

Inaugural Address

SARTAJ AZIZ

Professor Syed Nawab Haider Naqvi, Distinguished Participants, Ladies and Gentlemen:

It is a great privilege for me to inaugurate the Ninth Annual General Meeting of the Pakistan Society of Development Economists (PSDE) and exchange ideas with eminent national and international economists, planners and scholars.

It is a source of great satisfaction to note the contribution of PSDE to enhance knowledge in the area of economic development in Pakistan and abroad. Since its formal inception in 1983, the Society has grown in many ways—it has broadened its scope as well as gained in-depth, and has also attained the stature of a prestigious international forum, which provides an opportunity to outstanding scholars, policy-makers and economists to shed light on new ideas. The Society and its office bearers deserve our congratulations on conducting their affairs in such a competent and constructive manner.

The Period of Adjustment

We are meeting at a time when the world is in the process of far-reaching economic and political realignments. In many ways, 1992 saw the culmination of the new shape of things that the events of 1990 had unfolded: Eastern Europe and the Commonwealth of Independent States have continued to suffer from the pangs of rebirth—the transition from the command economies to something resembling the market economies has proven to be a much greater challenge than previously expected. The initial euphoria about *glasnost* and *perestroika* has worn off. The reality of a negative growth rate for the fourth year running, with food shortages and other signs of a grave disequilibrium in these countries, have created doubts about the chartered course. It appears that if communism with its ironclad controls of the economy was unnatural, the untamed fury of the free market is bringing even greater miseries to the people. While in theory some one has to pay the costs of the delayed adjustments and prolonged distortions, in practice, such costs cannot be heaped on the present generation without causing them unbearable hardships.

It is very ironic that this unprecedented march towards market economies in Eastern Europe and many developing countries should have coincided with one of the worst recessions in Western Europe and the United States. What we see is a poor growth performance, a record high unemployment rate, the phenomenon of discouraged workers quitting the labour market, shaky consumer confidence, and sceptical investors. All these factors have, in turn, fostered an environment of fear and uncertainty, an increase in the incidence of family disruption, and social unrest. In this avalanche of economic adversity, the much publicised dividends of peace which the ending of the Cold War era had promised, seem to have vanished into thin air.

The Global Environment

These events do not only have an adverse impact on the growth prospects of developing countries, in the short run, but have also raised question marks about the efficacy of the market system in dealing with problems of inflation, unemployment and poverty and in reconciling the objectives of growth with social justice.

Of even greater concern are the apparent contradictions in the policies of some of the industrialised countries. While urging every one else to liberalise their economies and move towards a market system, they themselves seem reluctant to follow these prescriptions. Even after the much delayed Uruguay Round of GATT negotiations have been concluded, you will see some degree of protectionism lurking behind every clause of that agreement. The prevailing policies relating to other factors of production are not very reassuring either. The full benefits of a free-market system can be realised only if there is free mobility of factors of production. This important prerequisite is met only partially. Global trade is still subject to serious protectionism and distortions, capital movements are constrained by many non-economic barriers and mobility of labour is seriously restricted by national laws and regulations. The alternative of removing these barriers only within the walls of a Regional Bloc, is being tried in Western Europe, the North America Free Trade Zone and some countries of the Pacific Rim. This may work for a while but when the distortions created by forcing the laws of economics to stop at different regional borders come home to roost and a trade war erupts between different Regional Blocs, the recent skirmishes in concluding this GATT Round will, in retrospect, appear like very mild and friendly encounters. The policy-makers of today will then be blamed by the next generation for their lack of vision and for their inability to evolve a free global trading system in the face of short term political constraints. But we would have lost an historic opportunity. May be we can still create more favourable economic conditions for the rest of the world by making these trading blocs open and outward-looking and not closed fortresses with high walls. But as of

now the overall economic environment for trade, aid and investment is not very encouraging.

Economic Reforms in Pakistan

This Mr Chairman, is the grim perspective in which countries like Pakistan are striving to undertake far-reaching reforms. In a short period of two years we have transformed a semi closed and inward looking system into a liberal and market-oriented economy through large-scale privatisation and deregulation.

These reforms and policy changes have started showing positive results. The latest estimates indicate that in 1991-92, GDP grew by about 7 percent, total investment by 22 percent, and foreign private investment by 90 percent. Despite the global recession, our exports have increased by 15 percent. The performance of the economy during the current year will, however, be affected by the unprecedented rains and floods.

The first phase of economic reforms initiated in the last two years is almost complete and we are now embarking upon the next crucial phase. This phase may be more difficult and challenging than the earlier one as in the initial phase it is always easy to pick up such elements which could be implemented forthwith, provided one has the determination to do so. In this context I would like to share some thoughts with you regarding the next phase.

We are undertaking an objective evaluation of the past reforms with a view to consolidating the gains and charting the future line of action. The lessons learnt from our own experience and that of the other countries are being assessed fully so that improvement in methodology, techniques and implementation are ensured. I may point out that there is no standard or set pattern which a country could follow in introducing such reforms. Every country has its own peculiar circumstances. Such an analysis has helped us in identifying various bottlenecks and concerns. For instance, it has been noticed that some agencies have not gauged fully the spirit of the policy of decontrol and deregulation. While relaxing control at one stage they try to exercise it at the others, thereby defeating the very purpose of the reforms. Persons brought up in an atmosphere of controls and direct Government intervention need to be educated and informed about the changing realities of life and shift in their role from controller to that of promoter and facilitator. This of course needs time.

The reforms entail a shift in the role of the State. The question is whether our laws, regulations and rules are attuned to this new role of the State? Often they are not; and therefore, Governments have introduced some legislative and administrative changes to ensure the effective functioning of the State in the new environment. This process will continue in the next phase. For good governance it would

be desirable to have effective laws and regulations, an appropriate implementation machinery and a sensitive monitoring mechanism for overseeing progress and for taking timely action. In many cases it has been observed that, either the legal framework was wanting, or the administrative machinery too weak, or incompetent, to respond to the genuine problems of the people.

The Rule of Law in Economics

Deregulation is viewed by some as “no regulation”. This is far from reality. Deregulation entails the removal of unnecessary controls which provide undue powers to government functionaries and strangle the productive initiative of the people. But there has to be a policy framework which sets out the rules of the game entailing a balance between rights and obligations. The process of deregulation, therefore, envisage a shift from a restrictive to a promotional mechanism; from an arbitrary bureaucratic mechanism to a participatory and enlightened mechanism. Our effort will be to ensure transparency and consistency so that the people can plan their course of action with full knowledge of the laws and in a predictable environment.

Deregulation also entails some shift in the responsibility from the controlling authority to the operators themselves. The regulating agency lays down the rules of the game and assumes the role of a referee who oversees the play and intervenes only when the rule is violated. It is the quick intervention and severe and unbiased action against the violator of the rules that ensures the smooth and disciplined progress of the game. This is the essence of introducing the “rule of law” in economics and we intend to move in the next phase on this basis.

Concern has been expressed in many quarters on the likely adverse socio-economic impact of policies of liberalisation and privatisation. Some of these concerns are genuine and are already receiving the attention of the Government. Prevention of monopolies, safeguarding the interests of consumers, degradation of environment, exploitation of labour, concentration of wealth and economic power in a few hands and regional and group disparities are some of the areas in which legislative and organisational action will have to be reinforced in the next phase. The emphasis will be on transparency, smooth operation of market-friendly forces, curbing exploitative tendencies and orientation towards balanced and sustainable growth of society.

Poverty Alleviation and Development

There is now a very wide-ranging consensus that growth and investment can be accelerated through a policy of privatisation and deregulation but that would not automatically reduce poverty and ensure balanced economic and social develop-

ment. The second wheel of the development strategy must be fully geared to social objectives.

A primary objective of national policies is not only to enhance economic and social development but also to see that the benefits of these developments are shared by all people. Pakistan's track record of four and a half decades in respect of economic growth can be considered as satisfactory. Over these years national income increased nine-fold and per capita income about three times, but in terms of social development indicators, there are serious shortfalls in educations, health, nutrition and employment. As a result, Pakistan has a low rating in the Human Development Index, and the gains of high economic rates of growth have not fully permeated to the poorer segments of society. Though the Household Income and Expenditure Survey Data and the poverty line derived from calorie expenditures suggest a reduction in the poverty incidence in Pakistan, to less than 20 percent of the population, the absolute number of such people remains very large. We intend to address this problem in right earnest.

We are adopting a multi-dimensional policy for the alleviation of poverty and for more balanced and sustainable growth. We will continue to pursue a high economic growth path supplemented by an improved distribution of income. Growth points will be dispersed through appropriate policies and extension of infrastructure and productive services to areas and groups having limited access to these facilities. The incentive framework will be made attractive in terms of input and output prices supported by appropriate physical and economic infrastructure to enable small farm holders and producers to get a just reward for their toil. Attempts will be made to remove the distortions and constraints which inhibit the poor to raise their output and contribute their savings for additional investment and growth.

The reinforcing relationship between economic growth and human resource development warrants greater attention to the social sectors like literacy, life expectancy, access to primary health facilities, potable water and sanitation. In this direction a good beginning has been made by launching the Social Action Programme this year. It lays emphasis on primary education, basic health, population welfare, sanitation and potable water. It is targeted towards rural areas and women. This programme, which was initiated for a three-year period (i.e. upto 1994-95) is being extended till the end of the Eighth Five-Year Plan (1997-98). An elaborate operational strategy and machinery has been devised and funds, to meet development and recurring expenditure, are being earmarked to ensure the effective implementation of the Programme.

It is common knowledge that many programmes of poverty alleviation and social development have not yielded the desired results due to non involvement and lack of response of the people concerned. Till such time we treat the poor as participants in development and not just as objects of welfare, and till such time these

programmes are not based on their active involvement at various stages the results will continue to be meagre. Based on the successful experience of Rural Support Programmes in the Northern Areas, NWFP and Balochistan, we are now undertaking a nation-wide Rural Support Programme. This will not only ensure that physical facilities for education and health created in rural areas are utilised more fully through community participation, but each village is organised to solve their problems and increase their incomes.

The main focus of such programmes will be to reach more seriously deprived groups such as landless tenants, farmers with small holdings in particular those living in *barani* and arid zones, rural artisans, slum dwellers, fishermen and nomads. The most vulnerable group among these are women whose economic and social conditions are even lower than the average for these communities. The approach would be focused on enhancing their economic and social well-being by utilising their productive potential rather than putting them on charity and welfare schemes. Simultaneously the programmes of assistance to destitute, disabled and needy will have to be continued and strengthened through welfare schemes of *Zakat* and *Bait-ul Maal*.

I hope this important seminar will offer further ideas and solutions in all three areas highlighted by me: namely

- (a) How to improve the global economic environment to reduce protectionism and barriers to free mobility of factors of production;
- (b) how to provide a constructive regulatory framework for a liberalised economy to maximise the positive impact of the market-oriented policies and minimise their negative consequences; and
- (c) how to combine an effective poverty alleviating strategy with a liberal but rapid growth strategy.

With these words I declare the meeting open. I wish it all success.
Thank you.