

A call for change and development

Reform, not begging, is the answer to all our economic and political problems. The question though is: which reform? The answers to this were discussed at a recent conference held by the Pakistan Institute of Development Economics (PIDE), Research for Social Transformation and Advancement (RASTA), and the Pakistan Society of Development Economists (PSDE).

Judicial reforms focus on the judiciary and providing justice to all, cutting down on frivolous cases without allowing long stays or excessive adjournments to provide speedy justice. Training and expertise are provided to judges to allow them to take on complex cases of the modern economy. Democracy needs to be supported by considerable enabling legislation to ensure proper party reform. For example, elections need to be rethought with fresh ideas like NOTA and different systems of elections, and we need frequent elections, and the Senate should be directly elected.

Elections should be staggered. For democracy to thrive, the election system needs to ensure that the current capture of politics by just a few hundred families should be restrained. At the conference, political term limits were considered necessary. PSDP and executive authority to parliamentarians need to stop while parliament and the executive need to be clearly separated. MNAs need to be clear that they are coming into the legislature for law, not to enter a secret door code executive position.



The parliament house in Islamabad. — APP/File

Executive positions for parliamentarians need to be severely curtailed. The conference also debated qualifications for MNAs and ministers; after all, all other jobs require specialization so perhaps politicians too should be subject to some training and certification. There was a consensus on the need for a local government. It was agreed that the constitution was incomplete without local government. For local government to happen, however, PSDP funds should not be distributed by MNAs or MPAs. Local government laws must be written such that the big families do not capture these governments. Local government might not be possible without deep civil service reform, since currently the local administration is run by the federal civil service.

Permission-istan has destroyed the investment potential. The culture of NOC licences and controls needs to be limited or eliminated. PIDE has shown this sludge costs over 60 per cent of GDP. Business success needs to be celebrated, not considered corruption. Currently, businesses feel victimized by both politicians and the bureaucracy. Policymaking remains erratic and of low quality, making it extremely difficult for businesses to plan and project long term, slowing down investment. A bureaucratic and political mindset of offering protection and seeking an overvalued exchange rate is stifling exports.

The energy sector mess that has lasted for decades now has halted the export sector. Unreliable and poorly considered currency rates, fiscal policies, and tax laws discourage investment. However, no one is considering this. Firms can't expand if they are always searching for the next opportunity to receive protection or subsidies. As a result, we have conglomerates that look for opportunities for protection or subsidies, whether they are building IPPs, producing phones or vehicles, or pursuing privatization arbitrage.

As PIDE has demonstrated, 31 families continue to control the stock market. This indicates that there isn't a competitive market. The CCP has demonstrated that regulation and policies encourage unfair economic practices and cartelization. How do we make sure that policymaking is less intertwined, and that corporate governance is improved? Every firm is tiny (extremely small, from a global perspective) and run by families. Large, expertly managed businesses are essential to economic expansion and exports.

This must be a policy objective. But to do this, you have to have a sink-or-swim mentality and operate in a competitive environment. Bank credit is what our businesses rely on too much. Is this because equity is often more expensive? Or is it because you're in a situation where default is likely? Or is it because losing control of the firm may result from more equity in the market?

In addition, our businesses are quite apprehensive about entering the formal market because of the potential for government persecution and the uncertainty surrounding tax and paperwork policies. Our firms don't do R&D; very little is done to create new goods and look for new markets and government business is not conducive to research at all. But how can we change policy?

The country has limited opportunities for investment due to a combination of poorly designed and excessive restrictions. Instruments are severely insufficient. Because of this, the sole option for investing is informal. In order to obtain higher profits, people turn to riskier real-estate investments and capital flight.

The stock market is still tiny and shallow and offers shares of companies that are probably operated by people like Seth Meyers, who have bad corporate governance and low transparency. Because of this, it is highly unappealing to smaller investors. There are barely 300,000 investors in the stock market, and there are seldom any new issues. Takeovers are challenging. Small investors find the market to be highly unattractive due to its extreme volatility.

Commodity market derivatives are limited or unavailable. Banks lend only to the government. Being bankers to the government and heavily protected by the central bank, banks bump profits and seek no reason to expand investment alternatives online to the private sector. One stock exchange in the country has been privatized to a foreign company. Additionally, why do we not allow another stock exchange licence to create competition? In summary, it is clear that the government has a strong aversion to free markets. The country needs a lot of discussion about this.

Global interest rates are likely to remain high. Global economic uncertainty is rising because of global tensions and other factors. The coming days are going to be challenging for policies, especially in developing countries, because of these trends. The government needs to be agile and informed. Debt relief is not easy to get. Debt restructuring or re-profiling requires a long process of give-and-take, as well as carefully extended plans of restructuring for the country that will convince lenders of seriousness. Debt restructuring is in no way a substitute for reform.

The country's thought and research capacity are essential to good policy, reform, and ownership of such initiatives. Aid and lending agencies are at best a complement and must not compete with the country's efforts. In fact, the

role of international agencies and lenders should be to foster and grow domestic research. Global development thinking has changed a lot over the years. While infrastructure projects continue to be developed, there is increasing recognition that governance, institutions, and domestic capacity to research and develop good policy is very important. Technological change further reinforces this. Countries need to ensure they stay abreast of technology and the changing global environment. To achieve this, education and research need to keep up with global developments.

The quality of our talent is seriously questionable. While some quality students are produced every year, most of them seek an overseas posture. No effort is made to retain them locally. The government seems to be immune to understanding human resource management. The quality of a student, on average, seems to be lower than in other countries. The quality of education is severely lacking, and nobody's concerned about it. Even locally, most companies, even government organizations, seem to be unable to find good talent. Those who come into these organizations also seek to resist obtaining better talent. The word 'merit' is often used and is seldom put into practice when hiring.

Productivity has been declining over the years, perhaps because of the lack of merit being applied in Pakistan, which is why mediocrity rules. Capable individuals find themselves being pushed out while mediocrity is well rewarded. It is no wonder that the best advice to give to a good student or an individual of merit is to escape the country to an environment where merit is appreciated.

The policymaking process is arbitrary and whimsical. It is not research-based as in other countries. There is no research capacity in government organizations. There is no consistency in policy. Every government wants to end previous policies. Despite massive debt, every government nevertheless prioritizes certain projects. No government ever implements reform. Since our debt is growing, donors and lenders have a large amount of sway over policy. Governments eager to accept loans adopt all donor-proposed policies.

Democratic leaders must make the effort to ensure that parliament functions properly, enhance governance, and effectively manage the economy. They can protect democracy and carve out space for themselves in this way. Interference is encouraged when people keep calling each other names, and fail to do their basic duties.

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