced; (b) the capacity of the government to effectively formulate and implement sound policies; and (c) the respect of citizens and the state for institutions that govern economic and social interactions among them.

The indicators under the first category consist of two clusters: voice and accountability; political instability and violence. Capacity of government category include government effectiveness and regulatory burden while the third category is comprised of Rule of Law and Corruption.

The components under each one of these clusters of aggregate governance indicators are shown in Table 1.

Table 1

*Governance Indicators*

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<p><b>Voice and Accountability</b></p> <ul style="list-style-type: none"> <li>* Political Process</li> <li>* Civil Liberties</li> <li>* Political Rights</li> <li>* Media Independence</li> <li>* Civil Society</li> </ul> <p><b>Political Instability</b></p> <ul style="list-style-type: none"> <li>* Change in Government</li> <li>* Armed Conflict</li> <li>* Social Unrest</li> <li>* Terrorism</li> <li>* Ethnic Tensions</li> </ul> <p><b>Government Effectiveness</b></p> <ul style="list-style-type: none"> <li>* Quality of Public Service Provision</li> <li>* Quality of Bureaucracy</li> <li>* Competence of Civil Servants</li> <li>* Independence of the Civil Service from Political Pressure</li> <li>* Credibility of the Government to Policies</li> </ul> <p><b>Regulatory Burden</b></p> <ul style="list-style-type: none"> <li>* Wage Price Controls</li> <li>* Independent Bank Supervision</li> <li>* Executive Regulation in Foreign Trade and Business Development</li> <li>* Government Intervention in Economy</li> <li>* Restriction on Ownership</li> <li>* Foreign Currency Regulations</li> </ul> <p><b>Rule of Law</b></p> <ul style="list-style-type: none"> <li>* Incidents of Crime</li> <li>* Independence and Effectiveness of the Judiciary</li> <li>* Enforceability of Contract</li> <li>* Law and Order</li> <li>* Security of Property Rights</li> <li>* Crime and Theft</li> <li>* Extent of Tax Evasion etc.</li> </ul> <p><b>Corruption</b></p> <ul style="list-style-type: none"> <li>* Exercise of Public Power for Private Gain</li> </ul>
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A number of sources cover governance data for a large sample of developed and developing countries. These are EIU, DRI, Heritage Foundation—WSJ, PRS and WDR. The choice of indicators is thus driven by the availability of data.

### HOW DOES GOVERNANCE MEASURE UP IN PAKISTAN?

Despite the limitations of data and subjective nature of the governance indicators this paper attempts to assemble at one place all the existing information on these indicators as they relate to Pakistan. As they are based on a variety of different sources and lack a uniform and standardised definition they should not be taken as precise measures but more as broad indicators of magnitude. Where possible, comparative indicators for the other countries in the region are provided to assess the relative position of Pakistan. Table 2 below presents the information on the measures of governance collected by a variety of international sources.

Table 2

*Measures of Governance in Pakistan*

		Score	Source
(1) Bureaucratic Quality	1998	3.5	ICRG <sup>1</sup>
(2) Corruption	1998	3.5	-do-
(3) Law and Order	1998	3.0	-do-
(4) Protection of Property Rights	1998	3.0	Heritage <sup>2</sup>
(5) Government Intervention Index	1998	3.5	-do-
(6) Wage and Price Controls	1998	3.5	-do-
(7) Trade Policy Index	1998	6.0	-do-
(8) Regulation	1997	4.0	Heritage
(9) Black Market	1997	3 +	-do-
(10) Country Credit Rating	1998	18.6	Euromoney <sup>3</sup>

*Notes:* (1) International Country Risk Guide (ICRG) assesses three categories of risk: political, financial and economic. The higher the rating the lower the risk.

(2) Heritage index has values 1 to 5. The higher the score the more government interference in the economy and thus low scales represent good governance.

An important and rich source of comparative data on key governance indicators is the 1999 Human Development Report on South Asia.<sup>12</sup> Table 3 draws on these indicators to present Pakistan relative to other South Asian countries which is not much of a satisfaction as the state of governance in the region is generally weak. The Human Development Report has introduced a new concept of Humane Governance Index (HGI) which is a composite index of indicators measuring economic, political and civic

<sup>12</sup>Human Development in South Asia 1999 (Islamabad, HDC and OUP, 1999).

Table 3

*Comparative Indicators of Governance*

Indicator	Pakistan	India	Bangladesh	Sri Lanka
Humane Governance Index	0.502	0.577	0.462	0.465
Composite ICRG Risk Rating 1998	53.8	64.8	62.3	63.3
Institutional Investor Rating 1998	25.3	44.9	26.1	32.5
Corruption Ranking 1998	14	18	4	–
Bureaucratic Efficiency Index	4.3	5.5	4.7	6.7
Index of Efficiency of Judiciary	5.0	8.0	6.0	7.0
Size of Black Economy (% of GDP)	50	35	30	25
Right of Information Act	No	No	Yes	No
Independent Newspapers	Yes	Yes	Yes	No

*Source:* Human Development in South Asia 1999: (Islamabad: Mahbub-ul-Haque Human Development Centre, 1999).

governance. Using the HGI for South Asia as the benchmark, Pakistan fares lower than the value of 0.56 for South Asia and 0.65 for East Asia. It ranks below India but above Bangladesh and Sri Lanka in this region. Among the fifty eight industrial and developing countries for which the HGI has been constructed Pakistan ranks 52nd and is seventh from bottom of the list.

The above indicators simply confirm what is already known quite widely that the current state of governance and institutional development in Pakistan is fairly weak. The overall country rating is lower than India and the credit rating for the country as derived by Euromoney and Institutional Investor has declined significantly over last ten years.

Besides the HDR 1999 one of the few empirical studies of corruption in Pakistan was carried out by Khattak, Shafiur Rehman and Shafqat<sup>13</sup> for the UNDP. The main findings of the study based on a set of interviews and review of literature were that there was a perceptible increase in corruption among bureaucrats. Poor pay structure, cultural considerations (e.g. nepotism), the phenomena of “speed money” and the willingness of clients to bribe were identified as the principal causes for corruption. As with the civil bureaucracy, “poorly paid and overworked judges, magistrates and court officials are left vulnerable to offers of bribery or misuse of patronage, preferential treatment, as well as intimidation, terrorism, assault by opponents to the judiciary”. The study found that there were rules, procedures and institutions to combat and counter corruption in Pakistan and theoretically the instruments of accountability do exist but their enactment is sporadic and weakly coordinated because power politics, as opposed to a strict adherence to legal principles guide their workings.

<sup>13</sup>Saba Khattak, Shafiur Rehman and S. Shafqat. Perspectives on Corruption in Pakistan: A Pilot Study (Islamabad, S.D.P.I., 1999).

A 1995 World Bank consultant survey of 200 small, medium and large business firms in manufacturing and commerce<sup>14</sup> found that corruption was one of the four major constraints on their operations as perceived by the respondents. Seventy eight percent of the surveyed firms had paid bribes to public officials mainly in the income tax, labour, customs and excise/sales departments. A survey of 6,020 rural households carried out in 1996-97 revealed that 95 recipients of loans from banks out of 219 had paid bribes in exchange for loan approval.<sup>15</sup> The average amount paid as bribes was 3.5 percent of the loan amount.

There is a strong tendency among many observers and commentators in Pakistan to either be too dismissive of everything across the board or too defensive. The job of an analyst is to provide an objective and balanced assessment of both the positive and negative factors. But, unfortunately in our country such an assessment does not make headlines in the newspapers and does not command large following among the readership such as a number of our popular columnists do. But irrespective of this growing trend it would be highly inadvisable if our academics and research also yield to this temptation and fall in the trap of earning cheap popularity at the expense of informed, fact based, rigorous examination of issues. As it is, there are very few well established and well known economists and social scientists of international repute among the Pakistanis. It will be suicidal for scholarship if the younger generation of scholars also adopts as their role models either the prophets of gloom and doom who find fault with everything in Pakistan and are always enamoured by the mirages of greener pastures everywhere else or the coterie of sycophants and courtiers who lack the courage to tell the truth to their political masters. In making its findings and conclusions known, the analyst should divulge his biases or pre-conceived notions, the methodology and framework of analysis. This is particularly true for the study of governance where objective and quantifiable measures are scarce to begin with.

It is in this spirit that I wish to present a balance sheet of accomplishments and failures in the area of Governance and Institutional Development in Pakistan. Let me begin by outlining the methodology and the framework of analysis used in this paper.

There are three yardsticks which can be employed to judge the progress (a) change over time (b) absolute measure against expectations or specified targets (c) relative to other peer group of countries. What are the indicators we have chosen to measure progress or lack of it? As described in the earlier section there are six sets of indicators which are found to be empirically correlated with good governance (Table 1). The same six indicators are applied in this study.

In making this presentation today I would like to supplement the published

<sup>14</sup>Susan Rose-Ackerman, "Corruption in Pakistan: Causes and Cure" (A background note for Pakistan 2010 study of the World Bank, 1996).

<sup>15</sup>Applied Economics Research Centre, Punjab Economic Research Institute and Pakistan Institute of Development Economics. Rural Financial Markets Study for the World Bank (draft, 1999).

research and data on these indicators with my own subjective and qualitative assessment based on informed but casual empiricism. This empiricism is derived from a careful and continuous study of the situation in Pakistan, informal contacts and conversations with a wide ranging group of businessmen, politicians, civil servants, academics, media, NGOs in Pakistan. The knowledge thus acquired is situated in the context of other developing countries with which I have either been professionally involved or have studied over the last 20 years. It is further augmented by systematic literature survey. I offer these assessments as working hypotheses to elicit reactions and provoke further debate on this subject so that we can have a solid empirical basis for subsequent work. The ideal situation would be to carry out systematic diagnostic surveys as has been done in many countries and test these hypotheses. I hope this can be done sometime in the future.

#### **(i) Voice and Accountability**

The overall impression about this indicator is that there have been improvements in the “Vice” but only modest beginning in the “Accountability” part of this measure. Independent and fiercely free print media has emerged strongly in this country during the last decade and attempts made by successive governments to muzzle its worst critics have proved to be largely unsuccessful. The exception is the Radio and TV but the satellite dishes have opened up the vista for alternative sources such as CNN and BBC.

The other positive achievement has been the growth in the activities and coverage of the non-governmental organisations and advocacy groups for human rights, women rights, labour rights and environmental protection. The opening up of education and health services to the private sector and the NGOs has created some high quality institutions in this country but their access to the poor and disadvantaged groups remains limited. The market test revealed through employment and admissions to higher learning institutions has proved to be more potent in differentiating the good from the bad. In the realm of serving the poor some organisation such as AKRSP and Orangi project have won international acclaim.

Accountability Ordinance drafted by the Interim government in 1996 was a good beginning in setting up an impartial, bipartisan and credible process of holding the public office holders accountable for their actions and deeds. This coupled with the “Freedom of Information Act” and elimination of “Official Secrets Act” in its present form can put in place elements which would promote transparency in decision-making. But unfortunately the subsequent developments have raised doubts about the neutrality and efficacy of the accountability process in the country.

#### **(ii) Political Stability and Violence**

It has been more than 11 years that the democratic form of government has reverted to Pakistan after an equivalent period under a military regime. But this period

has been a far cry from a politically stable and predictable form of transfer of power. None of the elected government was allowed to complete the normal term of office. We have witnessed eight different Prime Ministers and four general elections since 1988. Although the legacies of the Martial Law induced constitutional provisions such as the Eighth amendment and the extraordinary influence of the President and the Chief of Army Staff have been eliminated recently the debate about the countervailing forces under the constitution has not died down. The yearning for removing elected governments before completing their full term of office has assumed almost a manic proportion among our intelligentsia and chattering classes. It is very rare that the rumours and speculations about the change in the government do not start flying around soon after the first year of completion of the office. These rumours and speculations prove to be self-fulfilling prophecy. Business confidence begins to deteriorate, new investment dries up, growth falters and economic conditions become more tough. The situation is not helped by the successive governments which have displayed either ineptness or incompetence or indulged in large scale corruption. The cycle of political instability is accompanied by macroeconomic instability. The international financial institutions (IFIs) are called in to help restore macroeconomic stability. As Pakistan's past track record in implementing the agreed policy measures has been anything but stellar the IFIs insist upon up-front actions before tranche releases which do not always bring kudos to the political leaders. The tension between the urge to pursue populist policies and the compulsion to stick to the agreements reached with the IFIs leads to inconsistent and at times confusing signals. Neither the public-at-large is pleased nor the IFIs are happy at these outcomes. We lose credibility in the eyes of both the domestic constituency as well as international financiers. This cycle is repeated with every change in the government with the threshold of bearing pain becoming lower and lower while the doses of pain-inflicting medicines becoming stronger and stronger over time. Thus, our political instability in so far as it impinges upon macroeconomic stability Pakistan scores low over time, in comparison to our initial expectations and in relation to other countries.

On the other component i.e. violence, our record in the past several years has been worrisome. Although the external factors such as the Afghan war had a major role to play, the ethnic tensions, religious divisiveness and sectarian intolerance have raised their ugly spectre in the country. The score on this dimension is low on all three yardsticks.

### **(iii) Government Effectiveness**

A view which is commonly shared by different sections of the population has to do with the effectiveness of government. Both Prime Minister Nawaz Sharif and former Prime Minister Benazir Bhutto have publicly expressed their frustration with 'an

antiquated and exploitative system' prevailing in Pakistan. Unfortunately, the actions taken by the political leadership to correct the system's deficiencies has in fact contributed further to its ineffectiveness. By appointing their favourites to key positions, ignoring seniority and merit-based promotions, inducting outsiders with little or no expertise or competence, purging civil servants without due legal process, allowing corruption and sycophancy to flourish, discouraging dissenting views, debates and thorough professional analysis of issues and failing to enforce standards of accountability the political rulers from successive regimes have created a culture of fear, apathy, indifference, inertia and lack of initiative among the bureaucracy. The well intentioned political leaders are understandably frustrated that their manifestos and commitments to the general public are seldom implemented. The majority of the bureaucrats, on the other hand, have seen so many arbitrary acts of retribution with every change of government that they avoid any acts of commission. It is argued that nobody is ever punished for acts of omission but our history is replete with the sacking of those who took initiative and actions in larger public interest. These actions were soon transformed to benefit narrow personal interests. The catch phrase among the honest bureaucrats is 'lie low' and 'don't create any waves' while the dishonest among them are more than willing to work hard when their personal interests converge with those of their political masters. Under this kind of set up the loser is the ordinary citizen who is deprived of the access to basic services due to ineffectiveness and indifference of government functionaries.

As a result of the above dynamics bureaucratic quality has declined over time and is at the lower end of the scale because the civil service structure and incentive system have not kept pace with the changing political and social developments of the last two decades. Moreover, objective standards of accountability of civil service have eroded and become highly diffused and unclear.

The other worrisome trend is that instead of devolving power to the lower tiers of government and decentralising functions closer to the ultimate beneficiaries there have been tendencies for concentration of powers in the hands of the Chief Executives at the federal and the provincial levels.

I don't think it will be very controversial if we give a very low score to government effectiveness over time, in comparison to our expectations. This indicator will not improve unless civil service reform is implemented in serious earnestness including better pay structure. I think that there is not much difference among the countries in South Asia on government effectiveness.

#### **(iv) Regulatory Burden**

A study of the regulatory burden carried out in the 1980s had revealed that the number of government agencies and departments a medium sized enterprise had to encounter in the course of doing business exceeded 60. This covered all kinds of

activities ranging from acquiring a piece of state land to obtaining permission to build, import and install machinery and equipment, obtain financing, get electricity, water, gas connections, employ labour, procure domestic raw materials and inputs, produce goods, pay taxes, cesses and charges and sell these goods in domestic or foreign markets. Since then there has been, on paper, some deregulation which has reduced a number of steps but the writ of the federal, provincial and local governments still looms large in practice. Increased harassment and extortion by the officials of various agencies and departments have increased the cost of doing business honestly and deterred new investment in the country. The unscrupulous businesses, in connivance with corrupt bureaucrats, can take all kinds of liberties with the laws, rules and regulations in force—understate income and profits, evade tax payments, under invoice exports, misclassify imports etc. On the other hand, where regulation is necessary to provide safety to consumers, protect health or environment in which we live there is complete laxity in enforcement and compliance. The result is that drinking water is contaminated, drugs are spurious, food is adulterated, piles of garbage can be seen everywhere, neighbourhoods are full of filth, traffic movement is hazardous and crime and violence are rampant. It is common knowledge that the regulators themselves—police officials—own a sizeable fleet of public transport which operate without let or hindrance. This conflict of interest between the “regulator” and the “regulated” is hardly noticed.

One of the main factors, responsible for this divergence between deregulation on paper and excessive regulation in practice lies in the information asymmetry between the regulator and everyone else affected by those regulations. The nature, extend and coverage of regulation is known to the regulators only and this information is seldom available to the businesses and individuals subject to these regulations. Those in charge of enforcing these regulations can misrepresent the facts, misinterpret the laws and misguide their superiors without any fear of reprisal. The recourse for obtaining redress is either too time consuming and expensive or too loaded in favour of the officials that the whole façade of administrative reviews, appeals etc. is neither credible nor does it make any difference.

There are some positive improvements e.g. price and wage controls are no longer as binding as they used to be in the past and are non-existent on most private goods. Support prices for main food staples are maintained. Black market premium on exchange rate has narrowed since the unification of the four rates that prevailed until May 1999. The conversion rates on foreign currency deposits are now closer to the market rates. Trade policy is moving in the right direction with lowering of tariff rates and reduction in the dispersal but Statutory Regulatory Orders are issued selectively to favour certain individuals and firms rather than applied across the board to benefit everyone in the sector.

Overall, however, regulatory burdens is still misplaced; health, environmental protection, consumer safety, food and drug quality control which ought to be heavily regulated suffer from lax enforcement while the legitimate businesses have to bear the brunt of multiple taxes, cesses and extra-legal payments to avoid the heavy handed and arbitrary actions of various government agencies and departments. The situation is no different in other countries of the region.

#### **(v) Rule of Law**

The resumption of democratic rule had raised expectations that the judicial system will act as a strong countervailing force to the excesses or exuberant conduct of the Executive branch. Judicial institutions show a mixed and uneven trend with lower judiciary operating like the rest of the civil bureaucracy while the higher judiciary is overburdened and highly stressed. The high expectations from the public places further pressures on them. Although the performance of the higher judiciary has been variable during the last decade and confidence in the Supreme and High courts has waned and waxed there is still some hope that the judiciary will rise to the occasion whenever the situation will so warrant. There have been battles between the Executive and Judicial branches to delineate and define the respective boundaries and roles and scope under the constitution. But these bigger issues have been overtaken by the case overload, unnecessary delays in adjudication, shortage of judges and other structural factors which are confronted by an ordinary citizen in daily life. A confidence boosting measure will be the exemplary punishment of high ranking officials, businessmen and politicians of all parties found guilty by the Supreme and High courts including confiscation of illegally acquired property.

The same level of trust and confidence is not held for the lower judiciary where allegations of all sorts ranging from payments made to readers and clerks for fixing the dates and influencing the outcomes to the lawyers acting as intermediaries on behalf of their “preferred” judges have become widespread.

Private property rights have become insecure as the lower functionaries at the tehsil, municipal, development authority and registrar’s level and other record keeping organisations are found to tamper with the property records or abuse their positions to extort payments for performing their lawful duties i.e. to record the legal transactions. It can take an awful lot of time and huge expenses to undo the mischief done by these functionaries.

The police department, the guardian of law and order, has not only become dysfunctional but also assumed the role of an intimidating outlaw who is feared by the neighbourhood by everyone except those providing protection to him. The elected members of the Assembly are reported to have threatened to resign from their parties if their nominees are not appointed as SHOs of the thanas in their constituencies.

**(vi) Corruption**

A whole cottage industry has spawned for rating and ranking countries according to the perceptions of corruption. Although most of these publicly known indices suffer from a number of deficiencies and are neither precise nor robust they do offer a rough and approximate guide for cross country comparisons of incidence of corruption as perceived by businessmen. Transparency International Index published annually is the most oft quoted source for this purpose and Pakistan was named as the second most corrupt country in 1996. The relative ranking has improved during the last two years but we are still perceived to be among the top ten corrupt countries in the world.

This externally designed indicator finds resonance internally where both anecdotal evidence as well as the dismissals of four elected Prime Ministers on charges of corruption, misuse of office etc. provide powerful corroboration to this finding. Since 1997, a number of criminal cases against highest ranking officials of the previous ruling party have been field in the courts of law on specific charges of corruption. Some of these cases are still sub-judice and have not completed the full process of appeal and review but the number of indictments is highly revealing. But overall, the incidence of corruption is widespread, has risen over time and is now proving an impediment to the country's development. There has been an ascendancy of private interests in the business of the state by those wielding authority and power and countervailing forces have become ineffective.

In an earlier article<sup>16</sup> I have identified the major sources and channels of corruption in Pakistan. These are: (a) large scale evasion of taxes and leakages in the assessment (b) kickbacks in government purchases and contracts (c) contrived losses in public enterprises and public utilities (d) politically motivated loans by banks and financial institutions (e) nepotism, favouritism and sale of posts in government departments particularly law enforcing agencies and (f) discretionary used in award of licences, plots etc.

We would decompose corruption in Pakistan in its various dimensions; (a) bribery and extortion in which two parties are involved (b) fraud and embezzlement which an official can carry out alone (c) evasion of taxes and other payments due by the private sector by misreporting and concealing (d) rents from import licencing, industrial sanctions, preferential credit or foreign exchange, selective subsidies etc.

It must be conceded that there is hardly any country in the world where corruption has been eradicated or eliminated. The best we can expect is that the incidence and intensity and thus the inimical effects of corruption will be minimised over time.

In my view there has been an upsurge in components a and c over time in Pakistan. Fraud and embezzlement might have shifted from public to private sector as

<sup>16</sup>Ishrat Husain, "Six Tentacles of Corruption", *DAWN*, Karachi, November 21, 1998.

many activities are privatised and the oversight is either weak or collusive. In regard to (d) the rent seeking opportunities have certainly become much limited as a result of liberalisation but new opportunities are constantly sought.

***Which are the Institutions that Can Improve Governance in Pakistan?***

A complete schematic representation of the institutions of restraint is provided in Table 4 below. These are basically the domestic institutions. The external institutions of restraint which have perceived to have played a powerful role in case of Pakistan during the last ten years in particular have been the IMF and the World Bank. Pakistan has negotiated the highest number of agreements with the IMF among all the developing countries but the performance record has been unimpressive. I have argued in an earlier paper 18 that contrary to popular beliefs and conventional wisdom the agencies of external restraint cannot substitute for domestic oversight and are hardly capable of bringing about any long lasting fundamental changes in the economic governance of the country on their own. On the contrary, both the political leaders of all persuasions and the intelligentsia in the country are publicly articulating the view that these agencies have reduced the decision-making autonomy internally and created a constrained environment for action. Under these circumstances it would be unrealistic to pin any hope on any external agency for influencing the governance agenda of Pakistan in absence of a clear consensus within the country and broad based domestic ownership.

The institutions of restraint in Pakistan can be classified into two broad categories: (a) Formal and (b) Informal. Under the former there are two distinct classes (i) State-centred and (ii) Civil society-centred. Historically, the emphasis has been on State-centred institutions although they have failed to act as effective countervailing forces against the abuse and misuse of power by the Executive organ. It is only recently that the Civil society-centred institutions such as the media and NGOs have begun to assert themselves. But these institutions have to undergo serious self evaluation to purge themselves of undesirable elements. Only then they can become effective and credible in performing the functions of watchdog, monitoring and oversight.

Trust, social capital and civic norms have eroded gradually in Pakistan during the last several decades. Mistrust, suspicion and divisiveness have taken strong hold. These attributes can be strengthened if there is genuine decentralisation and devolution of responsibilities to the lower tiers of government but more important through greater involvement of the communities in the decision-making process in matters which affect them.

Table 4

*Institutions of Restraint in Pakistan (Spheres of Influence/Restraint)*


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<b>FORMAL</b>	
<b>A. State Centred</b>	
• Judiciary	Protection of Basic Human Rights, Security of Life and Property, Contract Enforcement
• Parliamentary Committees/Public Accounts Committee	Avoiding misuse and abuse of discretionary powers of the Executive branch
• Auditor General	Detection and reporting of financial irregularities in public accounts
• Ombudsman	Redressal of grievances of citizens against the excesses of public sector agencies
• Public Service Commission	Transparency in appointments and promotions to Civil services
• State Bank of Pakistan	Probity, supervision and regulation of the financial institutions
• Federal Election Commission	Screening of candidates for the elected public offices on the basis of integrity
• Securities and Exchange Commission	Ensuring high standards of Corporate governance in publicly listed companies
<b>B. Civil Society-centred</b>	
• Media	Investigating and reporting of instances of corrupt practices in the country
• Non-governmental Organisations	Monitoring and advocacy of Governance issues and participation in delivery of social services
• Academic Institutions/Think Tanks	Research and analysis of the performance of the state organs, media and NGOs
• Professional Organisations	Providing inputs into a participatory decision-making process
• Private Sector Organisations	Regulating code of ethics among the private sector
• Religious Bodies	Building trust and harmony among various groups of society
<b>INFORMAL</b>	
• Trust	
• Social Capital	
• Civic Norms	

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Among the state-centred institutions the judiciary is at a much higher plane than any other institution and underpins the whole system of accountability. In addition to judiciary, there are at least seven institutions, which can make the difference? First, is the ***Parliamentary committees particularly the Public Accounts Committee***. Bipartisan committees chaired by respected and qualified MNAs or Senators and staffed by full time professional and technical personnel should hold regular hearings, confirm the appointments of those heading these institutions, receive annual reports of performance, question the reported irregularities and recommend action against those found prima facie responsible for wrong doings. The recent work of the PAC shows that timely deliberation and follow up are of essence if the Committee has to acquire biting teeth. All procurement contracts above a certain financial limit, all fiscal exemptions and concessions, modifications to the SROs should be placed before the PAC. The proceedings of these Committees should be open to public and the media. The temptation for the members of these committees to harass or intimidate the concerned officials or get involved in micro management is very strong under the political culture of Pakistan. If this happens these committees will be more of a nuisance than an agent of good governance.

Second, is the ***State Bank of Pakistan***. An independent and autonomous State Bank provides a guarantee against the excessive and irresponsible actions of the politicians and the bureaucrats in economic management. The federal and provincial governments will be guarded in their spending decisions if the State Bank refuses to honour their cheques beyond the given Ways and Means limits. At the same time the regulatory and supervision functions of the State Bank act as a safeguard against the possible malpractices in the award of credit and recovery of loans. It must be recognised that there has already been significant improvement in the working of the State Bank since it was granted autonomy.

Third, is the ***Auditor General of Pakistan***. The constitutional protection given to the office of the AG has not been fully utilised in Pakistan to unearth and detect financial bungling rampant in the public sector agencies. The extended time lapse between the occurrence of the financial irregularity and the actual detection and reporting by the Auditors has improved in recent years. But the lack of professional expertise and lack of prioritisation among core and peripheral cases still mute the efficacy of this office. The AG should commission third party audits by professional firms of repute, use the broader 'value for money' concept and enlarge its scope of activities to cover all major public sector commercial and industrial enterprises particularly WAPDA/KESC, Sui Northern/Southern, Railways, Steel Mill, OGDC, PIA etc.

Fourth, is the ***Securities and Exchange Commission***. Capital markets in Pakistan are highly shallow and have not played an effective role in intermediation required in an emerging market. Corporate governance of the publicly listed

companies is weak and dominated by major family shareholders with due regard to the right of minority shareholders. Insider trading is perceived to be widely rampant and disclosure of information standards are loosely enforced. The recent strengthening of the SEC is a step in the right direction but it needs operational autonomy, resources and skills to carry out its mandate. It has hardly begun the task of dealing with unscrupulous companies which have raised public funds but failed to perform their duties and obligations towards those who have contributed these funds.

Fifth is the ***Federal/Provincial Public Service Commissions***. Most of the current difficulties in governance have arisen due to the politicisation of the higher services in the post-1973 period. There is a general recognition that the merit based system of recruitment, appointments and promotions, despite many shortcomings had served the nation better than the present *sifarish* based and buy-the-post system. The responsibilities for all recruitment and promotions should be reverted to the Commissions without any exception but only men and women of proven integrity and impeccable credentials should be appointed as Chairman and members of the Commission. There is no harm in appointing retired officials or judges but these appointments should not be a reward for loyalty to the party in power or for favours shown to the authorities. The Police Commissions should also be set up on the same lines.

Sixth, is the ***Federal/Provincial Ombudsman***. The fanfare with which these offices were established under the Zia Government died down fairly quickly. They are now perceived to be grinding the same millstone as the rest of the bureaucracy. In fact, they can become an effective instrument for quick, fair and judicious redress of the grievances of the common citizens against the arbitrary harassment of the overzealous or corrupt officials. There are very few people who are aware of the scope and mandate of this office and who have trust in the organisation. A proactive educational role, a demonstration effect of its reach accompanied by selection of the right persons to the job can make it work.

Seventh is the ***Federal Election Commission***. A powerful, independent and assertive FEC can play a preventive role by careful screening, scrutiny and investigation of the candidates for all tiers of elected offices and disqualifying those who are ill reputed and of dubious character. They should forcefully enforce the criteria prescribed under the Constitution augmented by appropriate rules and regulations. This fundamental shift in the quality of our elected public officials would bring about a significant change in the overall structure of governance in the country.

#### ***How can these Institutions of Restraint be Strengthened?***

There are certain pre-conditions under which these institutions of restraint can be strengthened. First, a system of checks and balances, can flourish only if various

countervailing forces such as the Parliament, Judiciary, Press and the Civil society organisations are allowed to play an independent role. If they are made subservient or repressed nothing worthwhile will happen. There should be no presumption that any one entity whether it is the executive or the judiciary or the media or civil society will enjoy monopoly power or act as a self righteous body of vigilance. It is the interaction of these various entities which will generate the optimal results. Second, we are not proposing any new institutions but arguing for the revitalisation, revamping and re-engineering of those already existing under the constitution. There is a common tendency and an easy way out for both national governments and international donors to abandon the existing institutions and create new agencies which start out with a big bang but soon fall in the same whirlpool of inaction and ineptitude. The reasons for their failure are precisely the same as those which explain the non-performance of the existing institutions. Unless the underlying dynamics is set right the institutional morass will continue to grow. The history of Pakistan is laden with creation of a whole plethora of new institutions which have been given fuzzy mandate, inadequate resources, little operational autonomy and are never held accountable for results. Finally, this proposal does not favour the periodic, swift, abrupt, highly visible and publicised, extra-institutional measures against recalcitrant officials which has been the norm in Pakistan since the 1958 screening of senior civil servants done by Ayub Khan. The subsequent actions by successive Governments resorting to the purging of 303 or 1500 civil servants have paradoxically created greater insecurity, uncertainty and unpredictability which are the breeding grounds for increased corruption. The recent handling of the IPPs has done more harm to foreign private investment flows rather than taken the corrupt among them to task.

The approach advocated in this article is to create an environment whereby the acts of misdemeanour and malfeasance are exposed routinely, increased vigilance and scrutiny is exercised continuously, early detection, investigation and fixing of responsibility are carried out resolutely and disciplinary actions against those found guilty are taken promptly. Such an environment would act as a more effective deterrent in curbing corrupt practices than creating many laws and anti-corruption agencies with enormous powers which are misused. This approach will not work if the federal and provincial investigation agencies are not organised on modern and professional lines. It will also be difficult to implement it if the government does not do away with the widespread and mindless application of the Official Secrets Act which has given shelter to the opacity of decision-making by the politicians and the civil servants. Outside the matters of national defence and internal security all decisions particularly in matters of public finance, foreign trade, contract awards and allocation of other public resources should be wholly transparent and made public.

These seven pillars of good governance can together make the difference provided (a) they are headed by widely respected, strong and competent managers of

known integrity (we have many of them in the country) (b) the terms of reference, responsibilities, functions and powers of these institutions are clearly defined (c) there is no political interference in their working but at the same time they are held publicly accountable for their actions and the results (d) they are provided adequate financial resources and professional staff of caliber (e) they follow open and transparent procedures and processes.

The question that arises is: Why are these seven institutions not working effectively? Why should we expect them to perform differently? The five elements identified above are missing in most of these institutions and if we do have, by coincidence or design, the combination of these elements in place the results are simply outstanding. PIA under Noor Khan and Asghar Khan and the PIDC under Ghulam Faruq are the examples which come readily to mind as the best practices of this model. If the present leadership is indeed committed to this concept the model outlined above can be applied in practice.

Together, these seven pillars, if allowed to work effectively, will be able to plug in some of the conduits that lead to corrupt practices. The most difficult question to answer is: Who will bell the cat? Who has the courage and guts to put these changes in place? Of course, an enlightened government which has a sense of history rather than sights fixed at the next elections is the only one capable of doing it. Pakistan has not been fortunate in having such a government so far.

## Comments

### I.

Ishrat Husain begins with an elaborate statement about governance and institutions, their definitions and relationships. He divides public sector functions into three categories, namely, policy-making, service delivery, and oversight and accountability, and focuses on the last. On the way to his recommendations he is tempted to dilate on a number of questions, viz.,

1. Why do institutions matter?
2. How do we measure governance?
3. How does governance measure up in Pakistan?
4. Which institutions can make a difference in improving governance in Pakistan?

His major thrust is on the identification of institutions of restraint, and on how these can be strengthened.

He then takes us on a quick tour of A Alesina's survey of literature on "political economy of high and low growth" and talks about his "four sets of political institutional variables" which pertain to (a) the quality of government, including measures for corruption, (b) property rights and enforcement of contracts, (c) democracy, and (d) such socio-economic characteristics as income inequality and ethnic and religious factors. This leads to the propositions (i) that good institutions facilitate growth and that political instability and fragility undermine investors' confidence, (ii) that bureaucratic quality determines the success or otherwise of national economies, and (iii) that corruption not only reduces private investment but also worsens the composition of public expenditure.

He refers to six clusters of governance indicators grouped under the following three categories: (a) the process by which governments are selected, monitored, and replaced; (b) the capacity of the government to effectively formulate and implement sound policies; and (c) the respect of citizens and the state for institutions that govern economic and social interactions among them.

Husain's moves on to attempt a balance-sheet of accomplishments and failures in the area of governance and institutional development in Pakistan with the aid of Kaufman's aggregate indicators and arrives at the well-known conclusion that "the current state of governance and institutional development is fairly weak".

Husain's substantial contribution relates to his two sets of *institutions of restraint* in Pakistan which he neatly places under the heads, Formal and Informal, i.e., State-centred and Civil Society-centred. His major concern remains the abuse and misuse of power by the Executive organs. He understands that the media and the

NGOs at present are not strong enough as they suffer from internal weaknesses, while Trust, Social Capital, and Civic Norms have gradually “evaporated” in Pakistan. These, he thinks, can be built up through “decentralisation and devolution” and greater involvement of the communities in the decision-making process. His list of Institutions of Restraint is:

1. Parliamentary Committees, particularly the Public Accounts Committee;
2. State Bank of Pakistan;
3. Auditor-General of Pakistan;
4. Securities and Exchange Commission;
5. Federal/Provincial Public Service Commissions;
6. Federal/Provincial Ombudsman;
7. Federal Election Commission.

Little is said about the judiciary although it is admitted in the paper that it “underpins the whole system of accountability”. The crux of Husain’s contribution is the last two pages of his paper.

His seven-pillar institutions, he says, can succeed only if countervailing forces such as the Parliament, Judiciary, Press, and Civil Society Organisations are allowed to play an independent role; further, it is the interaction of these various entities which will generate the optimum results. He makes another perceptive statement that ad hoc, abrupt, and extra-institutional measures like the purging of civil services can be counter-productive. He is for the creation of an environment where misdemeanour and malfeasance are exposed and dealt with as a matter of course, investigative agencies are organised on professional lines, and decision-making is wholly transparent and is made public.

Husain further makes his “pillars of good governance” conditional on (a) the appointment of strong and competent managers of known integrity, (b) clear terms of reference, (c) provision of adequate financial resources, and (d) the practice of transparent process and procedures.

He refers to one more condition—that there is “no political interference” in the working of these seven institutions.

Here is the *rub*: “Who will bell the cat?” He pins his hope on “an enlightened government which has a sense of history rather than sights fixed at the next election”. And he concludes with the remark that Pakistan has not been fortunate in having such a government so far.

Husain’s paper seeks to suggest that his seven pillars could strengthen institutions and ensure accountability. This he underpins by reference to a number of prerequisites of good governance, and reasons why institutions fail and become dysfunctional.

The weakness of the paper lies in the reference to a number of conditions without which his recipe will not work. Merely a mention of the conditions does not

do justice to the subject of the paper. Husain skirts past what he calls “the underlying dynamic” which has to be set right and without which “the institutional morass will continue to grow”.

It is essentially the values of a semi-feudal society and the quasi-colonial character of our political culture which is responsible for the deficiencies and distortions in the exercise of power, decision-making, and implementation, and which in turn has infected the civil services and degraded the whole gamut of the governance apparatus.

The question is: How can this culture undergo the desired change? And how can such a change be accelerated?

While globalisation and external pressures of diverse kinds are bound to influence the society and shake it to shed the medieval ways of thinking and behaviour, it is essentially the political process within a country which provides the basis for a durable change. Initiatives like the rapid spread of literacy, modernisation of education, land reform, and population control are vital for the societal change, without which our representative governing institutions cannot undergo the transformation needed. The press and the judiciary as well as citizens’ organisations play a vital role in bringing about a change in the behaviour of individuals and institutions. Without such societal transformation, trust and rule of law will remain marginalised and no real and lasting improvement will take place.

It is not good enough to identify the problems and then refer to the conditions preceding an application of remedies. Equal, if not more important, is the need to pinpoint the steps to bring about a societal shift in thinking and behaviour, and to state how this can be brought about.

It appears that Ishrat Husain wrote his paper before October 12. However, he presented it after the military take-over. There is much in the paper from which the reformist new regime can benefit in its quest to rebuild institutions and revamp governance in Pakistan.

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## 2.\*

The whole issue of governance seems to me just putting the state into the consideration of economic development, and as a political scientist, to me this is a good idea. Certainly, institutions matter, bureaucracy matters, corruption is a bad thing; and the seven pillars and institutions that the author suggests could add these as instruments of restraint, and maybe some other instruments, rather pillars, as well; all the things that are conducive undoubtedly to economic growth and development. For they also conduce to things like responsiveness to citizens and the accountability of government—so building on trust, the broader functions of what government do, as well as the rather narrow functions of economic development. So, that is one comment. Another comment I wanted to make relates to the ills of rapid change of governments. It would be destabilising for development: nine prime ministers for that matter, nine governmental changes, since 1988. I would suggest that the real issue is not the rapidly changing governments, but rather the changes in the constitutional system. Since 1973 there have been what could be called by political scientists six different constitutional systems in a state. You have a constitutional system that exists from 1973 to 1977, the unrevised 1973 Constitution of Zulfikar Ali Bhutto. Then, the period of Martial Law from 1977 to 1985 with Zia. You have then the period from 1985 to 1989, of the guided democracy. Then you have the period following Zia's death in which there was development of a democratic system, a messy democratic system. All democratic systems, I think, are messy. But the system which you have, you have a representation of the Prime Minister, the President, the Judiciary, and perhaps other forces, the establishment perhaps; all, in a sense, having their own best play in that developing system. And you have successions of government, and rather relatively rapid successions of government, i.e., change of governments. You had accountability at a higher level, as a consequence of the system. And then in 1997, a really new constitutional system came into effect when the 8th amendment [of the Constitution] was passed and which insulated the elected government from any, perhaps any functional possibility of being removed from office. And then, of course, we have had the recent advancement in October, another constitutional system. So I would suggest that one of the true impediments to economic development in the state has been simply changing the constitutional worlds too often. For the pillars that have been suggested to be effective, these worlds have to remain constant.

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\*The above comments are the edited version of an oral presentation by the commentator as transcribed from an audio recording of the session.