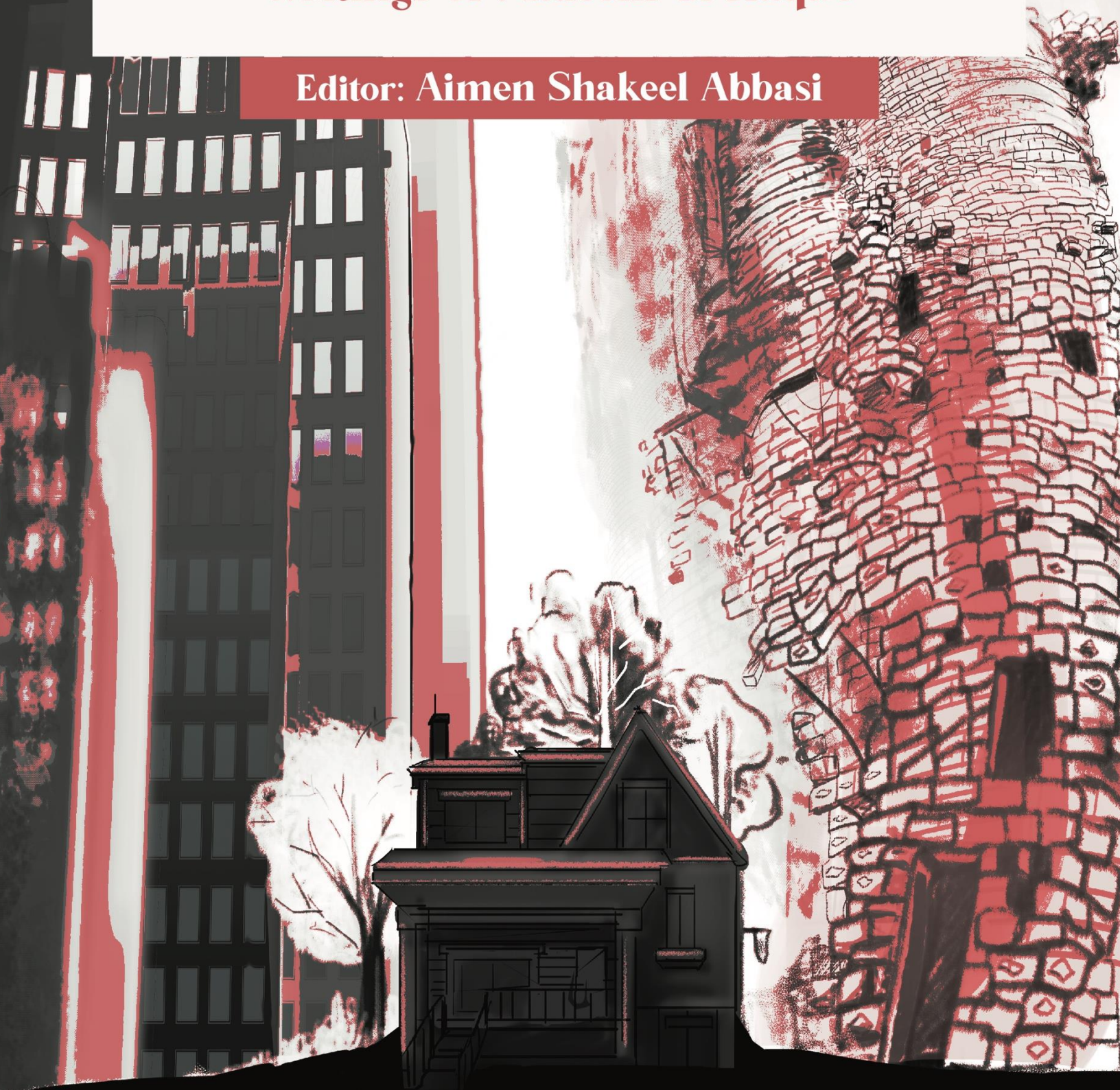


Conceptualizing State, Society & Economy:

Writings of Nadeem Ul Haque

Editor: Aimen Shakeel Abbasi



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Editor:

Aimen Shakeel Abbasi

Design & Illustrations By:

Nawal Raza

Pakistan Institute of Development Economics (PIDE)

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This book highlights the importance of socio-economic factors, which play a vital role in the State's capacity. I am honored to be given the opportunity to compile Dr. Nadeem Ul Haque's thoughts in a book that has yielded fresh ideas. I am thankful to Dr. Haque for his writings which open many avenues to ponder upon. Secondly, I would like to thank Mr. Abbas Moosvi and Mr. Raja Rafi Ullah for their contribution to this book.

FOREWORD

Dr. Nadeem Ul Haque, despite having a long and illustrious career operating in areas of policy, government, and economic development, is a polarizing figure in Pakistan. Conservatives associate him with irreverence, focusing on his critical stance towards the manner in which religion has been deployed by political groupings for instrumental ends. On the other hand, Progressives perceive him as a free-market fundamentalist—peddling an agenda reminiscent of the neoliberal reforms under Margaret Thatcher and Ronald Reagan. To be fair, Dr. Nadeem is indeed a product of the Chicago School—having been educated and trained under the likes of Nobel Laureate Dr. Gray Becker—but as this book will hopefully demonstrate, his educational background has always been a launching pad rather than being a representation of the totality of his views, ideas and thoughts.

As young researchers who have always been skeptical of all-encompassing socio-political ideologies, our experience with Dr. Nadeem has been nothing short of wholesome—and the reason for that is not that we agree on everything (we disagree a great deal, in fact., but that he has always allowed us an equal spot at the table. Far from the patronizing image most have of him, he is constantly on the hunt for new ideas to ponder about and initiate debates on—not least of all from new, emerging researchers such as ourselves. His defining features are openness to engagement and a determination to build trust and solidarity among the academic community of Pakistan. He has dedicated his life to building self-reliance, dynamism, and resilience: traits that he would like to see replacing the externally imposed prescriptions of large multilateral donor agencies and international financial institutions. Learning to think for ourselves, even if we are wrong, is always far superior to mindlessly and opportunistically importing ready-made solutions from elsewhere—regardless of the strong economic incentives that prompt us to do so.

Despite his formal training as an economist, Dr. Haque’s ideas and writings touch almost every aspect of public discourse in a truly interdisciplinary spirit. He was one of the first economists in Pakistan who championed the idea of using effective urban development strategies to revitalize the economy and promote rapid, sustained economic growth, an idea which has become all so common in economic development corridors in Pakistan. From narrowly delineated issues such as city and urban planning and management to pointing out the general intellectual crisis that Pakistan faces, Dr. Haque’s writings cover a wide range of topics. Yet, the underlying theme consistent throughout his written work is an unrelenting need to question and challenge persisting institutional and cultural norms that impede social and economic progress. Saying things as they are without being influenced by ideological inclinations is the foremost responsibility of a public intellectual. This in itself, i.e., the art of saying things as they are, is Dr. Haque’s most valuable contribution. In the words of the great public intellectual Edward Said:

“Overlapping yet irreconcilable experiences demand from the intellectual the courage to say that . . . what is before us . . .” (Public Role of Writers and Intellectuals, 2001).

Or, as prominent public intellectual Noam Chomsky puts it:

“It is the responsibility of intellectuals to speak the truth and to expose lies. This, at least, may seem enough of a truism to pass over without comment. Not so, however. For the modern intellectual, it is not at all obvious.” (The Responsibility of Intellectuals, 1967).

Abbas Moosvi and Raja Rafi Ullah

Research Fellows

Pakistan Institute of Development Economics

APOLOGY

Dear Youth of Pakistan,

“On behalf of my generation, I offer you a heartfelt apology for our failure to leave you with hope and an inheritance that you can build on.”

Our fathers gave us an unfinished project called Pakistan. They had, however, given in very quickly to the pleasures of colonial apartheid, where they could live like ‘brown sahibs’ with all the perks of the white ruler. Wealth was easy to get as they followed in the footsteps of the colonial ruling class who had voluntarily left. Making an enlightened nation with rules laws with a culture of development and learning was harder and beyond them. Crude tribalism and theology were routinely used for power-grabs instead of the painstaking work required to build institutions for a modern state and governance.

We, the first Pakistani-born generation grew up in a still colonial Pakistan and inherited the culture of privilege, state-provided wealth, and easy government jobs. Like our fathers, we bickered on the constitution, desired absolute power, and were very greedy.

Greedy for Power, No Big Ideas!

Perhaps our generation’s biggest flaw was our inability to develop big ideas for the country. From the constitution to the patwar, we could not get beyond what the colonials left us with. We were too busy aping the colonial to throw up leaders like Lee Kuan Yu, Mahathir, Deng, or Jefferson or Madison. The colonial comforts of centralized power insulated from the people were enticed to maintain a highly stratified society.

With raj privileges up for grabs, my generation got busy in continuous infighting. Byzantine intrigues and willful rule overtook law-making and organization building. While the rest of the world was changing build systems to take advantage of technology and globalization, we were busy dumbing down Pakistan with theology, ego, and excessive politicking.

Deep down, I think we are aware of our failures and suffer from a sense of inferiority. We have virtually ostracized our public intellectuals, policy champions, and social reformers to the annual lit-fest. Never are they allowed at tables where real decisions about the country are taken. Never are they consulted on how society and polity are to be shaped. They are not worthy.

While excommunicating local intellect, we have made a habit of begging for both money and ideas. To be second fiddle to a donor consultant is a high honor for us.

Lobbying and Intrigue: Yardstick for Success

Busy in this war for government favors, we failed to develop a system for rewarding merit anywhere. Sycophancy, not talent, was rewarded with perks of company bahadur (VIP status and privileges paid for by taxpayers). Sadly, nothing was done on merit, and even if some competent person was appointed, she was fired before important and beneficial changes could be made. We are now leaving a huge number of failed and loss-making agencies to you. We are leaving useless

universities, overloaded, poorly managed universities and regulatory agencies, and government offices that are in reality bleeding parking places for the rich and powerful.

Drunk on colonial attitudes and power, rules, laws, and constitutions were matters of convenience for us to be bent as desired for personal gain. Parliament seldom focused or debated ideas. Leaders at all levels professed crudity and an innate contempt for knowledge. Intrigue ruled the day. Rather than develop social contracts, build trust and laws, we brought out biradism, sectarianism, unproven accusations, and demeaning the whole nation as morally concept and tax-cheating. There was no limit we would not go to get power.

Legacy—Devoid of Institutional or Intellectual Capital

The ambition of my generation was a government office. We fought, we lobbied, we switched allegiances for all manner of government offices. Once there, we abused our positions for more and more power. Sadly, there are few cases of any serious history being made. Politicians never made laws or worked at developing consensus. Judges played politics, developed no precedents, and seldom bothered with dispensing even-handed justice. Bureaucrats wanted control to be able to dispense favors. Generals, too, wanted to be policymakers and share in the spoil.

We leave you an institutional graveyard. Institutions, they say, are rules of engagement and are established if there is collective agreement to subject yourself to them. In my day, every government organization is involved in power grabs and has little conception of limits or rules. Elections are merely treated as exercises in choice of rajas who then seek to victimize all opposition into submission and who seek to rule through kitchen cabinets, ordinances, and choice bureaucrats. The Raja portrays himself as a messiah who come to save Pakistan in a hurry and, on the principle of ‘ends justify means’ rides roughshod over all norms and practice.

We leave you with no heroes or role models. Few will be remembered from our generation. Even today, the power-grabbers are looked upon with disdain. As time goes by and history crystalizes, they will be remembered even more poorly.

Will You Think Differently?

Young people are quick to abuse us as they should? They feel let down deep in their gut. Let me tell you when I was young, I too felt like you and felt my generation would do better than that before us. But it was too easy to follow the legacy of colonialism.

So dear youth, are you just casting stones like my generation did to merely capture power. Or will you be able to think big, follow the rules, develop norms and rules of enlightenment, foster trust and teamwork? Will you be able to develop a proper constitution that is inclusive? Will you allow local governments? Will you allow autonomous organizations in government? Will you allow merit to prevail? Will you allow competition for position and resources? Or would you like us serve the beneficiaries of the land distribution of the colonial—the canal colony land recipients? Will you be able to compete on merit rather than innuendos and accusations as in our generation?

The Future is Bleak Otherwise

There are over 100 million of you, and the economy is growing at a lackluster rate. Officialdom mired investment and enterprise with attestations, NOCs, and permissions. Will there be enough jobs for you? Not unless you are able to re-imagine Pakistan. Continuing to beg for money and blindly following consultant prescriptions with no thought or effort from you probably will not work anymore.

The 4th industrial revolution is upon us. Technology will soon overwhelm you and your job market. You are unprepared, and certainly, our government is not even aware of it. Our leaders are too preoccupied to worry. Jobs and markets might disappear, as might migration possibilities. The need for change is urgent. Are you prepared?

Not only will finding a job be difficult, finding a home or space for entrepreneurship might be also be difficult. My generation has constrained housing supply to acquire plots for themselves. Even our architecture, our cities are bland because of our greed for ‘plots.’ We refused to let cities be developed or democratized. We have left you a suburban sprawl for cars but no room for you. I worry about your future as you cannot find space to live or work unless you quickly dismantle our thinking.

You Need a Vision Based on Hard Work and Intellect

The system we have set up seeks to preserve the worst by unleashing factionalism of the worst kind to undermine society. In the process, all manner of civilized discourse and coalition formation is destroyed. The software of society and state is eroded now.

People, especially donors, will try to tell you to ignore society and just try to get loans to develop the hardware of development. Learn from our experience, borrowing and begging are for fools who never escape the debt trap. The hard work of building the software of society can never be ignored.

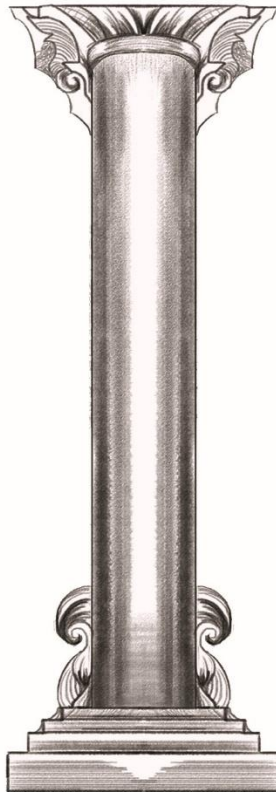
Be bold! Take risks! Most importantly, don’t follow our example. Don’t be mere followers of ideologies. Learn and develop your discourse. Through that discourse, think of new institutions, new rules of engagement, fresh paths to building trust and fostering sharing—shun dividing yourself. Learn the methods of discourse to go beyond the name-calling and wild accusations of corruption of our leaders from my generation.

Above all value learning and building society—something my generation of upstarts never understood.

Dr. Nadeem Ul Haque
Vice-Chancellor, PIDE

Chapter 1

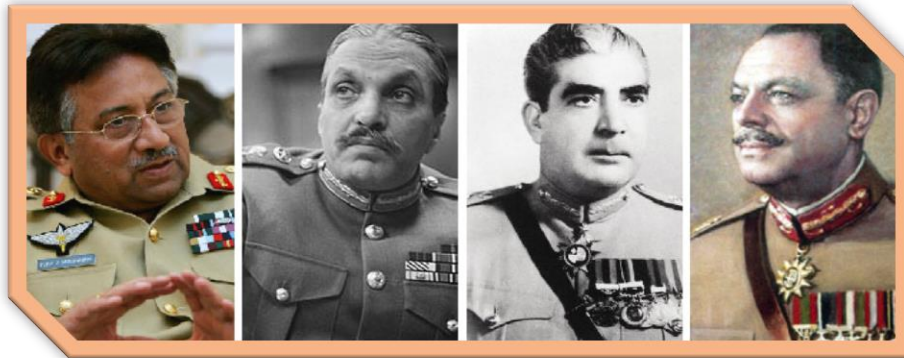
Democratic Rule & Governance



1.1. WHY DO POLITICIANS HATE TECHNOCRATS?

Introducing skilled professionals in government give them autonomy to work, and the required results will follow

Whenever ‘elected’ dynastic governments start to unravel, the myth of a technocratic government backed by the army is rolled out by politicians and sympathizers of their misrule.



Myths About ‘Technocrats’

- (1) *‘Technocrat’ is anyone “not in bureaucracy or army, not in politics and somewhat educated.”* In an age of specialization, all semi-well-clad, reasonably well-read people outside the government are regarded as power-hungry connivers looking for an in with the army. All retired bureaucrats or army generals are technocrats as are all businessmen even if their own businesses are not growing or successful.

This definition is very different from what the rest of the world thinks. Technocrats is more or less an obsolete term used to describe technically capable people who could provide research, managerial, and other technical skills towards the making of a better society and government. The emphasis was on the need for specialized skills in the management and development of energy, transport, environment, economics, education health, and many other increasingly technical subjects as societies and economies become more complex.

- (2) *All army coups are backed by and staffed by technocrats.* Review the evidence, and you will see that this myth is based on the definition of a technocrat as a dilettante.

It is true that dictators make an effort to find some professional people for better governance and policy. After an initial 2-3 years, their cabinets contain the usual politicians. Even the early technocratic cabinet had businessmen and retired bureaucrats in cabinet positions and not necessarily highly skilled professionals matched to the right positions.

The truth is that the invisible bureaucrat—the powerful mafia in control—has run all systems through both martial law and democracy even when occasionally a few technocrats are allowed into the periphery. They thrive on the notion that any bureaucrat with no specialized training is very well-equipped to revolve between managing and making policy in education, health, energy, railways, and all other technical positions in government and even outside.

- (3) *Democracy is incompatible with technocracy.* Recently the Interior minister wrote an op-ed arguing that the issue was “democracy vs. technocracy.” Civil servants, columnists, and anchors all point out that policy and projects are whims of politicians with no need for technical scrutiny. Politicians love this arbitrary power that is handed to them and argue vociferously against technical skills in government. Sympathizers especially civil servants, have a vested interest in decrying special skills in government.
- (4) *The government only needs politics and no technical skills.* Elected governments revel in bad appointments, and their supporters don’t seem to mind.

Yet modern governance—whether martial law or democracy—requires that key positions—management of public sector agencies and the development of policy—should be staffed by the best available professionals. Regulatory agencies—SBP NEPRA, PEMRA, SECP, OGDC, etc.—should be deeply staffed with the best professionals and be given the widest possible autonomy to do their job. Similarly, universities, hospitals, utilities and many public service provision agencies should all be professionally staffed and with autonomy from politics.

Why would elected governments not be competent in government?

- (5) *We elect an imperial Prime Minister.* The Urdu word ‘*hakumat*’ helps create this erroneous impression. They want the PM to have unbridled power, and everyone should be ‘under him.’ Most commentators believe that elected leaders have a ‘divine right to rule.’

People elect representatives asking them to frame laws and influence policy in line with the mandate from the election. Elections don’t give the right to rule the country whimsically, signing foreign deals at will, initiating projects as they like, spending public money without check, and gifting state land and contracts to favorites.

The Role of Elected Leaders

Consider how a corporation is run. Shareholders elect the board of directors to oversee the company’s running which in turn hire the best professional managers to execute the policies approved by the board. Even the policies of the corporation don’t come only from the board. Most often, they are well-researched proposals from the management and staff that the board considers and approves.

We should think of the elected parliamentarians and the cabinet as board members. They are there for oversight and decision-making, not to run the government. Ministers should not be running executing agencies for public service provision. Cabinets and parliaments review reports and policy proposals arising from agencies. Ministries monitor and develop reports on public service provision and occasionally propose necessary policy changes.

Good governance arises through such checks and balances and specializations of role.

**It is true that dictators make an effort to find
some professional people for better governance
and policy and After an initial 2-3 years, their
cabinets contain the usual politicians**

Professionalizing government is no longer an option. For too long, dilettantes have had their whimsical ways and have refused to succumb to discipline. All positions everywhere—government agencies, universities, police, journalism, and TV—should be filled with competent professionals of high quality.

Continuous attacks on professionals must be understood as means to preserve the status quo of arbitrary rule. Democracy versus martial law and throwing in technocrats on the side of the army merely suggests that democracy wants an *Imperial Prime Ministry*, which is undemocratic.

Let us also stop talking of obsolete terms like technocrats that lump all skilled professionals into one vague category.

Politicians must stop dumping on knowledge and skilled people. Instead, they need to develop a healthier relationship with learning and professionals.

1.2. DESIGNING DEMOCRACY

By: Nadeem Ul Haque and Adnan Rasool

It is contended that no PM finished his term in Pakistan's history. That's an exaggeration

Tenure of the government' is a term that is being liberally used these days. It is contended that no PM finished his term in Pakistan's history. That's an exaggeration. Some resigned, while others were either removed by the President constitutionally (at that time) or more recently by the Supreme Court.

Is the PM term fixed at five years in a Parliamentary democracy?

Be that as it may, in most parliamentary democracies, there is no accurate specified term. UK government that we follow has a 5-year outer limit, but a vote of no confidence could undo a government till 2011. In 2011, they enacted a five-year fixed term, but even then, May felt that Brexit required her to "refresh her mandate."

Yet big events in Pakistan like terrorism, dysfunctional parliament, opposition in streets, charges of corruption, and mismanagement, nothing forces our politicians to 'refresh their mandate.' How odd!

Most parliamentary governments allow for an early exit. Of the 88 governments in the UK, only 34 have completed a full five years. The average tenure in the UK has been about 39 months. Similarly, Japan, also a parliamentary democracy, since 1947 has had PMs with an average tenure of just three years. India which we are all so fond of quoting with envy, has seen 10 PMs who did not finish their term. No one cried conspiracy in any of these.

Does Pakistan guarantee five years to a PM?

Contrary to loud voices in our media, even our constitution does not say "no government shall be less than five years." Article 52 states: "The National Assembly shall unless sooner dissolved, continue for a term of five years." So, the constitution envisaged that the parliament could be dissolved sooner than five years.

Article 95 defines a "vote of no confidence" to dismiss a Prime Minister. But this is no longer possible as the Nawaz Sharif 14th amendment prohibited voting across party lines. It is stunning that our talking heads remained silent on this soft coup that made parliament virtually unnecessary?

Clearly, no fixed term was promised to the PM. It was expected that the PM would carry the parliament; if not, face a vote of no confidence or even resign to 'refresh the mandate.' But courtesy of the 14th amendment, removal is nearly impossible. And needless to say, these politicians are hungry for power and have no sense of honor.

If this is what the constitution states and limits, then why is five years so sacrosanct in our political mindset? PMs and parliaments appear to be dysfunctional in 2-3 years. Calls for ending an elected government start getting louder well before the midterm. People are frustrated at a system that only includes them twice a decade. Why not shorten the term of the parliament to say 3-4 years? It might strengthen governments and parliaments rather than weaken them.

Democracy requires shorter terms, local governments, and more elections

Without local governments, democracy is incomplete. Leaders appear distant and unaccountable without local governments. Should we accept democrats who refuse to give us local governments?

Like other countries, we need a frequent elections system, and power is more equitably distributed instead of being concentrated in PM and CM. Shorter terms spread out across the levels of government (local, state, federal, school boards, police commissioners, etc.) tend to make people trust the system more.

Why, for example, can we not hold local and provincial elections every three years, national every four years in staggered fashion to have a chance for public accountability through ballots every year? Consider this notion and debate it—you will see the advantages of such accountability being built into the system.

And term limits without dynasties

Why do we allow dynasties to dominate parliament? Ali Cheema et al. of LUMS have shown how dynasties dominate parliament historically. In England, safe seats were called ‘rotten boroughs’ and brought in reform to end them. Why are we not thinking along those lines?

One important way that more competition is brought into the system is to bring in term limits. We did have them, but our politicians who do not want local government, police or administrative reform, or regulatory reform took the first opportunity to eliminate them. Is that democracy?

A vast majority of countries globally have serious term limits on one or more executive and elected positions. Pakistan has a limit of 2 terms on a meaningless ceremonial position—the president. Let us just eliminate a purely ceremonial president who is only a fiscal drain.

We need straightforward laws that ensure that no person holds high public office like PM, Minister, or even membership of parliament for more than a couple of terms. Let new people come in continuously through lower levels of government. That is the point of democracy.

Elections are not to confirm family scions with zero experience to vault into office with a guaranteed five years and no accountability. That is so mediocrally Mughal.

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1.3. DEMOCRACY NEEDS MORE CHECKS AND BALANCES

Spelling Out Reform

Repeated elections seem to empower scions of powerful families and members of their retinue. An office after an election is seen as an opportunity to amass wealth. Those who get elected seldom have work experience or a serious education.

Since 1977 the struggle between democracy and martial law has stunted our national political debate to a binary: democracy or martial law. Proponents of democracy talk of not criticising democracy for fear of another martial law. Those who support military intervention think of the military coming in to clean out the system, which is seen to be taking care of past corruption and then restarting the system with a fresh election to allow the same people in again.

The incumbent government too tames the opposition within the parliament and outside by scaring them with the possibility of return to military rule. Their cry is, “leave our misrule alone or the army may take over and return you to dictatorship.”

Proponents further argue that repeated elections will serve as a filter to deliver good governance. They have a hard time explaining the six elections since Zia, which brought back PPP and PML-N despite their many failures. The system seems to be ‘rigged’ to prevent new entrants. Claims of electoral fraud too abound.

Yet barely a year into an elected government, the executive begins to show a disregard for democracy by shunning parliament, concentrating power in the chief executive, and making a mockery of all official processes. Poor quality appointments are made, questionable policies, and projects are hastily initiated without thought or process. Key issues such as power shortages, the losses of the PSEs, the continual decline of the education system, the need for a local government, sensible economic management are barely addressed. Bad management and policymaking seem to become obvious in a very short time, and yet 3-4 years to an election remain making all wish this time could be shortened.

Repeated elections seem to empower scions of powerful families and members of their retinue. An office after an election is seen as an opportunity to amass wealth. Those who get elected seldom have work experience or a serious education. Many of them have no resume to show that they ever developed a work habit. Yet, they get elected because they have ensured that the administration works at their behest and there is no rule of law. People have to turn to them for their rights and ordinary dealings with the state.

So should the army stay out and let this system continue? Will this democratic setup converge to a truly democratic solution? Will it give us our rights, good governance, systems of justice, accountability, and good policy? I think not. Let me tell you why.

Elections alone are not enough to provide a system of governance for individual freedom and the welfare of the people. Fascism was instituted through elections while the world has seen many episodes of the tyranny of the majority (such as suppression of minorities). Repeated elections were not required in such cases nor allowed. In such cases, it was outside intervention, such as international law and charters, and sometimes even violence, that came to the rescue.

The only form of contestation that these colluding politicians face is the army. So what is wrong if the army knocks them off their perch? This is not to say the military will reform the

system (although there are examples of generals who have conducted major reforms that have served the country well e.g., Chile and Turkey)

Our elected leaders will not even allow a redistricting of their constituencies through a census or other means for fairer representation. They have resisted any change in electoral laws, the election commission, or any other aspect of the system. We continue to have the most outmoded system of “first past the post” election where people get elected on votes of a small segment of the electorate. The winning party often rules with about a third of the voters in a low turnout.

All amendments to the constitution have been self-serving. The 14th amendment prohibits voting outside party lines on any significant legislation. With parliament thus emasculated, the executive need not worry. They don’t want term limits. They don’t want to debate or legislate. They don’t watch the budget. All they want is a piece of the government pie through development projects or positioning their people in government for maximising their power or rent.

Politicians have also agreed to share the spoils by keeping the broken governance system broken. There is no serious effort at legislation or policy. Instead, they have sold the idea to the people that their job is to do big and high visibility projects without worrying about future obligations arising from them.

Is there any hope from this system moving to a better state even if we have many elections? Remember, each election is five years apart. So how many elections do we need? Ten. So we have 50 years to waste on these politicians’ shenanigans?

Look at it another way. Dynamic systems that are not properly configured may not lead to stable solutions no matter how long they are allowed to run. However, a well designed system (a car, a space shuttle, etc.) will remain stable and arrive at the desired destination.

A constitution is a framework that defines the dynamic of democracy. If not properly designed, repeated elections might also not lead to desired democratic governance. This is why most countries have increased their efforts to design better constitutions.

Constitutions define the checks on the elected and the domains in which they operate. Montesquieu taught us the importance of checks and balances. The executive power must be curtailed, and the three estates of governance—executive, judiciary, and legislature—must all be independent of each other. Nowhere do the elected have absolute power as in Pakistan.

The modern state vests a lot of policy and monitoring in independent government agencies, regulatory agencies, universities, think tanks, and monitoring agencies that are professionally staffed and beyond the power of the elected or the executive controlled by them. Here not even a university or a hospital is independent of the executive.

Politicians made our constitution for themselves without adequate consultation with the people. It has been distorted to further the power of the executive. It will never give us a system of inclusive governance and works for the people unless we amend it and support it by further legislation to introduce checks and balances. Don’t hold your breath for these politicians to do it or elections to yield this.

So should the army step in?

Elections should be a contest for determining the future vision and policy of society. Here contestability is for rents, not policy and people's welfare. Politicians are now openly colluding against the welfare of the people.

The only form of contestation that these colluding politicians face is the army. So what is wrong if the army knocks them off their perch? This is not to say the military will reform the system (although there are examples of generals who have conducted major reforms that have served the country well, e.g., Chile and Turkey). Most likely, our generals will not. Sadly, we lack enlightenment, and generals are no exception.

However, repeated army intervention may push all to learn that the constitution needs amendment for more checks and balances, a better electoral system, shorter tenures, term limits, staggered elections, local government, and independent agencies beyond the pale of the PM and politicians.

A better constitution will give a better democracy which in turn will prevent military takeovers in the future.

Let us speed up the process by not continually discussing the binary — army or democracy. Instead develop and discuss reform for dispersal of power and checks and balances. Let the army and the politicians fight for power, while we spell out reform.

Remember, in the end, ideas win.

1.4. SAVE DEMOCRACY, CONSTITUTION

In the name of democracy, public service and governance have suffered

The two *dharnas*, with all their dramas, have generated a deep division in the Pakistani media and perhaps even society. One group (comprising a strange amalgam of older left-liberal activists, NGOs, and old guard politicians) continued to see the invisible hand (which never revealed itself) of the army and a potential coup that has not happened till the time of this writing. Another group (another strange concoction of some youth, TUQ followers, and some media celebrities) chased a confused idealistic vision of *Naya* Pakistan free of corruption and maladministration.

Unfortunately, the debate did not get beyond name-calling, conspiracy-searching, and crude personalised invective. *Dharna* crowd could not articulate a vision that grabbed the population at large and overplayed their hand, hobbled by incredible ultimatums and outrageous ‘Cromwellian’ demands to wind up parliament.

The ‘save democracy’ crowd, on the other hand, refused to empathise with some legitimate issues—such as electoral reforms, dynastic, personalised democracy, poor governance, and corruption—that the *dharnas* raised. The spectre of ‘the boys’ manipulating the *dharna* for a return to martial law was continuously raised to silence disaffection and to allow the system to continue.

‘Save democracy’ people continued to ask for the system to continue in the hope that many elections later, it would self-correct. In other words, they have the patience to wait for the filter of elections to work over five-year periods. This might take decades. Perhaps even three or four generations of dynastic rule.

Strangely enough, the leading proponents of the ‘save democracy’ mantra were youth from the Bhutto era now quite oblivious to their disaffection with the 22 families but with a very strong memory of their aversion to dictatorship.

The *dharna* crowd was supported at least initially by the youth that Imran Khan galvanised. Five years ago, in the Framework of Economic Growth at the Planning Commission, we had pointed out the need for addressing the youth bulge, which is going to be a dominant demographic for the coming two decades. The current system neither includes them nor provides them an opportunity. In fact it even educates them at a lower quality than what was offered to the Bhutto youth.

Strangely enough, the leading proponents of the ‘save democracy’ mantra were youth from the Bhutto era now quite oblivious to their disaffection with the 22 families but with a very strong memory of their aversion to dictatorship.

Sadly the ‘save democracy’ and the youth from the Bhutto era did not identify with the youth and offer them anything other than ‘have patience, in a few decades the system will work out its defects—maybe.’

A moment for an inter-generational dialog was lost. Youth should have been given hope and leadership even if the *dharna* leaders failed in doing so. Too much time was lost in focusing on the personality flaws of the *dharna* leaders and not developing any understanding of the significance and meaning of the *dharnas*.

The spectre of martial law like the weapons of mass destruction in Iraq is now being used to quell even a reform discussion. The easy approach was to hang on to the refrain that 'democracy is in danger' and we don't want another martial law. What was coming out was that people wanted 'change' that would offer them hope. They wanted inclusion and opportunity. The current system of privilege does not allow merit to work. They felt that democracy should allow merit, and it does not.

TUQ, IK, and their personalities and absurd demands took up too much time, and a possible reform moment was lost. But our 'save democracy' crowd too lost the moment. Their refrain was that democracy must continue with its many wounds and lesions inflicted by our veteran politicians. The implication was that dynasties were all rights. Families have a right to high office and protocol. PM and ministers need not come to parliament, which should be just a rubber stamp. Bureaucracy is the true and faithful ally in an executive that has usurped the spirit of the constitution. All agencies of government and several key ministries can therefore be left headless because trusted bureaucrats will deliver in the interests of the executive, if not the country. Personalized and over-powerful government has thus been declared as legal by our 'save democracy' crowd.

Somehow these people see the military behind all the problems of Pakistan, giving the politicians a large leeway for mistakes. Another refrain is that democracy requires time, and we must have elected governments completing their terms. We forget that we have had eight elections since 1988, and the results have been more or less predictable. Furthermore, it took not more than a year for the varnish to wear off the elected government and everyone to wish that there was a way to put it behind us. Democratic governments spared no occasion to line their pockets and weaken governance institutions to favor the executive.

On no occasion did the democratic government think of making serious reform. Throughout the nineties, economic indicators continued to dwindle as the politicians lined their pockets, signed expensive giveaways such as the IPPs, and went in for grandiose projects like the motorway. When they returned in 2008, once again, they continued the earlier tricks. Rental power, LNG deals megaprojects, roads, and deals but no reform. SROs and commodity purchases that had been more or less abandoned returned in a big way.

Instead of reinforcing checks and balances, they immediately removed term limits and any checks on the PM. Local governments that might have allowed a fresh crop of politicians to be trained and which are better for service delivery were rolled back and are seriously resisted. Even their party members are kept on a leash as the leadership of parties rules through the bureaucracy and buy out their ministers through handouts.

For suspicious reasons, lust for power keeps our political leaders from making good appointments. In fact, they have a clear preference for centralization. BB refused to have either finance or a foreign minister. The current government keeps both the foreign and the defense portfolios weak. The last PPP government could not keep a credible SBP governor. This government has failed to make appointments to NEPRA, PEMRA, CCP, and many other regulatory bodies. It is fairly obvious they were not looking for the most credible or the most competent where they make appointments. What happened at NADRA and PEMRA is not a testament to good management by democracy. In the name of democracy, public service and governance have suffered.

While the 90s were a period of overly competitive democracy where both sides tried to vilify the opposition, the recent period has become one of a level cooperation bordering on complicity, vitiating the parliamentary institution. For a serious democracy, we need a vibrant opposition, not complicit in keeping no check on the incumbent government. A vibrant opposition would have pushed for an electoral test to break the *dharna* stand-off rather than seeking to keep the government in power. The opposition played no role even in the registration of the FIR for Model Town. Indeed this is not a parliament that keeps the executive on its toes.

If the democrats really got their act together and were not so hungry for power and money at the expense of governance, perhaps the room for *dharnas* and ‘the boys’ would be limited. This is something that the ‘save democracy’ crowd will not even consider. Somehow giving politicians more room to establish their dynasties and financial empires will fix itself. Constitutional amendments that would strengthen democracy could be considered.

The shenanigans of IK and TUQ might have given us an opportunity to deepen our reform discussion. Perhaps we could have discussed and pushed for the kinds of reform that would strengthen democracy, like instituting local government in an irrevocable manner. If nothing else, this opportunity could have been used to find a narrative to reform. It could have been used to move ahead with local government and less centralisation by the PM and the CMs. Parliament and its role, which has dwindled to no laws and minimal attendance in the last year, could have come into focus.

With hindsight and distance, I think we will come to appreciate the two *dharnas* despite all their follies. Hopefully, electoral and other issues crudely raised by them will take root. We seriously need a discussion on reform. And one important reform is the institutions of democracy that, right now, are too easy to hijack.

1.5. DUMPING ON TECHNOCRATS

An Easily Misunderstood Lot They Are:

Pakistani society at all levels has a very uneasy relationship with technocrats. The common refrain is, “we want ‘doers’ and not ‘thinkers’.” The implication is that we are a ‘doing’ and not a ‘thinking’ people. I confess I have no idea what this ‘doing’ is that we take pride in? What wonders have we created in our country to allow us to take such pride in our ‘doing’?

In the same vein, we keep looking for ‘practical solutions’, not theoretical ones. Anyone who says something that we do not like is labeled ‘impractical.’ And please do a review where our ‘practicality’ has got us?

Invariably, column writers, conference participants, TV anchors, etc., find ways to point out the flaws of what we call technocrats. There is a deep distrust in them.

Who are these technocrats? It is a loose term that we use to lump all semi-well-clad, reasonably well-read people outside government. I have often tried to find out the difference between a professional, a researcher, writer, professor, banker, doctor, lawyer, and other such skilled people. But no, we do not distinguish; they are all ‘technocrats’. ‘Gentlemen’, that is all we are looking for.

How these people use the term ‘technocrat’ is a catchall for ‘not in bureaucracy, nor army, nor in politics and somewhat educated’.

In an age of specialization, it is surprising to see that in Pakistan. A bureaucrat with no specialised training can move from making education policy to running an energy plant to managing the national airline. But then we call them technocrats.

Now for some reason, these technocrats are seen as henchmen of the army. When martial law is imposed, popular myth states that ‘technocrats’ are called in to fix the system. And indeed, by our loose definition, technocrats are called in. During Ayub’s martial law, the technocrats were the bureaucracy. Again, in Zia’s time, it was the bureaucracy led by GIK. Mahbubul Haq tried but was strongly resisted by the bureaucracy.

During Musharraf’s martial law, we saw the entry of our technocratic finance and then prime minister, banker, Shaukat Aziz. Yes, some industrialists and retired civil servants too joined in. And, of course, two serious economists, Salman Shah and Hafeez Sheikh.

Even in this lineup with only two or three professionals and the rest being loosely defined technocrats, the line ministries and all other government agencies remained solidly in the hands of the bureaucracy. The line positions of government are never compromised to technocrats.

Does This History Suggest That Technocrats Always Aid Martial Law?

But in my opinion, our approach to the term technocrat and professional skills is all wrong. Whether martial law or democracy, there should always be a strong demand for good professionals to staff key positions in the government. The regulatory agencies—NEPRA, PEMRA, SECP, OGDC, etc.—should always be deeply staffed with the best professionals and be given the widest possible autonomy to do their job. And their job is to do first-rate research on their system. After all, the job of regulation is monitoring, evaluating, and adapting to

innovations. This job has to be done by the best and most specialized professionals. And certainly, such agencies should not report to any generalist secretary or any minister.

Similarly, the job of a policymaking ministry should be to understand through research the area of their concern to see how it is shaping up and if a policy intervention is required. In this world view, the policy is a reluctant nudge applied when necessary. But we do not see that as the job. In our traditional, perhaps even feudal mindset, the job is running the sector through giving orders, telling people what to do, and conducting transactions. Here, the policy is a sledgehammer and not a nudge.

Looked at in this way, there should be a strong demand for professionals in government and indeed everywhere. Why then do we look down upon them and constantly infer that technocrats are anti-democracy? And why are our democratic leaders not looking for strong professionals to manage agencies and develop policy?

Professionalizing government is the only way to improve governance and raise professional standards in the country. For too long, dilettantes have had their whimsical patterns and have refused to succumb to discipline. I guess these continuous attacks on professionals prevent governance from improving and keep dilettante's rule intact.

So they pose the question as democracy versus martial law and throw in technocrats on the side of the army.

Meanwhile, the invisible bureaucrat—the all-powerful mafia in control—continues to run all systems even when occasionally a few technocrats are allowed into the periphery.

To me, we should ask all governments—as well as all other organizations—to show us good professional appointments everywhere. All positions everywhere—even journalism and TV—require professionalism.

Professionalism is not an option. Any government that is not making good appointments should face public opprobrium. And come election time, we should tell them that they do not know how to hire good people.

And we should give professionals more respect by being more mindful of their skills rather than lump them into one vague term called technocracy.

Finally, democracy is not the election of a ruler who will run the country as a family kitchen. The election merely confers the power to translate the people's desire into policy. The machinery of government has to be independent and professional to keep the continuity of business going while also informing the continuity of desires of the electorate through their representatives.

1.6. DUE PROCESS FOR BETTER GOVERNANCE

For too long, we have had arbitrary governments run by elected *Rajas*, who personalized governance without due process, record-keeping, or transparency. They dislike it as it limits freedom of action and leaves a paper trail.

The civil service, the keeper of due process, has been beaten into submission (through transfers and an incentive mechanism of invisible perks) to ignore it. No longer are meetings properly conducted, nor are minutes fully kept, and the technical requirements, especially for financial flows, are often overlooked.

With due process, many of our expensive projects may not have taken place and saved us billions. We might have devised alternatives to the costly metros. A balanced and well-investigated policy through research and debate would have allowed us to build better education and energy with far less money than we have spent.

However, the incoming government can build up the due process by establishing modern government norms. Due process will begin with a working cabinet and parliament. Past governments have used both as inconveniences that are occasionally woken up only for show.

In the coming government, the cabinet must meet every week with proper well-prepared agendas and supporting documents according to rules submitted at least two weeks before the meeting. All cabinet documents must be well-prepared and commented on by the required ministries. Nothing should come to the cabinet without comments from other ministries.

All economic proposals must be in conformity with the budget. The budget is a law, and it must be respected. If there is a spending proposal such as buying fertilizer, it should be shown where it will be funded from. Will it break a budget ceiling? Will it require a reallocation? In either case, the matter must go to parliament. If this is done, agencies will plan and budget more carefully.

The Economic Coordination Committee must be discontinued. It does not coordinate but merely destroys the budget by constantly spending outside the budget law. Let it all come to the cabinet.

There should be a few standard items in each cabinet. First, there should be a presentation on the economy made in rotation (one in each meeting) by three ministries: finance, planning and Commerce, and the State Bank of Pakistan. You need differing views, and they must all emphasize their perspectives and vantage points. They should all choose their themes — fiscal, monetary, inflation, growth, development, and more—and their issues for discussion.

Second, a roster should be set for each ministry to make a presentation at least once a quarter to report on the state of its sector. The report should tell you the goals for the sector they are managing, plans for meeting those goals, policies, and most importantly, reforms that are in play or considered. This progress report in each sector must come to the cabinet for each ministry or agency once every quarter.

Third, key public-sector enterprises should also be made to present their reports on their work goals and efforts to achieve profitability, provide public service and build the economy. Fourth, for open government, following cabinet review substantial versions of these reports

should be made public. There should even be a maximum lag after which cabinet minutes should be published.

Finally, a rolling agenda for the cabinet should be maintained and published every six months so that the staff concerned have adequate time to research and prepare, and people know how their government is working. These are elementary rules of management that we used to follow. This will improve governance, and corruption will remain in check.

1.7. MAGNA CARTA FOR PAKISTAN

By: Dr Nadeem Ul Haque and Malik Ahmad Jalal

In 1215 AD, King John of England signed the Magna Carta ('The Great Charter')—a historic power-sharing arrangement with a group of rebel barons. Its philosophy is enshrined in the British legal system and the American constitution. What were the principles of Magna Carta that led to the emergence of two successive superpowers

In its sixty-three clauses, the thirteenth-century barons engaged in deep thinking on a mechanism for opposing power holders to co-exist by constraining their powers, with a system of local government (city charters), granting greater protections to citizens from themselves to ensure that power was not concentrated in a few hands—a far greater vision for nation-building than the twenty-first-century leaders of our country

The Magna Carta eventually led to creating a governance system of parliamentary democracy, affirmed liberties of local management for cities like London, giving all English subjects the right to a fair trial. Most importantly, the document established a balance of power between the barons and the king, so the nation could progress without being paralyzed by struggles for power. The history of great nations and empires is marked with grand bargains and landmark arrangements that demonstrate great statesmanship and sacrifice, constraining the power of your constituency and devolving it to citizens to become more united and powerful as a nation

Looking back at 73 years of our upheavals—competition for absolute power between strong constituencies, from “vote ko izzat dou” to hybrid regimes, the National Reconciliation Ordinance, Charter for Democracy, but no statesmanship of the Magna Carta level. Our charters are about gaining absolute power or perpetuating self-power- for my family, clan, or institution. They are mere affirmations of ‘my might is right’ and not an act of state-craft by distributing power and creating an ownership society.

All institutions want a say in policymaking, but there must be an institutional mechanism for engagement between different state institutions for long-term policy development. However, no key players address the central issue of setting up the rules of power-sharing and accountability. So, we live in a state of perpetual crisis, from commissions to reconciliations or from the Alliance for Restoration of Democracy (ARD) to the Pakistan Democratic Movement (PDM).

Without agreed rules of respective responsibility and accountability enforced through an institutional setup, we act like spoilt children seeking absolute power—what King John too craved. Instead of collaboration, cohabitation, we seek total domination and unquestioning loyalty. This is the reason our fight is about getting into government, but not whether parliament performs or not.

Political families keep party leadership within the family. Such tight control of talent to run the party, and hence government precipitates mis-governance and mismanagement. Family comes first, then political party and the nation perhaps last. The establishment, too, is caught in the game, with hardly any strategy for systemic improvements.

And Pakistan continues to wait for statesmen or intellectuals who can develop blueprints of a grand bargain for our country's progress. We dream of a Pakistani Great Charter which will strike a settlement between players, to reframe the existing zero-sum and divisive political game of maximizing their share of national wealth, to aligning all constituencies to increase the size of national wealth, so everyone has a greater share to themselves. For this, thinkers and ideologues must develop grand reform ideas.

A consensus is required on a new electoral system that creates a level playing field for new knowledgeable entrants without privilege or established power. We need to think beyond the first-past-the-post system of winner-takes-all and governments forming with only 30 percent votes. A ranked choice system on the ballot with proportional representation will make our electoral process more egalitarian, inclusive and break old political monopolies.

There should be a clear definition of a party that can be listed on the ballot as an entity with regular ECP-managed internal party elections. Without this condition, a party should not be listed on a ballot. There can also be a requirement of a minimum membership in each province to be registered on the ballot to force political parties to appeal across linguistic, ethnic boundaries.

Legislators must be legislators. They can have no say in development projects or executive decisions. No more than five percent of the legislature can have an executive position—to keep a clear divide between legislature and executive. Term limits must be reinstated not only for the PM but for legislators too. Representation is not a lifetime entitlement or subject to the ability to buy votes.

A Great Charter must be backed by process of in-depth consultation, involving small town-hall meetings to draw up plans for the deep reform of all our colonial institutions, from the civil service to judiciary, from intellectual spaces to defense forces—to build an institutional and governance architecture for the digital age. The process should culminate in parliament not in half-baked ordinances or amendments orchestrated in the dark of night.

The concept of the Charter is embedded in Hadith. When Prophet Muhammad (PBUH) entered Mecca in a glorious victory, instead of retribution, he sought co-existence with local power players by assigning houses as the refuge of peace, forging humanity's first City Charter with the residents of Mecca. The reverent final sermon at the Hajj was about protecting property, keeping trust and equality before Allah of Arabs and non-Arabs—forging the Charter for Muslim Nationhood, to progress as a unified, cohesive body, even as diversity increases.

Nation-building is a decades-long project that requires statesmen to think beyond themselves, their families and strive for our nation's growth by bringing out its best facets and strengths of constituencies together. This is not only politically correct but an obligation incumbent upon all of us.

1.8. ELECTORAL SYSTEM

By Dr. Nadeem ul Haque and Raja Rafi Ullah

Pakistan follows an electoral system known as the ‘First-Past-The-Post (FPTP)’ system. Under this system, the leading political party may secure less than 50 percent of the votes and still manage to form the government. Thus, the party forming the government may not be the true representative of the majority of the electorate.

For example, in the last two general elections for the National Assembly (NA), the PML-N (2013) and the PTI (2018) won 33 percent and 32 percent of votes, respectively, and yet were able to form majority governments by bringing in independent winning candidates and MNAs from various regional parties. In simpler terms, it means that every two out of three people who cast their votes did not vote for the party that ultimately formed the government in 2013 and 2018.

In 2013, the PML-N—despite receiving only about 33 percent of the total votes cast that year—ended up with 49 percent of the total seats in the NA. Similarly, in the last elections, the PTI received about 32 percent of the votes and ended up with 44 percent of seats in the NA. This disproportionality is a direct consequence of the ‘First-Past-The-Post’ system that the country follows. The current system allows only for single-member constituencies with plurality voting—only one member per constituency with the most votes is elected to the legislature.

The current system is one that the country inherited upon its independence from the British Empire, and it is largely owing to convention that the country has persisted with its use. While it is true that some of the countries that were traditionally part of the British Empire still maintain the FPTP/Plurality system, the system has been replaced by a majority of countries worldwide which instead implement varying forms of more proportional systems.

Proponents of the FPTP system often cite the fact that one significant advantage that this system has is its simplicity in both understanding and implementation as compared to the various forms of proportional electoral system. They argue that for a proportional system to be effectively adopted, the population needs to be highly literate, which is not the ground reality in Pakistan. However, this view is not entirely true as there are many proportional systems that are not convoluted and hold the key towards electing governments that are representative and truly reflect the collective will of the electorate. One such system is called ‘ranked-choice voting’ in which instead of the candidate winning the most votes getting elected, a candidate has to gain a majority vote (at least 50 percent) in order to get elected from the constituency.

As opposed to the FPTP system, in which the candidate with the most votes at the end of the count is declared the winner, a candidate must gain the majority vote in ranked-choice system. Voters in the ranked-choice system are asked to rank the candidates in their order of preference.

Once all voters have voted, the votes are counted taking into counting consideration the first choice of all voters. If at this stage a candidate gets the majority vote (usually 50 percent), they are declared the winner. However, if no candidate gets a majority vote after this first exercise, the candidate with the least number of votes at this stage is dropped from the count, and

the second choice candidate on those ballots is allocated those votes, respectively. The iterative process continues until a candidate with a majority vote emerges.

The Ranked-Choice system through a clever ranking system combined with recounting means that the winning candidate for a constituency has, through an indirect method, a claim to be being elected by the majority of the electorate. This then, on a macro-level, translates into parties being selected with a higher number of aggregate votes which are more in line with the resulting percentage seats that are allocated to them in the legislature.

The Ranked-Choice system is just one example of several different systems that can be used to elect more representative governments that are proportionally in line with the actual number of votes that respective competing parties gain. There are other systems that can be considered that might serve the purpose through simpler processes.

Another possibility that should be explored is introducing multi-member constituencies instead of the current single-member constituencies. There is a plausible argument to be had: that those constituencies that have markedly more number of total votes should have the provision of multiple winning candidates being selected to the legislature.

Changes in the electoral system will not be easy to introduce and will initially require considerable political and institutional will. Nevertheless, once the electorate has been trained and a proportional system implemented, the country will benefit from having representative governments. Time and again in Pakistan, the people quickly get disappointed with elected governments, leading to various forms of non-democratic means, including ‘street politics employed by political parties, not in government.

The fact that the current system allows for a party for which every two in three voters have not voted is one of the causes of such disappointment. A proportional system for elected constituencies will be a significant step towards representative governments that reflect the collective will of the electorate.

1.9. IMPERIAL DEMOCRACY

Typically, ‘elected’ dynastic governments start to unravel by their third-year thanks to a combination of incompetence and greed. It is then that the rumor of a technocratic setup starts, and politicians start to fan it.

Recently, government officials came out with statements that the constitution does not allow for a technocratic setup and that there is no room for technocrats in Pakistan. The issue of technocrats needs careful analysis here.

Why is there a demand for technocracy? People repeatedly see that elected governments are not delivering governance and good public service. Instead, they slip into whimsical, ‘kitchen cabinet’ government style—where an inner circle of the unelected starts to take arbitrary decisions.

The prime minister wants to run the country in an imperial fashion, and ministers close to him act like imperial lords by passing all laws. Rumors of corruption grow large. Dynastic ambitions reveal themselves in children being thrown into decision-making more readily than any heir apparent in medieval days.

Democratic leaders are not known for their great appointments. Cronyism prevails as they seek to bring all institutions—even universities, hospitals, and projects—under the control of the executive and his favorites. Losses and failures in public service don’t mean anything to the prime minister; what matters is power and control of the purse. Of course, this breeds rumors of misuse of funds.

Cabinets and parliaments, key institutions from which democratic leaders derive power, are weakened deliberately to strengthen the prime minister. Prime minister and his people non-transparently make decisions. All procedures are bypassed, and most key issues are not revealed. Even lesser ministers and allies of the prime minister are isolated and ineffective, with no power or access.

Officials, heads of agencies, and regulatory bodies are treated as court employees and shuffled at will. The power to transfer a colonial legacy is used liberally to ensure central control of the prime minister. The government becomes merely official pronouncements of every whim of the imperial prime minister.

By the third year of democratic rule, the costs of this misrule start to show up. People are restless. Public services are not showing improvement despite claims by the government. The economy, patched up by aid, sputters along, but the gains are not palpable. The opposition, seeing the increasing power of the executive, seeks to dislodge him through street agitation. With parliament incapacitated prime minister, they seek to mobilize mobs.

Some look for a non-democratic takeover. Furthermore, they look to technical solutions to the mess that has been made. Indeed, the army does promise this in every coup. And yes, some part of the solution has to be technical.

True, dictators did make an effort to find professionals in the past. But was it mere rhetoric? It seems to me that they merely drew upon those that had cultivated them. No active search was conducted. This is obvious if you look at those selected—a few well-known writers of columns, oily bankers, businessmen, and retired bureaucrats. Hard to make a case of active professional team-building.

Even this romance with seemingly technocratic governance lasts two to three years. Later, dictators become political and succumb to the charms of the ‘fair-weather’ politicians.

In reality, the invisible bureaucrat—the powerful mafia in control—has run all systems through martial law and democracy even when occasionally a few technocrats are allowed into the periphery.

No one wants any professional management in government. Contrary to the rest of the world, it is widely believed in Pakistan that no specialized training is required to manage and make policy in education, health energy, railways, and all other technical positions in government and even outside.

People elect representatives to frame laws and influence policy in line with mandates obtained in elections. Representatives have no right to rule whimsically, signing foreign deals at will, initiating projects as they like, spending public money without check, and gifting state land and contracts to favorites.

Consider how a corporation is run. Shareholders elect a board of directors to oversee the running of the company. The board hires the best professional managers to execute approved policies. Policies seldom come from the boards, only directions and suggestions. Mostly, management and staff present well-researched proposals for board consideration and approval.

Elected parliamentarians and cabinets are governing bodies like board members. Their role is oversight and decision-making, not running the government. Cabinets and parliaments review reports and policy proposals arising from agencies. Ministries merely monitor and develop reports on public service provision and occasionally propose required policy changes. Service provision and regulatory agencies lie beyond both politics and ministries in their daily work. Policies guide them. Agencies should not be controlled through arbitrary personnel changes and transfers.

Such checks and balances and specialized roles lie at the heart of good governance. And our imperial democracies run into trouble because of this refusal to accept these principles of good governance.

Continuous attacks on professionals must be understood as a means to preserve the status quo of arbitrary rule. The specter of martial law assisted by technocrats is raised merely to preserve an imperial executive and democracy.

As I have argued in my book, ‘Looking Back: How Pakistan Became an Asian Tiger in 2050’, fine-tuning democracy to accept these checks and balances and assigning technical governance and policymaking a proper role will indeed allow Pakistan to achieve the development we covet.

1.10. UNDERSTANDING THE APC

So we had an APC in Peshawar to deal with the tragedy of the school attack. And by the commentary following the APC, it was largely successful, especially for the incumbent government. Nawaz Sharif has not looked like a Prime Minister for months now, especially after the Dharna seemed quite *content* and Prime Ministerial.

“The refrain of Parliament is the forum for dealing with state affairs” often used in the Dharna was forgotten, and the APC was used to get Imran Khan into a room and use that occasion to develop the image of a “Prime Minister in charge.” Why not Parliament now?

Who was invited and why? Do they have a security clearance? How were they chosen? The photograph of the APC shows that these questions were not clearly considered. It was left up to parties and the clever people to wheedle their way into photo ops to be seated at the table.

How was the meeting conducted? What kind of discussion took place? Was there a briefing by the Interior Ministry, the Army, Intelligence?, few if any know. Most likely not. Indeed in such a large crowd with little serious whetting, let us hope not.

It was evident by the opening remarks of the PM that there had been little preparation for the meeting. On a momentous occasion such as this, the PM should have read a prepared statement that outlined some initial thoughts towards a policy to galvanize a meaningful discussion. Instead, we got a few adlib meaningless remarks.

Was there an agenda? Policy options? Plans? We observed for the PM press conference after the meeting to hear a thundering momentous declaration. All we got was ‘we all agree terrorism is a problem, and we will now form a committee to give us a way forward’. It is easy to see that there was no agenda, no thought, and no serious discussion.

No heads rolled. No marching orders were given to the security forces to “bring back their heads.” No prices on heads of known terrorists. No curbs on the madaris and the mullahs preaching violence. No summary process for dealing with terrorist cases. No implementation of harsh justice for the hate-mongers. No rollback of legislation and institutional developments have brought us to this pass.

They put in place the usual commission made up of politicians to give us a plan with no expert backup.

Would it not have been better to give us a longer-term commission made up of serious civil society intellectuals to provide the nation with a profound analysis of this immense issue.

9/11 commission comes to mind where several former politicians of stature combined with several intellectuals in a well-funded process over two plus years to conduct hearings and investigations produce a report. Why can this not be done here? After all, the issue requires deep analysis.

The meeting was, however successful as most commentators and columnists were happy with this. The government got what it wanted a ‘photo op’ and an end to the criticism it was receiving. No wonder the PM was in a jovial mood despite the somber occasion and cracked a very bad ‘point scoring’ joke: “if I was not going to the hospital, I would be going to the Dharna with Imran Khan.” Yet, he received no blowback from any of our pundits. But it was distasteful!

Surprisingly our parliament is not even scheduled to meet.

Then there are those who love to give our politicians an out by saying what they can do with the army. Well, with such unimaginative and unprepared leadership, let us be thankful that the military is there.

Now we can go back to routine mega projects and borrowing, which is what governance is to these people. No need to think, legislate or manage issues.

Judge for yourself what did we achieve in the APC!

1.11. ON POSTINGS AND TRANSFERS

Democracy is more than mere elections. Our elected leaders have to be kept in check.

They have no divine right to power. One such check is an independent, professional, honorable, and reasonably satiated civil service. While there are many items that go into making such civil service, and Ishrat Husain's report is a step in that direction, here I want to focus only on one item — the prime minister's (PM) power to transfer and appoint everyone in the system. This is archaic and inefficient, and it must be done away with.

During my three-year tenure as deputy chairman of the Planning Commission, five of my secretaries were changed by the PM without the courtesy of consultation with me. Similarly, I saw five new secretaries of finance, and the finance minister had no say in the matter. While the power sector was in a mess, we saw about five secretaries change again, with no care or a thought. And none of them was a professional.

At one point, when I raised this matter with some senior secretaries, the arrogant answer I got was that the PM should have this prerogative — to change whoever he likes. When I pointed out that Barack Obama and David Cameron do not act in such a way, and in fact, most civilized countries do not give their PMs this discretion, they looked stunned. This thinking must change; the PM should not have this arbitrary authority.

The wooden boards in most offices show names of officials who served in those offices, as well as the dates of their tenure. Most officials are lucky if they remain in a position for more than a year. Secretaries are rotated out almost on a yearly basis; customs officials are lucky if they last a few months, and the director cooperatives board is moved so rapidly that he probably remains in a daze.

Why do we have such quick transfers? The explanation is a combination of the following four factors: 1) Each of these offices confers a certain power and privilege and, in some cases, even possibly certain pecuniary advantages. Quick transfers may be an egalitarian method of sharing these advantages; 2) Longer tenures could make the officer more entrenched, increasing corruption and power gains, and possibly, even making it difficult to remove him/her. Quick transfers would prevent anyone from becoming too powerful; 3) Longer tenures could also create a sense of pride in the job, leading the officers to improve the situation to the detriment of those that follow. Quick transfers would, therefore, keep the rent-seeking equilibrium stable. 4) There is a stable group around any leadership that is strengthened by these quick transfers. Key secretaries, such as the principal secretary and the finance secretary, are relatively more stable. Quick transfers obviously strengthen their role.

Do these quick transfers affect the efficiency of the department? No, because in every job, there is learning content. Management specialists say that a person takes a few months to a year to learn the job. Every job also has creative content in that the incumbent can, once having learnt the job, develop better methods of doing the job. Learning by doing in a job and innovation through such learning often results in productivity improvements and reforms. If both these internationally proven facts also apply to Pakistan, then certainly these quick transfers are detrimental to efficiency.

Transfers are a colonial legacy. Nowhere in the advanced countries do you have the concept of transfers. Most civil services do not have common cadres. Each department employs, trains and manages its own staff. No transfers are forced on any official to arbitrarily move either location or department. As a result, employees are happier and specialise in their respective areas.

Civilised countries have a better approach to transferring and appointing bureaucrats without making them hostage to politicians. We must learn from them.

1.12. IS THE BUDGET A LAW?

Is the budget a law? Then why is it violated so easily?

When the budget is passed by parliament, it is a law that lays out the expenditure limits and where expenditure is to be made. It also passes a revenue and financing plan.

Over the years, we have seen how easy it is to violate this law. Expenditures are always turn out to be larger than envisaged in the law. Most of the sectoral expenditures made turn out to be contrary to the law. In particular, realized development expenditures are often less than in the law.

Revenues are always less than in the law, but what is worse, some of the decreases happen because the FM and the ECC hand out tax exemptions as politics or other considerations demand. Article 77 says parliament has the power to tax and the tax law enunciates taxes that should prevail by law. Yet, MOF can violate the constitution and the law with ease. Unfortunately, Parliament is too unconcerned or unaware of its responsibility.

The ECC meets every so often to spend money that is not in the budget. Why? The law does not apply to them. It will buy large quantities of fertilizer that have not been provided for in the budget. They will give exemptions to various sectors on demand even though these have revenue implications for the budget. They will provide funding for the power sector or other PSEs that again is not in the budget. These are gross violations of the budget law, and no one notices. Why, indeed, does the ECC consider proposals that are not backed by the budget law?

EAD will sign all manner of donor deals that affect the budget and often upset the planned development expenditures. Donors have their own priorities and disburse or allocate according to their own domestic needs. Often, this funding comes with its conditionality, asking for a budgetary appropriation to a donor-favored sector. Not only is the budget law routinely violated in the process but also country development policy.

Parliament and civil society, by abdicating their responsibility, have allowed poor governance, shoddy economic policy, and budgetary management to take root. In the process, MOF and the FM have acquired arbitrary power. As the Numero Uno ministry. FM and FS can arbitrarily please whoever they like because they have a free hand with expenditures and tax exemptions—an ideal situation for backroom deals and poor policy development and implementation.

The PM or the president too love this situation. Recall the evolution of parliament as an institution. From the Magna Carta, Kings have struggled with Parliaments, which have increasingly become less aristocratic and more democratic on the question of the king's (executive's) authority and accountability. An important principle of government that has emerged is that the executive power must be checked to prevent despotism and absolute rule.

An important check on the executive that has evolved through history is the control of the purse through the budget process and law in Parliament. This check is jealously guarded by all Parliaments in the world.

If Parliament gives up a watch on the budget process as has been done in Pakistan, democracy is seriously eroded, and the executive gains enormous power. This is the problem at the heart of our democracy. If parliament loses control of the budget, why should PM, FM, or

ministers come to parliament? In fact, as it happens now, all MNAs and politicians are beholden to minor MOF officials who have unchecked power to spend.

Empowered by the lack of parliamentary oversight, MOF rules with its unchecked control. To please donors, it chases fiscal numbers that are out of sync with the country's realities. It also seeks to please its masters and the various vested interests. When vested interests require that sugar be purchased from mill owners, it will starve education or the PSDP, and no one cares. When large payoffs have to be made to the power sector, railways and other areas are cut. MOF slows down releases destroying the timely delivery of all objectives. Any department's best intentions are brought to naught by this kind of budgeting and an imperial ministry beyond any oversight.

With this power, MOF has no desire to budget properly because the law means nothing. They can do as they like during the year. The planning function of the budget is lost now.

Expenditure overruns, re-allocation during the year are all done whimsically by the MOF. At the end of the year, the new budget law is appended with the details of these overruns and re-allocations in what is known as supplementary grants. In that way, any questioning on the budget law is preempted.

Unaware of the importance of the budget for establishing a good and accountable government, Parliamentarians happily agree to a summary debate on a budget of about two weeks (with more or less seven business days) of discussion. (More than likely, we have the shortest budget debate in the world). In this short duration, no aspect of the budget is seriously discussed, leave alone supplementary grants.

Sadly economic commentators are so busy discussing meaningless budget numbers (that MOF never means to keep) and fail to see the importance of Parliamentary procedure for the budget. But this issue sits at the root of misgovernance.

1.13. SHOULD WE ONLY BLAME THE POLITICIANS?

Who Do We Blame?

We spend altogether too much time blaming politicians and our incumbent leaders for their failure to deliver. Is that fair? I have seen even when politicians want to make reform, and the system stymies them. All governments have invited technocrats to make reform but all of them have been chewed out by the system and made totally ineffective. Mahbub ul Haq came here with many ideas, but the civil servant group led by GIK obstructed him in every way and finally sent him out of the country. They ganged up on him to preserve the status quo!

Many have come and gone like Dr. Haq to see if they can help develop the country. They come with new ideas. They work hard to give this country something. Even some politicians try to develop new ideas and wait around for some good results. Unfortunately, all their ideas too are implemented in such slipshod fashion, that be it an education program, a youth scheme, or a social protection program, the result is the same, no real progress or a program that we can be proud of.

In the beginning, you see plush offices, big cars, and a smartly dressed DMG official running the show, giving slick presentations, even arranging big conferences with lots of foreign delegates. But this is while the donor funding lasts. After the funding dries up, the DMG official moves on, the office becomes decrepit, and all the good people leave. And all we have is another derelict outfit waiting to be killed.

Meanwhile, the government remains beset with old familiar issues: buying commodities, managing crises that arise out of long unaddressed problems, chasing donors for funding to preserve the status-quo! Anything to keep reform at bay.

Even when a reform like the monetization of cars is approved by our leaders, it is left for the beneficiaries to develop and implement for themselves. It is poorly implemented and then used as an example of why this country is not ready for reform. The people who implemented the reform move away like ghosts, and no opprobrium visits them. Instead, they become the loudest voice in the room where change is being discussed, arguing against change.

Occasionally leaders will call a meeting for a change. There will be one hapless technocrat and many secretaries. One after the other, they will all speak about how we must be careful to change a system where they have all power and many perks and opportunities to get bonuses and plots. Typical refrains are “sir, we must be careful and go slow.” Why because we implemented previous reforms badly. The implication is that all change is bad. Not that the implementers have a problem with change since they are so heavily invested in status quo of perks/plots/protocol.

They are also quick to point out how “local conditions”, which they know best, will not allow the best ideas to work here. I am always amused to see these people sitting there in their western finery with their kids in American universities, arguing that Pakistanis are not ready to change. In a society that is now deeply globalized through migration, these people still argue for how people want to remain local.

The rules of business make all our leaders beholden to secretaries. But this control by people who will do all that is in their power to maintain the status quo from which they benefit is holding the country back.

Politicians have to face the electorate and can be sent home and lose their perks and privileges. Bureaucrats have royal perks and privileges and permanently serve all governments with their usual refrains for the status quo! Without their perks and privileges, they will be human and want change that benefits as they will be a part of the general good.

We would all do well by ensuring that our bureaucrats are in the same boat as us. Right now they live in a different world, living in gated enclaves, have private clubs, utilities are constant and well paid for. Everything is too convenient and exclusive. Whether the rest are experiencing difficulties does not concern these people.

Humanize the people with the power and break the status quo. At least place the blame where it is due! At least the politicians try! There is a group that merely wants to preserve privilege.

1.14. FIX GOVERNANCE BEFORE IT'S TOO LATE

At a time when the country is fighting for survival, our leaders are begging for aid. The crying need of the hour is governance reform. The country is gasping for breath because of poor governance. Some symptoms:

- There is a huge law and order problem. Not only is terrorism on the rise, kidnapping and violence have also increased.
- Qabza groups prey on property rights in collaboration with the regulators and lawmakers
- Resources continue to be misallocated in development projects because of corruption and mismanagement.
- Public service delivery is wasteful and inefficient.
- Energy is in short supply because of problems in power sector governance
- Water is running out because the water sector continues to be poorly managed
- Government policies are capricious and poorly thought out, lacking coherence and continuity.

At the heart of all these issues (and I am sure readers can add more) lies public sector management. All Pakistanis will denounce public sector management and wish for it to change. For years we have blamed the politicians for these problems. But even with Martial law, there has never been any improvement in governance. At the heart of the governance problem, is the issue of incentives of the managers of the Civil Service.

Currently, our civil service system has the following major flaws:

- It is a closed non-meritocratic system, i.e., recruitment is only open to young people at junior grades, and promotions are guaranteed and according to age and not performance
- The National payscales attempt to put the entire government on one uniform scale with the federal government and the District Management Group on top, vitiating decentralization and autonomy of institutions.
- Civil servants' salaries, especially at upper levels, are largely in terms of non-transparent perks, which are easy to abuse. This form of payment corrodes ethical standards and nurtures corruption.
- All manner of allowances also complicates the current pay system. It is not inflation-adjusted on a regular basis. Instead, a series of allowances are used to adjust for inflation.
- Every few years, a Pay Commission is put in place to deal with the allowances. The Pay Commission usually consolidates a few allowances and gives a few increases, leaving the system intact.

The system is antiquated and needs a complete overhaul to meet the challenges we face today.

I wish we could have a serious national conversation on this.

1.15. RETURN TO MAGISTRACY

A Distracted Bureaucracy

In our adventures to find a viable political system, we have politicized the bureaucracy moving it away from its primary function—magistracy.

Politically weak governments attempt to buy legitimacy through the delivery of projects and giveaways. Almost as a bribe — repeated governments claim, “i cannot give you freedom and liberty, but i will build dams, roads, and railways!” And “i cannot give you security, but i will build education.” And even there, the dictates of the system lead to more building, not more public service.

Such agendas are supported by donors who too are in a hurry to write those reports claiming “literacy has improved in my tenure”, “in my 3 years here, I have done three projects on clean water”, and “I financed a project for building a dam worth 20 billion.” Donors are dumping money on development projects to achieve these ephemeral goals for better economic development.

Donor projects are a godsend for the civil service. It gives them access to large funds that can easily be used for personal aggrandizement. Such funds come with nice cars (Land Cruisers), plush offices, nice allowances, liberal foreign travel, and access to substantial consulting funds. Consulting funds can easily be used to benefit friends and family. Why would you want to do magistracy when the benefits are all in development?

It is no wonder that law and order have been on the decline here. No property rights exist; life and liberty are in serious jeopardy. Even your rights have to be obtained through powerbrokers. If you are not networked into the powerbrokers, even your life may not be safe. In such an environment, long-term investment is very risky.

While society is falling apart because of the lack of magistracy, our old civil service, the custodian of democracy, has its attention divided. The premium is in development the drudge in law and order.

Magistracy First!

Recall that historically, the prime function of the government and civil service has been “magistracy”—the administration of law.

The state’s primary role as envisaged by many philosophers and as developed through history is to provide the framework to society for “individual personal and economic security.”

This involves two separate processes — one for making fair and responsible laws (a parliamentary legislative process) and the other a system of fair administration of laws (a bureaucracy and judicial system).

The term “individual personal security” involves judicious and efficient police and emergency systems that administer the rule of law regardless of stature and hierarchy.

The term “economic security” is also obvious. It is the provision of secure property rights, a secure system of contract enforcement, and market facilitation. All this is to be provided with minimal involvement of the government.

The government must be like an umpire at a cricket game—to be seen and not felt, stopping the game only momentarily if required. The umpire does not get involved in the game, nor is the umpire the star of the game.

No Development Without Magistracy

Growth without magistracy is ephemeral. Much evidence now shows that the rule of law—strong and fair magistracy—is an important prerequisite for growth. Development projects and assistance have not led to the development of strong foundations of growth, often leading only to temporary improvements in welfare. In cases where the state has really lost control of the magistracy and the rule of law, civil war has sometimes ensued. Examples from Africa are well known.

To develop the country and society, we must establish serious magistracy. The first step is to recognize that long-term development requires developing the magisterial good — individual and economic freedom — by the government. Moreover, the foundations of society and state lie in the development of the magisterial good and magistracy. Consequently, rather than relegating the magisterial good to second place after development, now we must give it a priority.

If we accept this line of argument, then the current rhetoric of “development first” must be accepted as wrong. The government of the day must accept magistracy as its primary function and development as secondary. The push for development cannot be an excuse to put off magistracy.

The development and the magisterial functions of the civil service should be separated.

There must be a bureaucracy that is totally dedicated to magisterial work, and no donor project should interfere with it. True development is the development of the magisterial good *first*.

What about infrastructure development and social sector development? When we have the magisterial good developed, the public sector can get the private sector to get increasingly involved in developing these objectives. Without magistracy, the line between development projects and organized corruption seems to be very thin indeed.

1.16. MONETIZATION: HOW VALUABLE IS YOUR BUREAUCRACY?

For decades now, the monetization of perks has been on the table. No action has been taken because the powerful secretaries who monopolize access to perks block the reform and because our austerity mindset keeps us from financing a reform that accelerates growth and employment. This reform is most necessary in housing because the current distribution is iniquitous and because it is holding back economic development and employment. Let us see how!

Inequity

Recall government-owned accommodation such as houses, bungalows, or apartments located in the posh areas of metropolitan centers. The location and addresses themselves are prestigious and symbolize power. What is less well known is that not all civil servants get these houses. Of the 447155 civil servants:

- 8% have the privilege of getting government-owned accommodation such as houses, bungalows, or apartments located in the posh areas of metropolitan centers;
- 20% are living in government hired accommodations;
- the rest, 72%, are getting house rent allowances which are equivalent to 45% of basic pay in Islamabad and some big cities, while in smaller cities, the allowance is 30%.

These disparities in entitlements have adversely affected performance in many ways.

- Competition for scarce resource happens through means other than performance on public service delivery. Performance on the job is no longer a focus.
- Officers are distracted from their function and performance and focus on getting their privilege. Hence they are compromised.
- The availability of good housing is also a control device.
- Coveted housing such as in the posh areas of Islamabad, Lahore, and Karachi could have a rental value of Rs 300,000. In contrast, the comparable allowance that is given to a comparable officer who is not given a house would be in the range of 45,000. Taxes exacerbate the situation: The officer with the house pays no income tax on the Rs 300,000 compensation he gets while the latter does.

No Transparency in Expenditure on Maintenance of Housing

Government budget figures do a great job of hiding the cost of maintenance of these houses. It is well known that over the years, the powerful have been able to do more to their housing, such as making additions, expensive renovations, even swimming pools, and of course building boundary walls, etc., all at taxpayer expense. When asked, all divisions deny any knowledge of where this expenditure is. They are unable to quantify it.

Given the lack of information, I think we would not be wrong in putting forward the hypothesis that maintenance expenditures are likely to also be distributed in a manner that is inequitable, wasteful, and sets up perverse incentives.

Monetize for Growth

The Framework of Economic Growth (FEG) that the National Economic Council accepted in 2011 put forward a major innovation in the development narrative of the country. Recognizing the importance of cities in development and the large excess demand in all city activities—housing, schooling, public places, commercial, leisure—FEG suggested a shift in paradigm for our city development. FEG argued for a move from the current car-friendly, suburban-sprawl approach to cities characterized by increased density and high-rise, greater availability of mixed-use and less use on cars, and more walkability. A move in this direction would unleash a construction boom that will be employment friendly. Moreover, a high level of construction activity would have huge spinoffs, creating further growth and employment opportunities. In addition, as history has shown, the newer cities with increased commercial, community, and public space can be expected to lead to innovation and entrepreneurship.

An important factor holding back this vision that was embedded in the FEG is the large hold of the bureaucracy on urban development. Not only are all the zoning and building regulations in urban areas controlled by the bureaucracies -- army and civilian-- they also occupy most of the prime land for official housing and for giving free plots to themselves.

Be that as it may, let us examine the possibilities emerging from monetization.

Monetization in Islamabad

When I was at the Planning Commission in Islamabad, we estimated the gains from monetization of housing reform only in Islamabad.

Cost: The reform would begin by adequately compensating all civil servants so that their welfare is not reduced. Previous pay commission recommendations have failed because they recommended giving them only the existing housing allowance, which was a mere fraction of the rental value that the powerful were getting. It is no wonder the reform was blocked.

A better approach that is used in most countries was also considered. Link civil servant salaries to the market through periodic salary surveys of the relevant private sector. Of course, a certain discount would apply, and the policy would decide that. This is a preferable approach as it eliminates the many allowances that have crept into the system over the years.

Our estimates suggested that the cost of this reform would range from about Rs 30 billion annually (restricted to housing monetization for grades 17 through 22) to about Rs 165 billion (if all grades included). Changing the system would cost about Rs 140 billion annually since it would change the relativities within the system. Please note those figures are probably upper bounds since we assume that no reform such as changing the size of the civil service is made. Of course, a fuller reform would be able to control these costs with better outcomes.

Value if business as usual: The moment you mention this reform, many factions start salivating since the land we are talking about is the most prime in the country. For example, the incumbents would like to grab it at book value, pocketing a considerable gain.

What we want is the land for complex, high rise, investment, and employment-friendly construction. For that, the current use of housing is a waste and needs to be urgently discontinued.

CDA estimates suggested that about 864 acres would be available if all these government houses were vacated in Islamabad. Importantly thus land is available in large parcels of about 20 to 50 acres. Given CDA planning, finding such parcels for commercial development is now almost impossible. Such fragmentation has destroyed construction possibilities and hence eroded value. If we go the route of the usual CDA planning and sell this land in small housing parcels, the value is estimated to be Rs.233 billion.

FEG Build for growth approach: Assemble the land into large parcels for mixed-use complex development. Zoning building laws would be changed to accommodate such construction.

Even with a generous allocation (about 50%) for common areas and amenities, about 423 of the 864 acres would be available for complex modern development. Note that Centaurus has been built on 5 acres with an investment of Rs 50 billion or USD.5 billion. Let us say we build the equivalent of 80 Centauruses on this land; we are looking at an investment potential of USD 40 billion.

With generous height and use rules, it was estimated by the best experts available that this could result in an investment potential of Rs 6 to 10 trillion. This is equivalent to about USD 60 to 100 billion or 30 to 50 % of our GDP.

Jobs: Looked at from any perspective, these are staggering numbers. If the construction of each of these buildings directly involves about 3000 workers and indirectly another 3000. We are talking of about .5 Million new jobs.

It is estimated that up to about 60 million square feet could be added in Islamabad through this construction boom. Even if a third of it is devoted to flats, we could add over 15000 dwellings to the housing stock. Let us say each apartment generates 5 jobs to service it; we are talking of over 75000 jobs.

If the remaining commercial development eventually yields one job for every 1000 square feet, about 40000 jobs will be generated.

The numbers are so exciting I do not know why we all do not come in the streets and ask for this long-overdue reform. We are begging for aid which is given to us in dribs and drabs with hardly any impact on the economy. Here we have billions of dollars of investment at our feet.

Growth: Think about it! This development, if done well without bureaucratic interference, could take ten years. Let us take a straight-line approach, and investment would increase by 3 to 5% of GDP annually. Based on our existing growth-investment relationship, this could increase growth by 1-2 % annually over and above other initiatives.

The value of bureaucracy: So the current comforts of the bureaucrats are costing us about 3-5% of GDP in foregone investment, about a million jobs, and 1-2% of growth annually. *Think about it are they doing that valuable a job?*

Finally, this is in Islamabad alone. What if we could do it in the whole country? It would transform Pakistan. Now, do you see why we argued for it vociferously in FEG.

1.17. GOVERNANCE 1: OUR MEETING CULTURE MUST CHANGE

Every day, newspapers show a picture of some meeting or the other. The somber message “she is in a meeting” sounds very grave and responsible when you call a minister. And if it is the cabinet or the ECC, it sounds even more grave and serious. Indeed the fate of the country is decided in those meetings. What happens in those meetings? How seriously do our officials take those meetings? How well prepared are they? What is the quality of those discussions?

First, the picture in the papers. It is orchestrated in the ministry of information, and is taken in the first few minutes contrived to show leaders hard at work. Why anybody would take it seriously, I do not know.

But that is not of interest. What is more interesting is the preparation for the meeting, who participates, why meetings are held, and what happens at it. Much governance improvement could happen if we can change our meeting culture.

Before we see what happens in Pakistan, let us quickly review meeting practices around the world.

Meetings Around the World

- (1) **Participants must have a purpose:** Steve Jobs is famous for saying that meetings must be structured small and meaningful. He never allowed people just to be there who were not needed.
- (2) **Meeting preparation:** Meeting experts suggest that meetings result from a lot of complex investigation of an issue. They are called once background investigative work has been developed and absorbed by concerned people and a debate or decision is required. Consequently, meetings are prepared with agendas and documentation to support them. Moreover, this agenda and documentation are shared with people with enough notice and time to prepare for a meaningful discussion.
- (3) **More structure and investigation for higher-level meetings:** Higher level meetings of cabinets or cabinet subcommittees like the ECC in other countries are prepared through serious long-term research and lengthy inter-ministerial consultation. A policy for industrial development or investment or gas or electricity development happens occasionally and must be built up through consultation between various ministries over months and backed by serious research and investigation to delineate clear choices. In most countries, this investigation also includes consultations with the nation’s intellectual capital. What should emerge on the high table is considered and well understood research and through it policy.
- (4) **Meetings are not work:** Meetings are required to share information, seeking common ground, and agreeing on decisions for moving forward. But the real work is building up to meetings and informing individuals and organizations with analysis of available evidence and global experience and knowledge. If not enough time is available for reading, research, and attending seminars and conferences, learning does not happen. Meetings then get insular and incestuous, and decision-making and strategy remain uninformed.

- (5) **Rules of engagement to prevent grandstanding:** every meeting is structured by the chair to allow informed views to be aired and aggregated. That is why small meetings are preferred. Hierarchies and verbal pressure are resisted by rules such as equal allocation of time in higher forums and clear guidelines on language and addressing the chair etc. Even if there is no explicit voting, views are carefully tallied so that the chair sums up the sense of the meeting.
- (6) **A budgetary policy cannot be easily changed:** neither the cabinet nor any forum is allowed to violate the budget, which is a law that has been passed by parliament. Re appropriations must go back to parliament. Hence any proposals of a budgetary nature are not presented at such meetings.
- (7) **Ample time for strategic meetings at higher levels.** Country cabinets and -high level forums always keep strategic direction under review and build long-term thinking and policy review into their processes. While they have mechanisms for monitoring transactions, these higher-level bodies largely stay out of transactional work.

Meetings in Pakistan

Meeting, meeting all day: The first thing that strikes you in government in Pakistan is that there are too many meetings. Most people are running from meeting to meeting and then trying very hard to catch up with their file work. No one has any time for learning through reading, researching, or attending conferences or seminars.

Oftentimes it seemed to me that meetings were called to fill in time. The whole day for everyone in government is spent in meetings. Even when they are not meeting, there are visitors asking for favors. So when do they read and absorb the material that is supposed to make policy decisions?

A permanent crisis: all governments in Pakistan are in a hurry to do things. There is a constant crisis mode. Even the donors talk in crisis terms: education emergency, macroeconomic crisis, energy crisis, impending water scarcity, millions below the poverty line, etc. not only is everyone in a hurry, but all seem to claim a knowledge of all the solutions. So all we need is a meeting to make things happen--implement the favorite buzzword in Islamabad.

So Islamabad, as well as its think-tank, the donors, know all. Having absolved themselves of the need to investigate and research, they are absorbed in frequent and hasty meetings and the frantic urge to implement.

Implementation without thought: All day through the year, they try to implement in meetings. No one seems to have the time to wonder why the various crises and emergencies are not going away despite the many hurried meetings and the deep knowledge of solutions that Islamabad and donors have. Could this approach be flawed? Maybe fewer meetings, more thought, research, and local thinking might be a solution.

The extreme hurry to develop without any real effort to learn and investigate pervades all levels of government. Several meetings are called at senior levels -- are called in a hurry--supposedly in a crisis mode. Sometimes the joke in the corridor is that this is to keep ministers and politicians busy. Occasionally, there would be a meeting on the economic situation at short notice with little preparation or inter-ministerial consultation.

Too many participants: At these meetings, some people are called even if they are not necessary but only because the picture in the paper would look good. One is sometimes even surprised by some itinerant presence, such as a luminary or a friend of the authorities, even if they have little knowledge of the area. The meetings are way too large and unstructured and become grandstanding events with little substance.

Preparatory work: Oftentimes, no agenda is circulated for such meeting, nor is there any research or background material. The most that can be expected at most meetings is a hastily prepared powerpoint presentation (often prepared by a junior official) that is read not by the author but the secretary. Since there is no investigative report and everything has been done in haste, opinion, loud voices, and hierarchy speak. Little is achieved. Often the meeting ends in confusion.

No strategic meetings: The mundane subjects chosen for such meetings are also quite worrisome -- some road project or some sectoral issue -- where participants are looking for a subsidy or brainstorming on some critical issue such as energy. Surprisingly the cabinet is approving concepts of free trade agreements which are passed with a murmur of "routine matter" Why do routine matters come to the table?

Most meetings in government and even at the ECC and the Cabinet are transactional, such as buying commodities such as sugar, fertilizer, etc., or engaging in some foreign deal such as a big project or a long-term commitment to purchase LNG.

Again proponents of these transactions are in a tearing hurry to obtain approval. For example, fertilizer purchases that happen every year are only brought to the table within days of an impending shortage without even the data on available stocks in the country or the price of available fertilizer. No explanation is offered as to why such purchases cannot be smoothed out over the year through better planning. Interestingly there is no demand for such strategic thinking.

Interestingly, there are occasional meetings of the economic situation. The secretary of finance makes a presentation on the economy that is short-term in nature and almost totally focused on the budget. In the ECC, there is a presentation on the data on inflation. There is never any meeting on economic growth and its medium-term prospects.

No one is interested in reviewing why our growth rate has been declining over the long term or how we can get it up to the required 7 or 8 % of what is happening on employment?

The budget is no consideration: What is very surprising is that the transactions that are proposed in a hurry -- purchases, subsidies, and fresh projects-- are all proposed and even approved without looking at their budgetary implications. How can you approve purchases of billions of rupees or an increase in subsidy to the farmer without worrying about what it might do to the budget in place.

Due Process, investigation and consultation: The crisis mentality and the hurry to deliver means that all processes are avoided. Ill-prepared work is hurriedly put before the cabinet and all meetings bypassing all rules of mandatory submission intervals, interdepartmental consultations and investigative requirements. Hastily-prepared summaries and a powerpoint with the refrain of a crisis and a tearing hurry are the reasons given. And we commit billions of rupees in the bargain setting up grounds for inquiries, litigation, etc.

What is to be Done

Most important of all, we need to learn from the rest of the world. Much as we hate procedure and rules, they are often required for forcing desired outcomes. But equally important, we must change the culture in our government from meetings to learning. So the culture of “meetings is work” should be changed to “reading and learning”. Similarly change should be made from meetings are a tamasha and a photo op to more pointed smaller meetings. Unnecessary people should not be invited merely to fill up a room.

But most of all this “perpetual crisis and hurry” approach must be changed. Rather than rush to act and always fall flat on your face, perhaps a slower, more considered, and deliberate approach might yield better results.

No meeting should occur unless the issue at hand has been thoroughly studied and the study has been circulated in advance, and all concerned have had a chance to study it. Poor preparation must be penalized.

All financials must be fully disclosed. All proposals must be budget-neutral. Finance must testify to budget neutrality. Subsidy/commodity operations must be clearly shown with appropriate financing options. All ministries should be reminded that the budget-making process must anticipate their purchase subsidy needs. They should not be allowed to present items that they had not planned for then. Any new demand must be backed by explaining why there is a lapse from the budget commitment and where the emergency is. Then they must show where the funding must come from. MoF must come prepared to back funding and clearly show that the budget is not violated.

All items pertaining to an SRO should not be entertained. Why is it that policy, reform, and restructuring work is not brought to the ECC and Cabinet? My view is transactions must be seriously discouraged. Violations of the budget that now happen all the time must be discouraged. Instead, policy, reform, and restructuring issues should be taken up.

All policy, reform, and restructuring proposals must have a month for inter-ministerial review, including a meeting to be chaired by the PC before it is even circulated. Policies are a serious issue. The paper should be distributed at least a month before the meeting takes place to allow careful consideration and prevent multiplicity of policies.

All policy, reform, and restructuring must be backed by research and a clear indication of ownership by the ministry. This will mean a well-researched background paper prepared by experts in ministry. Consultants, if used, must be there for expert testimony.

All reform, restructuring, and policy items should be timeliness with implementation issues and modalities, if any.

The procedure is very important: Meeting should not happen at the whims of anyone. Adequate notice is necessary for preparation time. Meetings like Cabinet and ECC should only occur at preassigned times and not randomly. They should also not happen too frequently.

There should be a quorum defined for the meeting to be held. If experts are required, there must be a procedure and not that they should become a part of the meeting. In each meeting, no more than 6 or 8 items should be taken up.

For the cabinet and ECC, a rolling agenda should be maintained. All ministries should let the cabinet division know of items that they wish to place before the forums at least three months

in advance, assuring everyone of some forethought and some preparation. The rolling agenda must be made public. Emergency additions to the agenda must be discouraged and only entertained occasionally.

The procedure of meeting should be changed. In this electronic age, there is no reason for a long meeting. More and more written comments should be encouraged and decisions taken with minimum discussion. This will also allow better minute-taking and disclosure. There could even be a secure website for Cabinet and ECC exchange minimizing the time of the meeting.

The reason for a forum is to allow consensus building. In our case, the Chair often decides independently of the meeting. This is not in keeping with modern democratic governance. The Cabinet division must take note of views and ensure that the sense of the meeting is not overruled by the chairman. Too often, ministries keep returning with proposals forcing an acceptance by attrition. There must be rules limiting a proposal from returning to the forum within, say six months.

Minutes are important for recordkeeping, transparency, and even history. Meeting should be recorded, and ministries encouraged to put more of their comments on paper and email. Minutes should be based on written comments of ministries with accurate reporting of oral discussion if any. Minutes must be circulated and approved before the next meeting.

Good governance requires that people know what is being done in these important meetings on their behalf. 3 to 6 months later, the minutes must be released to the public so that the people are informed of positions taken and the sense of the meeting.

1.18. GET THE BASICS RIGHT!

This is a term that my friend Meekal used with me today. All we need is to get the basics right! Others around the table also yelled, “it is not rocket science!” All we need is “Get the basics right!”

My question, “what are the basics?” was drowned out! We all know what the basics are without actually talking about them. This is how economics is done in Pakistan.

With persistence, I found out what the basics were. Get inflation down, Increase revenues, Increase exports, Increase growth, which Makes it easy! Does it not!

We wish for all the good things and call it economics.

For sixty years, Plan after Plan as wished for these good things, increase production, increase growth, increase exports. It is sad that the economy will not listen to these economists and deliver all good things like production, growth, and exports. And not to forget that all this must happen with low inflation.

Of course, we must keep asking for more revenues, and every discussion must not be well-worn examples of the rich not paying taxes. Ok, so let us have a new tax, and collection must improve. There you go. Now see “It is not rocket science!” What is it about rocket science that these guys like? Every three minutes, someone mutters, “it is not rocket science!” and all nod in agreement. Discussion killed! Time for the next anecdote!

Well, how about another list of basics!

- Improving law and order
- Securing property rights
- Strengthening contracting
- Reducing transaction costs
- Redesigning and reframing markets for efficiency
- Removing incentives for rent-seeking and putting in place incentives for entrepreneurship.

This was what the government was supposed to do. This is the basics of governance! Sure it requires hard work and much thinking to make this happen. And yes, it is even more complicated than rocket science.

If our friends would be more inquiring, they would find out that the development experience of the last sixty years has shown the primacy of these basics over their usual list of basics. Without better governance, all those good things that our economists take with for may not happen. A little reflection will show that Plan after Plan wishing for increased growth exports and production with higher revenues have come to naught because of “poor governance!”

Perhaps, saying “it is not rocket science!” stops these people from thinking. All of us need to come out of our comfort zone and encourage discussion and debate.

1.19. REARRANGING DECK CHAIRS ON THE SINKING TITANIC

At a time when the country is fighting for survival, the Pay and Pensions Committee conducts “business as usual”. The crying need of the hour is governance reform. The country is gasping for breath because of poor governance.

- There is a huge law and order problem. Not only is terrorism on the rise, kidnapping and violence have also increased.
- Qabza groups prey on property rights in collusion with the regulators and lawmakers
- Resources continue to be misallocated in development projects because of corruption and mismanagement.
- Public service delivery is wasteful and inefficient.
- Energy is in short supply because of problems in power sector governance
- Water is running out because the water sector continues to be poorly managed
- Government policies are capricious and poorly thought out, lacking coherence and continuity.

At the heart of all these issues (and I am sure readers can add more) lies public sector management. All Pakistanis will denounce public sector management and wish for it to change. For years we have blamed the politicians for these problems. But even with Martial law, there has never been any improvement in governance. At the heart of the governance issue is the issue of incentives of the managers of the Civil Service. Currently, our civil service system has three major flaws:

- It is a closed non-meritocratic system i.e., recruitment is only open to young people at junior grades and promotions are according to age and not performance
- The National payscales attempt to put the entire government on one uniform scale with the federal government and the District Management Group on top, vitiating a form of decentralization and autonomy of institutions.
- Civil servants’ salaries, especially at upper levels, are largely in terms of non-transparent perks, which are easy to abuse. This form of payment corrodes ethical standards and nurtures corruption.

The current pay system is also complicated by all manner of allowances. It is not inflation-adjusted regularly. Instead, a series of allowances are used to adjust for inflation. Every few years, a Pay Commission is put in place to deal with the allowances. The Pay Commission usually consolidates a few allowances and gives a few increases, leaving the system intact.

The News yesterday reported that the Pay Commission in 2010, with the country in ruins, devastated by bombs, load-shedding of 12 hours a day, inflation still in double digits, and governance at an all-time low, has once again proposed an across the board pay increase, leaving the system intact.

ISLAMABAD: As part of a major overhaul of the government machinery, a 50 per cent across-the-board raise in the pay and pension of civil and military personnel from July 1 this year has been proposed. The proposal will have an impact of about Rs507 billion on the national exchequer over three years.

The report does note that the system is now not attracting the best. In fact, there is an adverse selection when it comes to civil servant recruitment—those with a penchant for abuse of power and corruption may be offering themselves for service. Certainly not the best and the brightest.

The report makes startling revelations about the deterioration of the quality of 2.84 million public servants in the absence of civil service reforms for years, saying the government is “no longer the employer of choice among young people and is unable to attract and retain people of the right caliber”.

In 2006, the Federal Public Service Commission found that 25 vacancies for the Central Superior Service went unfilled. In 2007, the number was 47, and in 2008 the figure rose to 88. At one point, Punjab wanted to recruit 10 district prosecutors in BS-19. Fifty-four candidates appeared for the selection process, but only one reached the final stage. But even he could not clear his viva. The report has recommended excluding the bureaucracy from the jurisdiction of the National Accountability Bureau and similar provincial agencies, suggesting instead “a strong, open, transparent and objective performance management system” on the pattern of Malaysia and Singapore for public officials.

When the system as a whole is non-merit-based with promotions seniority determined and when payment is in perks, what will performance management, no matter where it is copied from, do? The commission does make one good recommendation:

The commission has proposed immediate exclusion of groups like teachers, lecturers, professors, professionals of health departments, police, internal security forces, and subordinate judiciary from the purview of the national pay scale.

“They will have their own pay scales that will vary from each other. These professionals will be excluded from the purview of the Civil Servants Act and will be public servants with their own rules and regulations.”

Even if these people have their own independent pay scales, they are entirely under the control of the DMG through the system of transfers, hierarchical placement, and ministerial attachment. That system should go. Next, we have the usual tinkering at the margins that pay commissions do.

Under the plan, the existing 22 pay scales of civilian employees will be reduced to 14. The entry-level for officers has been proposed as BS-10 instead of BS-17. All ad hoc relief allowances granted to civil servants since July 1999 will be merged into the pay scales of 2008 and then discontinued. The minimum and maximum pay after the merger will be increased by 50 percent in three years.

The salaries will be increased by 15 percent on July 1 this year, followed by another 15 percent on July 1, 2011, and 20 percent in 2012 when the new scales will become fully operational. The pay scales of armed forces will be increased similarly. The existing employees will have the choice to continue with the BPS-2008 or opt for the new scales, which will apply to all new entrants.

On perks, the pay commission is silent. It only asks for the allowances to be made a part of the pay package. Not that the civil servants will not get payment in the form of housing cars etc. An amount equivalent to the housing, transport and outdoor medical facilities of government servants will be made part of the pay package. However, the value of the benefits will not be treated as pensionable emoluments.

Like Singapore, civil servants will get financial assistance for owning houses. They will be encouraged to utilise their defined contribution account for down payment and pay monthly instalments financed from monetised amount in salaries, because simple payment of the benefits in salaries will encourage higher consumption.

Members of subordinate judiciary will continue to avail housing and transport facilities at the places of their postings. For the broken pension system where the civil servant gets a non indexed pension that is a small fraction of her total monetized earnings is left intact!

PENSION: The pension of two categories of existing pensioners will be increased by 50 percent and 65 percent in three years. Those who retired before Dec 1, 2001, will get 20 per cent increase on July 1 this year, another 20 percent next year, and 25 percent in 2012. The gains for those who retired after December 2001 will be 15 percent, and 20 percent over the three years.

All new entrants into government service will be governed under the Defined Contributory Scheme (DCS) to become effective on July 1. The rate of commutation will be reduced from the current 35 percent to 25 percent, and the accrual rate will be adjusted provided their pension is somewhat higher than the one which would have been admissible if the person had retired under the existing structure.

Family pension of those who die after retirement will be increased from 50 percent to 75 percent. The minimum pension will be increased from Rs2,000 per month to Rs3,000 and the minimum family pension from Rs1,000 to 1,500. Ad hoc raise given to retiring employees in 2005, 2006, and 2008 will be discontinued. The federal establishment division and provincial services and general administration divisions will be converted into human resource divisions. Of course, then we have the usual tinkering, which means little

GOVERNMENT SIZE: The size of government will be gradually reduced by not filling vacancies in grades 1-16 (except for education, health, police, and judiciary) and introducing information technology tools.

The size will be further reduced through the privatisation of corporations and companies and abolition of federal ministries and divisions whose functions have been transferred to provinces and local governments. The impact of the measures has been estimated at Rs507 billion, including Rs203 billion in 2010, Rs190 billion in 2011-12, and Rs114 billion in 2012-13.

The amount is estimated to be 10 percent, 8.2 percent, and 4.2 percent of the current expenditure in the first, second and third year. The salary and pension budget will increase by 25 percent next year, 20 percent in 2011-12 and 10 percent in 2012-13. The increase in basic pay and allowances will cost Rs267 billion, monetized value of perks Rs174 billion and pensions Rs66 billion.

SPECIAL ALLOWANCES: Special allowances will be given to teachers of science, mathematics, computer science, and English and teachers and health professionals serving in rural, tough, and remote areas. The commission mentioned two resolutions adopted by the National Assembly and the NWFP Assembly recommending the implementation of the proposals.

Would you agree that this is rearranging the deckchairs on the Titanic?

1.20. INSIDE THE MINDS OF CIVIL SERVANTS!

Civil service sits at the heart of most economic systems controlling and often adjudicating information, regulation, and property rights. It either determines or controls the means of policymaking, legislation, and rules in society. If this machine is not well oiled and kept constantly in good order, the economy, even society fails.

Demoralized!

Yet our civil service has one of the lowest approval ratings and the highest rating for and a strong suspicion of corruption anywhere. In a survey of Civil Servants conducted at the PIDE in 2007, we found that the Civil servants were quite demoralized. They acknowledge that the service is corrupt and that their public approval rating is low. They were aware that corruption was a serious problem. In addition, there seems to be no trust in the accountability process, i.e., corruption is not penalized.

The colonial civil service was reared to be independent, thinking, and developmental. They put in place our legal structures, our system of property rights, our procedures of governance, and our communications system. They were largely honest. Of course, they were paid well and given respect.

No HRM

Today, our survey shows that the civil servants have little faith in their human resource management! While acknowledging the benefits of meritocracy, they continue to prefer seniority-based promotion and reward systems. Written job descriptions, as well as standards for performance evaluation, are not used. Similarly, 'connections' are perceived as the major determinant of nominations for training, especially foreign training. Background and abilities are not regarded as important for promotion, assignments, and training.

Politicized

Over the years of our independence, the civil service has also been heavily politicized. Successive governments have conditioned the civil servant through a system of carrots and sticks. Carrots include lucrative perks, allowing corruption and choice positions, while sticks are based on rapid promotions and the weeding out of honorable and more capable service members. The survey also confirms that the civil servants' fear that their independence has been curbed through repeated political interference.

Open Recruitment

The best and the brightest went into the civil service in the old days. They were well trained and confident of being the best. Today the survey shows that the civil service fears competition. While Grade 22 respondents with no more promotions to look forward to want to open out recruitment, the junior grades wish to restrict the entry of professionals to grade 17. Strange that they should want highly qualified people to come in at such junior levels.

We were surprised to find that despite low salaries, the majority is satisfied with their civil service job. Those in the Police record a higher level of satisfaction than others because of power and other possibilities. Those in the Foreign Service and Commerce and Trade also show higher job satisfaction than others, possibly because of foreign postings. When salary and professionalism are compromised, it is not surprising that elements such as corruption, comfortable postings, and power-brokering come to the fore.

Despite recording low levels of job satisfaction, high levels of corruption, and low self-esteem, most of the officers surveyed indicated they would like to stay in civil service. Could this be because they have limited market opportunities?

Perks

When I talk about perks to the few civil servants from the sixties, they are shocked to see what a public servant gets today. Government houses are being converted into palaces at tax payer's expense. A fleet of cars for personal use! Publicly provided servants! Bills paid! Recreational clubs, especially for civil servants! Several paying board memberships! Plots are given at cheap prices! With this in mind, we asked our current civil servants about the possibility of monetization of perks. The majority agreed with the monetization of all perks.

While the survey shows a preference for monetization, it is always rejected when it is proposed. Perhaps this is because perks are mostly a non-transparent method of payment. Entrepreneurial and well-networked individuals seek to maximize them. Perks will therefore be quite unequally distributed among the public servants, with the better connected and aggressive individuals being able to collect more perks.

Given this lack of transparency and unequal distribution of perks, any effort to monetize perks would find it difficult to value perks at a level where monetization would be acceptable to all. This may explain why a majority prefer monetization but yet in reality, it may not happen!

Retirement

In the old days, a civil servant retired comfortably in the upper-middle class of society. Pensions were good, and in a stable non-inflationary environment, they had a happy old age. Our survey found that low pension levels that were eaten up very quickly by inflation affected the behavior of civil servants. The fact that a civil servant has to wait till 60 to collect his pension had kept many trapped at the expense of efficiency in the system. Recognizing this, most the respondents in our survey favored the portability of pensions and monetization of perks. Portable pensions cut down the cost of switching jobs and hence encourage mobility.

This little survey has told us a lot about our civil service and its attitude to work, society, and reform. I think most reasonable analysts will argue that without developing a more professional and productive civil service, economic progress would be difficult. We must therefore think of ways to reform the civil service. I would argue that such reform needs to be informed by more surveys like this. We need to address the needs of the civil servant and carry her with us in making this reform.

Unlike the west, the media does not really take to such research. In the more advanced countries, this survey would have been the subject of many columns and talk shows. In Pakistan, such surveys go unnoticed!

What surprised me is that our economists and public policy analysts also do not pay enough attention to the civil service.

1.21. OBESE GOVERNMENTS

Most donor advice to us, which most Pakistani economists slavishly accept, is that revenues must increase. To this objective, several new tax measures have been suggested and implemented without moving revenues as a ratio of GDP much.

For years, I have argued that we need to look at the expenditure side of the equation to control our deficit. There is little questioning of our expenditures by the media and by our citizens. The most discussion assumes that our expenses are all for the public good. Consequently, the constant refrain to increase development expenditures and expenditures for education.

I believe we must focus on the waste in government and rationalize our expenditures so that they are truly used for public welfare.

Last year this discussion led to an article by Dr. Farrukh Saleem, perhaps the only article that documents a list of useless government agencies that still exist. He says,

“The government of Pakistan is fat, so fat that all the excess body fat has now put Pakistan’s cardiovascular health in extreme danger. All that accumulated fat has attracted diabetes, osteoarthritis, and may even be cancer. So fat that the airway is obstructed, breathing interrupted. Neither exercise nor dietary control is the solution. The Government of Pakistan cannot do without surgery, Bariatric surgery (weight loss surgery).”

Imagine; the government owns and runs a Tomato Paste Plant and the Roti Corporation of Pakistan. There’s the Pakistan Stone Development Company, Pakistan Hunting and Sporting Arms Development Company, Pakistan Gems & Jewelry Development Company, Technology Commercialization Corporation of Pakistan, National Industrial Parks Development & Management Company, Technology Up-Gradation and Skill Development Company, National Productivity Organization, Implementation Tribunal for Newspaper Employees and Labor Market Information System and Analysis Unit. Our government spends millions of our tax rupees on every one of these, but does anyone know what these high-sounding entities do?

Did you know that our government spends real rupees on the Center for Applied & Molecular Biology? The Center even has a webpage, but the only things on the webpage are two relatively meaningless emblems, nothing more, nothing less. Then there’s the Council for Work and Housing Research (the webpage has ten icons, but the same page appears regardless of which icon is clicked), National Institute of Electronics, Pakistan Council for Science and Technology, Pakistan Council of Research in Water Technology, Pakistan Council of Scientific and Industrial Research, Pakistan Standards and Quality Control Authority, Central Inspectorate of Mines, Directorate of Dock Workers Safety, Directorate of Workers Education, National Institute of Labor Administration Training, National Talent Pool, National Training Bureau, and a Pakistan Manpower Institute. What do these organizations do? What is their mission, and what have they achieved ever?

Has the National Institute of Electronics ever produced something even distantly related to electronics? What good has the Pakistan Council for Renewable Energy Technologies ever done? Has the Center for Applied & Molecular Biology ever produced anything even distantly related to molecules, or for that matter, biology? Pakistan National Accreditation Council, what a

joke! Has the Pakistan Automobile Corporation ever produced anything even distantly related to automobiles? Has the Trade Development Authority of Pakistan ever done anything even remotely related to trade?

Dr Nadeem Ul Haque, estimates that our Ministry of Commerce must have sent some five dozen commercial counsellors around the world. Each one of these counsellors, roughly cost the government a crore rupees per year, and that's Rs60 crore a year. Dr. Haque insists that all these high-sounding organizations should at least be asked to justify their existence.

How much software has the Pakistan Software Export Board exported so far, and what has the Engineering Development Board developed? How much tourism has the Pakistan Tourism Development Corporation developed?

That isn't the end of the story. There is even more fat. PIA, SME Bank, First Women Bank, National Insurance Corporation, Hazara Phosphate Fertilizers, Printing Corporation of Pakistan, Machine Tool Factory, Morafco Industries, Sind Engineering, Lakhra Coal Mine, Khewra Salt Mine, Pakistan Steel Mills, Services International, National Fertilizers Corporation, State Engineering Corporation, Pakistan Steel Fabricating Company Limited, Pakistan Mineral Development Corporation, Ghee Corporation of Pakistan, Pakistan National Shipping Corporation, Pakistan Railways, State Cement Corporation of Pakistan, State Petroleum Refining & Petrochemicals Corporation, Pakistan Industries Development Corporation, Trading Corporation of Pakistan, Cotton Export Corporation of Pakistan, Rice Export Corporation of Pakistan, Pakistan Industrial and Technical Training Center and Pakistan Engineering Company.

Fat is bleeding the state of Pakistan dry. Obesity cuts down life expectancy. If every one of the entities mentioned above is shut down, Pakistan will be better off, not worse-off. “

Why can we not just eliminate these wasteful government agencies?

1.22. WHO IS CORRUPT?

I am from a corrupt country. On the Transparency International (TI) index, Pakistan ranks 134 out of 180. Indeed, our leaders' corruption stories are rife, and we are continually looked upon with suspicion. We also believe that we are bad, very bad!

We are called corrupt because of perception surveys. Questions include "do you expect to pay a bribe when you get a certain public service." So if a minor underpaid functionary in tattered clothes collects a small tip of a few dollars, of course, that is bribery. And then dark, poor countries are considered corrupt!

But recently, this has become laughable. The pure countries at the top of the TI scale—the white countries—do not seem lily-white. Of course, there is no little guy collecting small bribes, and there are no meaningful bribes collected for providing public services.

But then, as we have seen in the last two decades, corporate balance sheets have been doctored, shareholders ripped off by venal corporate bosses while boards gleefully looked on, collecting hefty commissions. Executives that ran their companies into the ground walked away rich! No law chased them! No board member took a fall.

But of course, this was not corruption. Bonuses, retention fees, and golden parachutes are not corruption. The retirement plans and nest eggs of poor people went up in smoke, but that is not corruption, according to TI. Only petty bribes are!

Do watchdogs like TI notice what Enron, Tyco, Oxford Health, Citibank, Bernie Madoff, AIG, Merrill Lynch, and many others were doing? Do they see how lobbyists managed to sneak into a law a clause to protect outrageous bonuses? Did that change the rating of the United States?

I searched the TI ratings for some impact of these developments. There was none. Alas, no perception survey captures that!

We have seen lobbyists influencing policy again and again to the detriment of the little person. And the line between lobbyists and policymakers has been relatively unclear given the convenient revolving door between the offices of the two groups. But lobbyists perform a useful function, ensuring that the public keeps paying for bad food, unnecessary expensive healthcare, gas guzzlers, and guns. I guess this is not harmful. Only petty bribes are.

We are told repeatedly that the dark, poor countries need to set up a state-of-the-art procurement process. The kind where friends of the powerful get 'no-bid' contracts; the kind where the government gives out single sourced contracts to friendly firms; where non-competitive awards are quietly made in the dark to firms; where project overruns are large and legion.

"Consultants" can be paid handsomely for stating the obvious. Who are these consultants? Most of them come out of the Rolodex of some enterprising fellow linked well with an aid establishment or a procurement officer. Many of them are just retired minor officials in some white bureaucracy. Of course, poor dark people are too corrupt to be hired to these jobs, except at the very lowest rung of the totem pole.

Rich countries are so generous that they give developing countries aid to help them out of poverty. Of course, only pure white people are to get these funds. TI and others are funded in the

name of the poor by such aid. No one asks the poor, the intended recipients, whether this money should be doled out in their name to agencies like TI. Much of the aid that is intended for slumdogs is spent by consultants, lobbyists, international agencies, and international NGOs. The poor see little of it.

If it gets to a poor area or a school, it is after the lion's share has been absorbed by consultants, lobbyists, and INGOs like TI. These incestuous relationships between donors and their friends to produce reports, perception indices, technical assistance, and training in exotic capitals of the world must be for the benefit of the slumdogs.

Aid donors also hire consultants to run many poor dark governments with abandon. They make policy, and they run departments. No one holds them accountable for any results. Their money cannot be withheld. Thousands of dollars later, we remember that there might have been some friendly connection somewhere, and we rush to hush it up. Project after project leaves the poor world poorer.

But then the consultants and donors tried, and of course, no one dared accuse them of any wrongdoing. But then, in the clean white world, consulting, lobbying, non-competitive contracting, and procurement are all nice words—not like bribery in the poor dark world.

Many denizens of the poor, dark, corrupt world acquire quality human capital and even perform well in the superior clean white world. But they are not trusted with aid projects or anything to do with serious economic development in their countries. Of course, high-priced consultants from a Rolodex are better since TI says they come from clean countries.

When payoffs have fancy names like 'bonuses', 'incentive fees', 'no-bid contracts', or 'single sourced', they are respectable. Slumdogs are penalized because they are not capable of these fancy titles. That makes sense: please give more money intended for the poor to TI to tell the poor how slumdogs taking petty bribes are bad, very bad. But truly, their crime is lack of nomenclature, corporate governance, and bureaucracy that makes even makes trillion-dollar malfeasance respectable!

1.23. POLITICAL ECONOMY OF PAKISTAN

We readily blame feudalism for most of our problems. In my view, such a knee-jerk analysis is flawed. Let me explain:

Feudalism is a particular historical term that captures the obligatory relationships between a monarch (state) and the feudal lord, on the one hand, the feudal lord, and the peasant on the other. The feudal lord supplied tax collector, administrator, and supplier of soldiers to the monarch. In return, he got land and power over the peasant.

This has never prevailed in Pakistan. The colonial government did leave some princely states behind, but both India and Pakistan got rid of them fast! Much has been made of irrigation land grants given out by the British. These also included the land for the military supplies program! The result was that some prominent families accumulated large landholdings!

Does this mean that they have had dominant political and economic power? To answer this question, recall that the colonial masters had made their state infrastructure dominant over everyone, including the landed aristocracy for their administrative reasons! The landed aristocracy was only marginally involved in the policy formulation and legislative process, which was mainly a handmaiden of that state.

Immediately after independence, the post-colonial state adopted the mantle of economic development and, for a while, even of modernization. In this context, the agrarian economy was considered backward and in need of transformation. The term feudalism was vilified, and we continue to vilify it even today.

But note that from the very beginning, there were signs that the feudalism was on the decline. Early on, a system of controlled agricultural prices was put in place to the detriment of the landowner, but to the advantage of the urban dweller was put in place. Until recently, agricultural prices have been kept low taxing the landowner. Further government interventions such as restrictions on marketing and on input supply continue to choke the profitability and productivity of the land.

Throughout our history, we have also debated quite vigorously the issue of land reform. At least one attempt has been made at it. There still remains a 100-acre ceiling on the books. Even though it is not enforced, it remains a threat and affects the scale and productivity of agriculture.

Since independence, the trend of government gifts of land to the army and bureaucracy has created a whole new class of landowners. These new 'landlords' may now not be less powerful than the feudal lord in many districts.

In thinking about the feudal power, we also need to ask why landlords always seek to cultivate the local DC and administrators? Now all of us are beholden to army officers.

Recall that in our post-colonial era, the developmental state has been increasing the power of the administration. The state, through its public servants, controls the distribution of wealth, the dispensation of all rights, access to services, credit, even the ability to engage in market transactions. Despite the fact that some liberalization has taken place thanks to international pressure in areas such as some utilities (telephones) and imports, the administration still controls a large part of people's lives. All the influentials including landlords, do play the intermediary between the state and the people. This is not reserved for the landlord! Several other innovative individuals have made their political careers in this way.

But then we must be clear that we live in a country where the military-bureaucratic alliance has all the power (the Hamza Alvi thesis). They control most of the rule-making, administration, and state resources. During the independence period, state resources have increased enormously because of greater international borrowing and aid.

Working the bureaucracy for wealth gains is what economists call “rent-seeking.” Remember till the nineties, a bureaucratic dispensation like a license for imports or a textile mill used to convert people to overnight riches. Despite liberalization, many mechanisms remain in place for dispensing wealth through administration rather than the market. These include land scams, insider trading, rigged privatization, state licenses on various monopolies.

Rent-seeking mechanisms are therefore still intact, and this activity remains strong for gaining wealth and power. In a recent study, I could not find entrepreneurs in Pakistan. People get rich only through rent-seeking.

How different is our industrialist from our landlord? Industrialists were built on licenses and continue to profit from subsidies. Even today, the car, sugar, textile, and flour industries are subsidized. There have been very few years in our history that these people have not been subsidized. They are given protection dispensations at will. They are given subsidized land in industrial estates. They are given insider deals in privatization.

The landlords are nowhere near these rent-seeking industrialists in terms of financial wealth and bureaucratic influence. No landlords make it into the lists of the wealthiest people.

Why does the rich industrial elite not enter politics? Learning from the famous *memon* and the *bora* sects, our industrialists have learnt that bureaucratic favors flow if they work the system silently. Standing for issues means nothing to them.

Somehow, all this debate about feudalism has kept us from making a serious analysis of our state. Prominent names may become ministers, but what power do they have? The power lies in the military-bureaucratic complex. Even today, the Rules of Business of the secretariat give the minister less influence over the bureaucracy than the secretary. The secretary, in many ways, is the crucial decision-maker.

And why do we ignore the silent city wealth? The silent industrialists and now the financial musclemen are a power (the latter have removed 2 SECP chairpersons). In any case, most policy decisions are made to benefit these rent-seekers to the detriment of the ordinary people. We have all seen sugar, flour, and cement price manipulations. Car imports have been manipulated for the benefit of the silent mafia. The result is that people keep getting substandard cars. And so on.

We are also perplexed about what the middle class is (which is very small)! Not to mention poverty (which is consistently overestimated)!

1.24. FAILURE OF DEMOCRACY AND THE LACK OF INTELLECTUAL THOUGHT

Is Our Democracy Working?

The writers of our constitution merely copied Westminster paying little heed to the need for developing further checks and balances to allow the democratic institutions to evolve and take root.

Remember, England has a system that is entirely in motion, having evolved over centuries. We, on the other hand, have to start a new system.

As any mechanical engineer will tell our learned controllers of thought, the laws of motion tell us that starting up a system is harder than maintaining the momentum of a system that is already running.

We have to jump-start the democratic system and then try to warm up the engine to maintain its momentum. As our friendly mechanical engineer will tell us, this requires considerable power and careful monitoring.

You cannot just turn the ignition of election once and have a perfectly working system. Other safeguards and perhaps continuous and rapid ignition thrusts may be required. For example, might not quick, annual elections for, say ten years at least, enforce more responsible behavior from the politicians.

And could more constitutional amendments not be made to introduce a variety of checks and balances that seek to distribute power and not concentrate it, for a concentration of power is indeed corrupting.

Historical evidence has shown:

- Time and again, we have seen that elections, as currently conducted, return the same individuals that have pillaged the country both in our democratic and non-democratic periods.
- Elections alone have failed to produce responsible or even intelligent government. The methods of government, the law books, and the institutions remain unchanged whether we have democracy or not. Success has not been achieved after many attempts at jump-starting.
- A legislature clogs the engine of democracy that time and again involves itself not with its principal task of legislation but with personal aggrandisement. It is high time to learn from our learned mechanical engineer.

Let us carefully look at our design of democracy and see how we can alter it to achieve a democratic outcome and not just observe the democratic form.

Let us seek to define better democracy and that which we want from democracy. Having defined the term and our objectives, let us consider the best means to achieve those objectives. Thus might it be possible to foster the development of an elected leadership more interested in delivering democracy and our society's objectives to us than in lining their pockets.

Might not a debate on the modalities produce a better design for democracy?

Our elected representatives such as they are have begun to debate an amendment. What surprises me is why our intellectuals are silent on this critical issue? So Please tell me what amendments to the constitution would you like to see.

1.25. MERITOCRACY—LEARNING FROM KING ARTHUR

Why did Britain dominate the world for so long? Why does Anglo-Saxon culture still dominate the world? These are essential questions that have long interested serious scholarship.

Many people (e.g. Landes) point to the early development of property rights, the rule of law, limitations on sovereign power, development of an individualistic yeoman culture, and the early acceptance of learning and innovation as important answers to these questions.

But most of these ideas can be traced back to the seeds sown in the legend of King Arthur.

Review the legend, and you see a king preoccupied with the good and efficient government even to the point of developing constraints on himself. He had an advisor in the form of the most learned man of the time. Merlin was not a magician but a wizard who was steeped in knowledge of the times and was known for his wisdom. Thus very early on, England had accepted the role of knowledge, research, and wisdom as guides to policy. Indeed policy was subservient to research and knowledge.

The king ruled through a council called the Knights of the Round Table. The knights were chosen for their professionalism which they had to repeatedly prove at tournaments. In those days, law and order required that the sovereign had muscle. For this reason, the knights continuously showed their martial skills at tournaments. But here lay the beginnings of meritocracy!

Once elevated, the knight had to take an oath of chivalry and gallantry! Basically, this obliged the knight to protect the weak and enforce justice and the law. The concept of honor lay in the knight's ability to adhere to this code. Herein also lay the roots of noblesse oblige where the strong and the rich took upon themselves the task of looking after the weak thus holding society together.

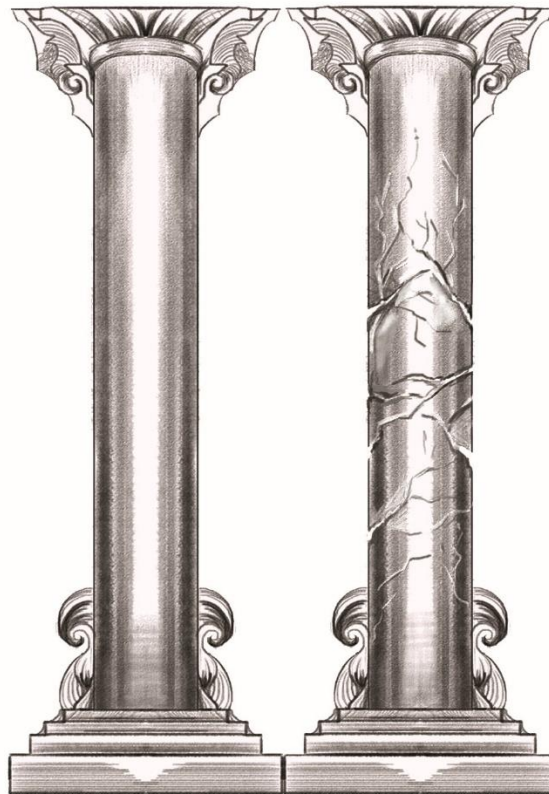
The combination of enlightened sovereignty, relying on wise and learned counsel, backed by a professional executive, while establishing a culture of honor, gallantry, and nobility obligation has been at the heart of almost all flourishing civilizations. From Rome to Japan, mythology and history will re-affirm this combination at work.

Even the latest corporate gurus talk of this combination of professionalism, meritocracy, honor, and nobility and obligation for success.

Developing countries still do not recognize professionalism. Most appointments at any level are made based on official favor! Merit is a word not known. Swordsmen are appointed locksmiths; locksmiths are running mints while blacksmiths are printing books.

Chapter 2

Policy Fractures



2.1. A MATTER OF MULTIPLE COOKS

How do consultants, donors, and Pakistani ministries solve problems?

The flood of 2010 exhibited (I was Deputy Chairman of Planning Commission at that time) how dysfunctional policy was in Pakistan and yet how good our administration was at handling crises.

When the flood struck, our foreign office did not consult the key economic ministries but only with a few donors to make tall claims in the international arena. Speeches were made in the UN that we had suffered a loss north of \$40 billion. Immediately, the Friends of Pakistan (FOP) forum was activated. There was no such estimate at the Planning Commission, and our people told me the loss was much lower.

Upon checking, I found that the FOP was a figment of our imagination. The group had met when the Zardari government came in, and there was sympathy for the new democracy, and the memory of BB was fresh. Since then, the pledges never materialized and the group did not want to operate outside the multilateral framework. Upon talking to both the Foreign Ministry and foreign secretary, I learnt that FOP was their economic baby, and they were not ready to share it or even take our input on it.

So, 40 billion dollars (about 20% of GDP) was the loss announced in the international arena. Unhappy and self-righteous donors charged into the Planning Commission (PC). There were so many of them in meetings then that the PC staff could not even find a place to sit. That is also an outcome of the fact that we continue to use buildings built in Ayub's time. No office upgradation takes place. I think, we must wait till all of Pakistan is paved for cars. It is also evidence of how our hunger for aid has empowered donors beyond reason.

Any way these donor meetings were reminiscent of Monty Python. They were emotional and sad about the disaster pretending greater empathy than the local people. They wanted the foreign office to announce an estimate of \$ 40 billion damage to be true so that the demand for their services would increase further. Our administration, closer to the situation, was giving us feedback that the loss figures were not as significant.

World Bank and ADB proposed that they do an independent evaluation, and we jumped at it. We also wanted a better estimate to clarify the hype. These agencies gathered a huge group—some 50 people, including consultants, initiated work on damage assessment, but few left Islamabad. There were questionnaires and forms which our administration filled out. After all, the people in remote areas where relief and rescue were taking place were Pakistan officials, including the army.

In short, a couple of months later, donors had an estimate of the damage. The loss was nowhere near the \$40 billion that the Foreign Office had put out. The direct loss (property, life infrastructure) was not even \$5 billion, more like \$3 billion. Looking somewhat sheepish, they presented their report and put in a loss of crop of \$5 billion to show a round figure of \$10 billion. It is another matter that we had a robust agricultural output growth that year as the flood helped enrich the soil.

Now, of course, the donor knew better, and they felt more for the poor than the policymaker in Pakistan. Their proposals were well-meaning (so don't laugh)

- *Build back better* was the slogan they coined. Let us design and build model villages with nice concrete houses, motor-able roads, and all manner of social and civil amenities such as parks and schools. Of course, they were prepared to give Pakistan loans to do this. Should we do this? The villages we are talking about are in the flood plain, and the designs were for towns rather than the villages that were affected. Bizarre!
- *Flood-proof houses*: They wanted flood- and earthquake-proof houses. What are these? Build 10-foot concrete platforms so poor villagers would put their mud huts on them. And of course, they would carry their animals and their kith and kin up the 10-foot platform every day because some consultant thought up this fantastic idea. And when the floods came again, they would wait on their platform for boats to rescue them. Bizarre still!
- *Land in alternative locations*: Then, there was the proposal to give them alternative land so that they stop living in the flood plain. So, if we do that, would this not set up an incentive for more and more people to park themselves in a flood plain so that next time they can get land somewhere else? Perhaps the people who got this land would sell that land and come back to the flood plain, hoping to collect once again when another flood hits? Even more bizarre.

When we said that none of this makes sense, we would give them cash compensation with advice to move out of the flood plain and possibly to a city; donors reacted by saying, your cities are a mess with limited infrastructure. Do you want your cities to become slums?

My answer was we need slums. Our cities are too manicured for the rich and their cars. Let the cars of the rich be a little discomforted. Let the donor-consultant houses in F-6 and F-7 overlook slums, so they too see how the poor dwell.

I pointed out that in the slums of London, the Pakistani immigrants produced several millionaires and numerous middle-class successes. After the civil war in the US, freed slaves converged to cities like Chicago and New York and lived in slums for decades. In the ghettos, they developed musicians, writers, famous sportsmen, business leaders, and political leaders.

Slums ferment with activity, including crime but most of all, they provide an opportunity to all. In time slums are cleaned out. The East End of London, Bronx, Harlem, North East DC are all areas that are now cleaned out and gentrified. They may be necessary to eradicate poverty, and there is no reason to try to zone them out.

Sadly, while our administration and army did manage to save lives and handle the flood well, policymakers were busy grandstanding and unable to coordinate among ministries. Nor were we able to handle a huge and growing donor sector—that now thinks that it is ruling the country while taking no responsibility.

2.2. THE MODI VISIT

Some Serious Questions

Let me begin by stating my fervent hope that PM Narendra Modi's visit will be a genuine breakthrough to peace between India and Pakistan. Like many others, I want an end to a protracted conflict. We must find peaceful means to negotiate an end to this conflict.

Let me also state that I am out of my depth. I am a mere economist and cannot talk as eruditely on all subjects as many TV commentators. They have the gift and the education to speak on any topics.

I only have questions on the professionalism of Pakistan (Foreign Office, PM Office, etc.) in handling this affair and nothing on the foreign policy aspect of this profound visit. I hope that our polymath commentators will enlighten us all on the visit and address some of my questions.

- Question 1: Assume Putin was in the air and called up Obama to say that I would like to drop in to meet your family. What is the likelihood this meeting would happen?
- Question 2: Obama says, "Great Idea. I am sitting in my house in Chicago, and it is Sasha's birthday. Do come join the celebrations." Is this possible?
- Question 3: Obama says we don't need the Secretary of State, the National Security Advisor, or any officials whose brief is dealing with Russia. Could this happen?
- Question 4: Since the Treaty of Westphalia, international relations are relations between states and not sovereigns. Kings alone don't determine relations. These relations are a matter of serious and expert negotiations on which leaders sign. Summits for such signing are set up through a careful process. Would the Obama-Putin meeting not happen as part of that process?
- Question 5: Would Obama not say to Putin: "I will fly to DC, gather my team, and we can meet at the White House?" It will be a matter of hours to make this happen, probably no more than the time it would take Putin to land. Which option would Obama take?
- Question 6: How important is symbolism in international relations? Could the PM not get to the PM House in an hour and hold the meeting there with all the team? I think PM Modi could not have taken less than an hour to get to Lahore.
- Question 7: How appropriate was it to hold the meeting in the personal home of the PM? Could it not have been held in the Governor House or the State Guest House? Would that not be the most appropriate venue to give it a semblance of an interstate relationship?
- Question 8: Would Obama even agree to meet Putin without adequate preparation? Do heads of state of the nations involved in longstanding conflicts ever meet to sort out issues without adequate spadework? Do they meet like old family friends? Should they?
- Question 9: If this was a Kissinger moment where significant breakthroughs were secretly planned, and PM Modi's visit was orchestrated, why was it conducted in a non-professional personal fashion of visitor to a private house with no agenda? If this

impression is wrong, perhaps the Foreign Office can now correct it? If indeed it was orchestrated and planned, why not at the PM House? Why not with the entire team? What was the agenda? What was the discussion? What did we gain from making it a private visit of long lost cousins?

- Question 10: Has this ever happened anywhere? Has any leader just dropped into a private house of another leader on the wedding celebration unannounced? Has the recipient state allowed that to remain a private event or converted it into a state-to-state event?
- Question 11: Most commentators have shown considerable joy at this event marking it as an advent of a new era of peace. Is this likely? Is PM Modi, who rebuffed PM Sharif's overtures at least three times now a changed man? Why?
- Question 12: Most commentators feel that peace would be at hand except for the opposition of the establishment (euphemism for the army)? Could Modi have come to Pakistan without the army's consent?
- Question 13: Am I the only one who feels that our commentators blame the army far more than necessary? Is there any country where the military is docile? Has Obama not been checked by the military on Guantanamo or even in Iraq and Afghanistan? Yet US columnists are not writing column after column against the 'establishment' or the 'boys.' Why are our Islamabad based columnists so anti-establishment (read army)?
- Question 14: Who gains from this meeting? Modi had a grand diplomatic moment, and came to the PM's private ceremony to his private house. Symbolically, he made the grand gesture, proving himself as a statesman. Is the onus now on us? For what? Will we measure up? Or were we set up?

I ask these questions in all seriousness. I do think we need a national debate on such an important event. I, for one worry about the personalization of policy in Pakistan and have written about it often.

The received wisdom seems to be that state policy follows due process and adequate deliberations in various parts of the government to culminate in the parliament or the cabinet for decisions and action. This system known as a democratic modern state was set up to put policy beyond the reach of any individual, be it a king or a PM. Should any leader be allowed to bypass the state process into a family affair?

2.3. MISGUIDED POLICY AND FAILED STATES

A Fresh Perspective on Rebuilding States and Making a Better Development Policy

As deputy chairman of the Planning Commission, I struggled with a mindless finance ministry focused on dumb budgetary arithmetic to put economics and policy into the cabinet and ECC. I soon learned that there is no economics anywhere in government. Much worse, the country seems to have lost economic thought.

Economics has become simple homilies like “increase revenues”, “educate all”, “build social sectors”, “control fiscal deficits”, “increase exports”, “trade with India”, “get more aid”. What is common in all these so-called economic narratives is that they are all wishes. And there is no analysis telling us how. So wishing has become economics from the columnists to the government to the cabinet table and the ECC.

So where are the thinkers, the professional economists who are supposed to keep us honest through research, translating the world’s knowledge to us. Sadly, the few that get trained have no place in the country. Ministries don’t want them; universities offer them cheap jobs merely for low-level teaching. If there is any place in this country for such people to hide, it is in donor offices. They serve in positions that report to junior officials in embassies or donor agencies or their contractors, consulting firms. Their only option is to run the agendas given to them. They cannot be independent analysts. Of course, we are pleased to see them leave the country.

Those who hang around universities playing as professors learn that there is no funding for independent research. Dumb budget management led by a broken ministry of finance with a big ego, politically-ambitious finance ministers has eroded the demand for research and thinking. Big egos know all. Power-point slides prepared by Section Officers are enough. After all, there is no one to challenge them.

Big ego FMs have the donors to do their bidding but often end up doing the latter’s bidding. Significant donor funds with their refugee academic Pakistani minions are eager to please with reports, presentations, policies etc., that might be required to elevate the minister’s stature. Now there is no money for research anywhere in the government. Besides, these junior officials dare not say anything to upset big ego FMs. Moreover, often retired (sometimes even incumbent) secretaries are on the payroll of the donors.

Not surprisingly, there are no public funds available for research. Donors have some funds ostensibly for policy development and capacity building. These funds are used for a) running their own agendas, b) pandering to bureaucrats and ministers, and c) building careers of local donor officials. Of course, there is always money available to send ministers and secretaries on trips overseas -- indeed their children, relatives, etc., can all be funded by some donor project.

The poor academic is forced to conform to this environment and work on someone else’s agenda. No independent thinking. No chasing hypotheses. No developing and testing theories. The only job is to cheaply, quickly fill out the donor/bureaucratic agendas. Hastily prepared reports are presented in ceremonial conferences where the minister makes a token star appearance, and the only role for poor academics is to make a cameo appearance. The conference is a ceremony without thought, conversation, or debate, but it does help big egos and impress remote donor offices.

A serious analyst labors to make a good analysis and a good presentation. But the audience is so focused on the donor-minister-bureaucratic nexus and the continuing game that the poor academic and her serious analysis is never heard.

Horton Hears a Who

I have often been in that situation. Analysis surprises this nexus. They have not seen it. They are comfortable in beliefs and wish lists, and cliques where Popperian falsifiability is unheard of.

On such occasions, Pakistani academics that I have talked to feel like the who in Dr. Seuss' Horton hears a Who. The poor academic can present great analysis, but the Hortons (ministers-bureaucrats-donors and their employees) have no way of hearing them. The Hortons are comfortable in their beliefs and gather in these ceremonial conferences to pander to the minister's egos and preserve the status quo.

How can the whos be heard? As Dr Seuss told us, if only all the whos could get together in networks which would let out a loud collective yell with a common message. But with no funding, no physical space, how can they collect to do this?

I tried as the planning minister to make a growth center that will allow such networks to grow. But the donor-bureaucrat nexus fought back, and the finance minister who would be prime minister was too conflicted to hear the advantages of allowing the whos to think collectively. After all, if academic networks are formed, they could compete with the Hortons in ideas for policy. That cannot be allowed.

Great development parable that, Horton Hears a Who! Dr. Seuss deserves a Nobel. For those who have not read the book, here is a summary from *Wikipedia*:

“The book tells the story of Horton, the Elephant who, in the afternoon of May 15, while splashing in a pool located in the Jungle of Nool, hears a small speck of dust talking to him. Horton discovers that the speck of dust is a tiny planet, home to a little *who* community called *Whoville*, where sub-microscopic creatures called *Whos* live. The *Whos* are led by a character known as the Mayor.

“The Mayor asks Horton to protect them from harm, which Horton happily agrees to do, proclaiming throughout the book that “even though you can’t see or hear them at all, a person’s a person, no matter how small.” In doing so, he is ridiculed and forced into a cage by the other animals in the jungle for believing in something e they cannot see or hear. His chief tormentors are Vlad Vladikoff, the Wickersham Brothers, and the Sour Kangaroo. Horton tells the Whos that—unless they end up being boiled in “Beezle-Nut” oil (an extremely dangerous substance that can destroy objects on impact)—they need to make themselves heard to other animals (what could be the book’s most iconic scene). The Whos finally accomplish this by ensuring that all members of their society play their part in creating lots of noise, so they are heard by the jungle folks. In the end, it is a “very small shirker named JoJo,” whose final addition to the volume (namely, a word known as “Yopp!”) creates enough sound for the jungle to hear the Whos, thus reinforcing the moral of the story: “a person’s a person, no matter how small.”

“Now convinced of the Whos’ existence, Horton’s neighbors vow to help him protect the tiny community.

2.4. THE PROBLEM OF REVENUE IS BAD TAX POLICY, NOT CHEATING

Revenue generation is important but not top priority as emphasized in the last three decades. Much effort and money have been spent collecting taxes and spreading the story that “we are a nation of tax cheats!”

Such Self-loathing is Sad!

What came out of the Andrew School TARP study was a tax gap of roughly 30% of potential. Since then, we have exaggerated this figure without ever confronting it with serious analysis or doing a study of our own.

For example, in a country where less than 2% of the population has a bank account (according to the State Bank) and the number of credit cards is only 1.3 million (less than 1% of the population, why is there an expectation that the number of filers should be as high as 20 million? Look at survey data, and that too confirms that the rich are not very large in number. As can be expected in a poor country like Pakistan, the rich cannot be 20–25% of the population.

Everyone talks of broadening the tax base as if millions of people are avoiding taxes. This is not saying there is no tax avoidance. There is in all countries. And yes, we also see the avoiders since they are the most prominent, well-known, and influential people in the country. Why is the whole country being labeled as tax cheaters and that too by our government.

Yet the potential revenue may largely be missed because the government exempts favorites from paying full taxes. The most significant exemption remains agricultural income tax outside the income tax regime based on artificial Produce Index Units (PIUs). We also know about Rs400–600 billion lost from exemptions to favorites given out in the famous statutory regulatory orders (SROs). Put the two together, we are close to the potential tax that everyone cites.

So, let us stop the narrative of “a country of tax cheats.” Officials who repeat this mantra should do some serious research to substantiate their case or stop this self-serving, convenient accusation.

Rather than beat up on the whole country and continue to dream up draconian measures for more revenue, it would be wiser for the Federal Board of Revenue (FBR) and the finance ministry to invest in some thought and research to build a better policy. Sadly, both the FBR and finance ministry websites lack such work or discussion.

There are those outside the government — Ikramul Haq and Huzaima Bukhari — who have done some good work. By now, they should have presented their work in talks at the FBR and finance ministry. But the arrogance of the colonial government prevents them from listening to natives. They remain beholden to foreign consultants regardless of the quality of their work.

As Haq, Bukhari, and others have pointed out, the problem is that we have a mindless and grabbing tax policy that does not conform to any principles of taxation. Here is how:

- (1) Tax policy is distortionary and has a negative impact on the economy.
- (2) SROs are affecting industrial organizations in Pakistan and preventing business entry and development of markets.

- (3) Withholding income taxes on goods and services are, in reality, transaction taxes which are both regressive and distortionary. In most countries, withholding tax only applies to incomes. Here withholding taxes are applied as income tax on many services such as utility bills, school fees, mobile telephone payments. And in most cases, this is done with no intention to refund the money.
- (4) The withholding regime that FBR now relies on for revenue needs serious review and thought. There are currently over 60 withholding taxes, and about 70% of revenue comes from withholding taxes. Banks, utilities, and many other enterprises have become revenue collection agencies, increasing their costs and weakening the collection chain.

So, if business establishments are collecting taxes for the FBR, what then is the FBR doing?

Withholding income tax as practiced in Pakistan operates like a regressive transaction tax affecting the poor the worst. The system is set up such that this income tax is withheld from the poor with no chance of getting a refund.

Withdrawal of SROs and the withholding regime in an orderly manner but relatively soon will give the economy more breathing room

- (1) We must develop a vision of what a good tax policy is and figure out path to go there. For me, it is a few simple taxes
- (2) Income taxes that are low, progressive, all-inclusive, and clear. For the middle class, it must be graduated to 15%, and for very high incomes (say over Rs300 million annually), it could go from 20–40%
- (3) No exceptions (for agriculture, this will require a constitutional amendment).
- (4) Corporate tax at about 20%
- (5) A simple capital gains on short-term speculative investments of less than one year. The rate must be set as equivalent to the ordinary income tax. The capital gains tax on long term investments should be a flat 5%
- (6) Inheritance tax should be 40% above Rs10 billion, and nothing below that limit.
- (7) Sales tax should be collected in value-added tax (VAT) mode, starting at 8%. (This requires a constitutional amendment). Collection must be unified. The split of revenues is a political decision and should be maintained.
- (8) Property tax should be set as a local, but low flat rate, and the government should pay it as well to allow different jurisdictions to benefit. For example, the federal government must pay Lahore for the staff college and the Civil Service Academy or relocate.
- (9) Simplify tariffs to 3 lines that we had developed in the early 2000s
 - At least 5% on all goods
 - 10% tariffs on intermediates
 - 15% tariffs on finished goods
- (10) All exemptions should be removed in a three-year period and all powers to place exemptions withdrawn. All tax changes should go through the budget.

We need a constitution amendment quickly to fix the revenue system to achieve the following:

- (1) To bring agricultural income into the income tax system.
- (2) To ensure that services and goods are unified for sales tax collection at the federal level. This will allow the collection system to be unified for collection. Of course, the federal government will share the revenue with provinces in accordance with the law and constitution.
- (3) As an aside, this constitutional amendment could also be used to introduce and strengthen much-needed local governments as well as put in place more provinces for better governance and a balanced policy.

Lastly, can the FBR and finance ministry both develop some research capacity, so they can study these issues and develop a learning attitude rather than rely on donor consultants?

- (1) The proposals roaming around on wealth tax and minimum asset tax are wrong and need to be reviewed carefully in the light of the following.
- (2) It taxes the saver twice and rewards the profligate. It will lower the savings rate.
- (3) It will fall disproportionately on the old as they are mainly wealth holders.
- (4) It will fall disproportionately on the middle class, who are forced to hold wealth in their name. Business owners have several ownership levels that will allow them to get a break.
- (5) Valuation of some assets is very disputable and difficult to assess.
- (6) Most people will be holding wealth in the form of real assets or real assets, which will be full of disputes and hardship.
- (7) Most wealth holders will have locked wealth in real estate, which has appreciated in value.
- (8) Will they have the liquidity to meet the tax obligation? In that case, are we going to make them vulnerable to sharks and dispossess the saving middle class
- (9) It will give an added impetus to capital flight.
- (10) It will further lower our saving rate.

This then is a minimum agenda for tax policy reform. It will have the advantage of simplification as well predictability.

Alongside this, we must have tax administration reform. There the solution will be to get good human capital in the FBR with appropriate technology. Let an independent service well-versed in technology and modern auditing techniques run the place.

Letting the elite district management group (DMG) of the civil service of Pakistan (CSP) officers run the FBR has been a disaster and should be immediately discontinued. Let a responsible and accountable tech-savvy group emerge to collect revenue.

2.5. CHANGING MYTHS AND POLICIES REQUIRE EFFORT FOR PROCESS AND CONSULTATION

Raza Rumi recently argued that there are five myths in the Pakistani discourse that need to be put to rest. In his view, these are the ‘Doctrine of Necessity,’ ‘Strategic depth,’ ‘Use of Proxies,’ ‘Ummah’ and ‘China will fix all’. Raza is right. A large part of our media and intellect is discussing these myths.

I argue that Raza’s five myths stem from our inability to configure proper democracy. Any democratic government with an open process of policymaking with due diligence (research and reporting through white papers and documentation), public consultation (forums with government provided information and genuine participation) and open decision-making processes (forums at all levels with proper public participation and open minutes even if with a lag), ghosts and monsters can be confronted. Simple. No decision without first, adequate public scrutiny, second documentation and consultation at all levels including the public, and finally full disclosure.

There is no democracy without these three steps. Democracy is not mere elections but a complete process for running a government for the welfare of a free and sovereign people. Change is not PM whim but his leadership of a process. This is what universities and think tanks are for. And yes, the government funds them to maintain this system of scrutiny on itself.

And yes! The PM must lead the process of changing policies and myths not by hiding in foreign travel but by leading the debate in the Parliament cabinet and the public domain. He must use the civil service to research and prepare policies discussed in the public domain and in the cabinet. His word is not a command but a direction to be examined.

The civil-military divide that so haunts our thinkers (who need to read a few primers in a democracy) can also be handled in this open process of consultation. And yes, the army should be consulted and not treated as a subordinate department. In fact, no department should be a subordinate department. The job of the PM is to lead a consultation and not treat all as a subordinate.

Proper democratic processes are there to make consensus, and democracy is about achieving consensus. The term Prime Minister historically means first among ministers with the right to chair the cabinet. Even the Supreme court has noted that the decision-making power lies with the cabinet and not the PM.

Let me also mention an obsession of our intellectuals: foreign policy (4 out of 5 of Raza’s myths are foreign policy). Yet, I find no foreign policy documents related to strategic depth and our role in the Ummah put out by the government. Where are the discussions on this? Where are the speeches and thoughts on this? Not mere pouting by children and leaks like in Dawn leaks.

We all hear of Nawaz Sharif wanting better ties with India but has anyone seen a government document defining the possibilities for the new relationship? Was that ever taken up in the cabinet? Was that ever discussed in the National Security Council? Can we see the minutes? Why do the PM and the FM not give us a white paper?

Contrary to popular intellectual opinion, PM is not elected to rule. Everything that he wants cannot be policy. The system is operating in perpetuity and should. Each ruler has no right to

stop the work that was begun by the preceding government and change all policies inherited. The election only gives them the right to alter policy directions after considerable consultation and due process.

The whimsical government ended with the renaissance. Now we have continuity in policy which is tweaked and reformed through a clear due process which our democrats hate.

Don't Derail the System But Do Let Us Talk of Reform

While Raza talks of myths, let us also talk of the major omission that we don't discuss.

All discussion of reform is stifled by the intellectual/senior analyst class by yelling, 'don't derail the system.' Any talk of reform is thought to be anti-democracy.

The expectation that somehow good democracy would happen after dynasties have run their course is expensive. Several generations will lose many opportunities before this happens. And as we have seen, these politicians will do all in their power to strengthen their undemocratic system. They neither have the learning nor the statesmanship to seek better democracy. We have seen they will further foul up the system to make room for their family democracy.

We must not only talk of reform but agitate for it and shout for it if we want a serious democracy that will save our state and society. Raise your voice for reform so that they are forced to change this system.

A large number of issues must be discussed when it comes to reform. Here is a sampling:

- Why don't we experiment with elections (proportional, ranked-choice, multi-round) that will produce better results?
- Why don't we have term limits?
- Why don't we rule out families offering too many candidates?
- Why don't we define parties better?
- Why don't we separate the election commission from the executive?
- Should independent local governments not exist? With different election cycles?
- Should we not have more equal-sized provinces for a better democracy?
- Why don't we ban appointments for judges after retirement?
- Why is the civil service not independent? Why is the civil service not reformed for professionalization with open entry?

Should there be an open, transparent process to appoint people to key positions and take out of the hands of the PM? The PM should not have the power to transfer anybody. That is not part of the representation. There should be limits on the PM's ability to change budgets, engage in arbitrary expenditures, and give plots, perks, and benefits to favorites.

We must ensure due process is followed:

- Why don't we make parliamentary attendance compulsory?
- Why is cabinet meeting not made compulsory?
- Why are the minutes of most meetings not made available, even if it is with a delay?
- Policy changes must be clearly planned, investigated, and consulted.
- Projects must be whetted, investigated, and made public.
- Why don't we set up watchdogs like the CBO?

➤ The conversation must be on change to push politicians

The family democrats with arbitrary power love the conversation that protects them from change. Should we keep the conversation on foreign policy and keep blaming the army to let them consolidate their arbitrary, lazy and wasteful rule? This is folly.

Reform will not happen if we don't push them to make it. It is all right to wish for democracy, but let us get proper democracy and not some deformed variety that sneaks in dynasties from the back door to give them excessive arbitrary power without checks and balances or due process.

A reform discussion does not hurt democracy. Instead, it nurtures it. These politicians have done the bad kind of reform to consolidate arbitrary power that destabilizes the system. Let us not blame ghosts and monsters for this; our politicians repeatedly want to kill checks and balances and due process for personal benefits.

The system must be reformed for us to get a better crop of politicians who would want to develop democracy and truly represent people and not their dynasties. And no, the system is not derailed by talk of reform or a reform movement. On the contrary, the current trend to strengthen elected dynasties is stifling democracy.

And remember, democracy is not just a flawed election. It has to be framed to allow elections to deliver good government responsive to the needs of people.

2.6. THE NEW AUTO POLICY

Tim Cook, CEO of Apple, said “It would seem like there will be massive change in that (car) industry, massive change.”

Most of the world is reflecting on this statement because of the importance of Apple as the world’s largest company and the technology leader. This statement has significant ramifications for us, too, and we would all do well to think upon it.

We are told that our policymakers are considering a new auto policy. Newspapers report that it is likely to be business as usual, rewarding our automakers with the extensive protection they have received for more than 40 years.

For 40 long years, we have struggled to create an auto industry giving our local assemblers a market where imports are made prohibitively expensive, forcing consumers to buy what they produce. We all know about not only the kinds of cars we get but how they are sometimes bought at the infamous premium of the ‘own’ where you pay total cash in advance for delivery months later. In some years, the earnings of the ‘own’ money have been huge for some car companies.

Our ‘auto policy’ has been full of strange outmoded ideas, which are seldom challenged.

First, the car industry is central to development. As a matter of belief, some of our policymakers say that without a car industry, no country developed. This belief stems from an era when the car industry was at the cutting edge of technology, and global car adoption was taking place. Humans were beginning a romance with ‘just in time’ transport. Much has changed since then, including the romance with the car.

Second, technology can be adopted through policy and subsidy. This ‘indigenization policy’ was put in place to try to manufacture all auto parts locally. It was envisaged that over time all auto parts would be manufactured locally, and as it grows, it too will be offered protection of operating behind high tariff barriers. A cottage industry for manufacturing these parts has developed and is now strongly resistant to lowering tariff barriers.

Third, given the imperative of developing a car industry, we cut deals with some car companies that allowed them to manufacture only for our domestic market and not for export.

Poor Pakistani citizens are forced now to drive cars that have seen no technological improvement in many years. They buy cars with no warranties, often being told by showrooms that tires and brakes will need to be changed soon as they may not be up to standard. Most cars are not equipped with international safety standards.

It is well known how scared our car assemblers are of old cars. They argue for the stoppage of all used car imports. Indeed they know that the vehicles sold locally are not as good as some of the 10-year-old models sold in the rest of the world.

There is no end in sight to this protection policy despite the assemblers’ high profits. Meanwhile, as Tim Cook said, the car industry is not at the cusp of change. Nothing in this world remains static, and the car industry is in a state of flux now.

The internal combustion engine—the one we are patronizing by our protection policy—is dying. Hybrids have been here for decades and are still not allowed into Pakistan except at exorbitant costs. Electric cars are in and gaining ground. Estimates show that the share of hybrids

and electric vehicles is now about 3% in the US and growing at about 22% per annum. Meanwhile, car technology is redefining driving, the use of the vehicle, as well as the need for roads, bypasses, flyovers, and signal-free corridors.

Tesla, a revolutionary 12-year-old car company, has developed a best-seller luxury car with outstanding safety standards and frontier technology to challenge known brands like Porsche, Mercedes, BMW, etc. The car runs on Batteries and is charged through an electric connection. It has no internal combustion engine, yet it outpaces the Porsche and handles as well as a BMW. It has redefined cars.

Last week Tesla did a software update on its cars just like you, and I update our mobile phones and computers. The update has allowed Tesla to incorporate several self-driving features. The vehicle will now automatically brake when it sees an obstacle in front. It can drive in a lane by itself, sensing cars and lines. It can park itself. Self-driving features are now being introduced in many cars while we have all watched in wonderment as the Google Car goes about like a toy in a tiny town without even a steering wheel. Apple is rumored to be making a car in its project Titan that is expected to revolutionize the car industry.

With this change happening, does it make sense to make the car of the 20th century? Are we trying to indigenize a moving target in a cottage industry? Brakes, batteries, seats, steering wheels, engine parts are all being rethought out regularly. Rethinking is being done through research at every level. Can cottage industries keep pace with this research or change?

The auto policy must take into account the change that the global auto industry is going through. An industry that can prey upon local consumers without any pressure to keep abreast of technological changes is not going to be an asset in the future. The bill for its backwardness is being paid in myriad indirect ways and will grow over time.

At a minimum, the import and export barriers in this industry must be removed. The assemblers must face import competition. Moreover, their cars must be exportable. If this is done,, they will be forced to keep up and invest in research and design over time.

Our policymakers need to understand that technology is no more than research. Those who invest in research have the technology. Those who copy never stay abreast.

2.7. LIVING OFF DADDY'S WEALTH

Lack of social mobility is obvious in Pakistan. Political power also seems to be coagulated as the chances of getting elected are tied to traditional wealth, land, and family status. Power, privilege, and wealth seem to remain in the family in Pakistan.

A few years ago, a principal of an elite school told me that the students there were disinterested in serious studies as daddy's wealth was enough, and their elite status was guaranteed in society through inheritances.

Discussing this with various members of our privileged class, it becomes immediately apparent that hard work is not an aspiration. Power and privilege is a right in our society, not something to be earned through hard work. An entitlement culture prevails not just in agriculture but also in business and politics.

Examine the elite, and you find large cohorts who, even if educated, have never really used that education. Their lives largely have been of leisure made possible through inheritances and sources of rentier income. Such a lack of social mobility and the preservation of privilege were feudal societies hallmarks. For long periods this privilege preservation kept a large part of the population locked into the poverty trap. It took revolutions—some bloody—to break this system. Many of these revolutions involved land redistribution. It is not surprising that most analysts think of rentier income as coming only from land and so ask for land reform.

However, we all know of industrial families that have done little to develop grandfather's industry, but enough state subsidies and a liberal tax regime have kept their lifestyles of privilege alive. Similarly, for large real-estate holdings! Capitalism broke feudal privilege and replaced it with market-based merit in its heyday.

Through innovation, entrepreneurs established a new meritocracy and amassed enormous wealth. In the process, jobs and a new middle class were created. The need for skills in the process of innovation development and management allowed the educated and the talented to participate in the wealth that was being created. Such capitalism escaped Pakistan because of license raj, SROs, and the government-industry-land nexus. Here privilege reigns supreme!

Childish economics thinks that some form of taxation can do this. Of course, it is challenging to design a tax system focused on privilege and power without it impacting the rising middle class more adversely. The rich can find loopholes through exemptions. As capitalism matures, the nexus of money and politics has raised the same issue in advanced economies. Money can buy laws and escape taxation. Along with the global crisis, this money-politics nexus has presented a new debate on social mobility and welfare policy among serious economists.

Inheritance tax has recently been revived in Thomas Piketty's new bestseller, 'Capital in the Twenty-first Century'. He has shaken up the economics profession by raising the issue that it may be inherent in the structure of capitalism that the rich will get richer at the expense of the rest. There are no natural mechanisms for the correction of inequality. Hence policy intervention is required. He recommends taxing capital or wealth in a progressive fashion. Accompanying this is a progressive inheritance tax.

An inheritance tax is a generational reset. As Warren Buffet said, "a rich man should give his children enough money to do anything but not so much that they do nothing." Taxing wealth

in someone's life is taxing savings and could be difficult. But when wealth passes from one generation to the next, taxation can play a useful role. "It is a tax paid by the recipient of this income, the inheritor, the lucky winner in the sperm lottery."

Research has shown that people work hard to satisfy their needs. In the process, they create wealth for others and society. Winners of lotteries, whether of birth or otherwise, rarely use their talent. Inheritance tax could be beneficial for many reasons.

- First, it would set the generational incentives right. Children will be mindful of the generation reset and work hard to use their talents for developing a worthwhile life. Parents will invest in their education and skills to make them competitive instead of handing them rental incomes.
- Second, people wishing to escape such taxation can in their lifetimes put some of their wealth to work through gifts and endowments in much-needed social-sector activities like universities, hospitals, arts, etc. This will alleviate the pressure on the government to provide for such activities alone.
- Third, it will allow much-needed capital to enter the marketplace and flow to higher return activities instead of being locked away for generations into rentier incomes alone.

Counterarguments claim that the bequest motive is an important incentive for the entrepreneur to accumulate and must not be taxed. This must be balanced off by recognizing the adverse generational incentive effects that Bill Gates and Buffett have noted in saying that they don't want their children to inherit so much as to become "do-nothings". Moreover, society and government's contribution to the amassment of large wealth must also be taken into account and does entitle it to some part of the inheritance.

What then should be the rate of the inheritance tax? Piketty has argued for as much as 50-60 percent tax rate for the upper end of the wealth distribution. A substantial rate, especially for the upper end of the wealth distribution, is required for a meaningful generational reset.

Many complain of the spoilt nature of our elite children in this land of free bequests. The phenomenon has been celebrated in songs like 'Waderay Ka Beta'. Perhaps it is time to consider reintroducing this most important tax. It will also improve social mobility and establish greater competition in the marketplace and politics. It is probably more efficient and doable than land reforms which some people still demand.

2.8. PRIVATIZATION OR FIRE SALE

By Dr. Nadeem Ul Haque and Shahid Kardar

Happy days have returned. The privatization process has been resumed in earnest.

So goes Islamabad's self-congratulatory declaration on the Rs38 billion raised from the sale of its 20 percent stake in UBL. The authors of this article, who probably have been the strongest proponents of the free market in recent decades and have generally pushed for a more market-based open economy, should then be equally happy. We, however, feel that privatization, done wrongly, can have perverse results. To this end, we refer to this deal to illustrate the several questions that should be widely debated to inform the government's privatization policy.

As mentioned above, we have long advocated the adoption of a more deregulated, open, market-based economy. Privatization is but one step in that direction. Most public policy analysts would agree with the following principles of privatization:

- (a) The divestment should improve the efficiency and profitability of the operations of the enterprises being sold;
- (b) The transaction should be conducted in an open and transparent manner with adequate preparation and time to get the best price for a public asset, i.e., adequate price discovery efforts are made. Moreover, the mode of sale should not result in a wealth transfer to the buyer;
- (c) Improve market competitiveness in general and in the sector in particular;
- (d) The receipts from privatization should not be used to fund current fiscal needs since that is likely to slow down much-needed fiscal reforms.

With these principles in mind, we find it very hard to understand the reasons for the fire sale of UBL. It does not satisfy the first objective of improving market efficiency. UBL is already being managed privately. Just the sale of an additional 20 percent stake will not ipso facto lead to an improvement in the bank's efficiency and thereby induce any difference in the UBL's bottom line.

The sale of these shares has obviously augmented the government's coffers (including that received in foreign exchange of \$310 million). Yet, the government does not seem to have any plans to retire debt so that it can be verified that the exchequer will recoup the lost dividend stream on these shares through savings on debt servicing. Nor is it apparently going to invest the proceeds in projects that will generate income, which will be more than the loss of the above-referred dividend earnings. Objective (b) has been enshrined in our law, requiring privatization receipts to not be utilized to finance the current expenditure. Yet, available evidence suggests that there is every reason to fear that the proceeds will be used to finance the current fiscal position, resulting in the transgression of the law as well as objective (b).

The government could argue that the sale proceeds will be used for funding its many mega projects. All this clever accounting will do is facilitate a higher level of current unproductive spending. Given that many of these grandiose projects will generate low returns, and some may even require a continuing government subsidy to meet their costs of operations and maintenance, will such use of the funds not add to our future fiscal problems?

The government has announced that it will respect objective (b) requiring transparent transactions to facilitate price discovery. Unfortunately, the process has raised a host of questions that need clarification.

- (1) Why was the pricing down at a discount? The market price was Rs170 per share, and the price demanded for this large block was Rs158. The fact that the shares were sold at a lower price raises doubts about the intentions underlying this divestment.
- (2) The triumphant reports coming out of Islamabad are citing oversubscriptions. In such cases, normally, the price is bid up. But not here.
- (3) About eight buyers, including a government entity, the NIT, have acquired the shares. Some brokers, who have bought shares, suggest that they were buying them for someone else. It would be interesting to find out the identity of the final buyer and how long these shares are held. The street gossip is already hinting at where these shares have gone.
- (4) The market's perception is that the transaction was rushed. It did not give bidders enough time. Time to an auctioneer's hammer is important for bringing out the true value of a share.
- (5) The government was adamant about selling the block as a block. Since eight buyers emerged for a block, why did the government insist that the shares be sold as a block? Could not a different auctioning system (the one used, favored only those with deep pockets) been employed to fetch a higher price?
- (6) When a stock market exists, and existing shareholders have determined a price, why would the government conduct an off-floor transaction? The reason given to us is that the market was not big enough to handle such a large transaction. This claim needs to be researched and debated. In our view, there are marketing strategies that would allow such a transaction to be done on the floor to maximize value.

Finally, if this divestment results in the consolidation of the holding of the group that already has a major/majority stake, would that be in the public interest, especially if these shares, sold at a discounted price, end up with the current owners? If privatization increases the concentration of bank ownership, a mere handful of individuals could be controlling the money market and the pricing of loans and financial services. There is, therefore, a reason to worry about the wisdom of such a privatization policy.

2.9. THE ARCHITECTURE OF ECONOMIC POLICY MAKING

The Architecture of Economic Policymaking

We are a developing country. Our topmost priority needs to be economic growth and development. Yet, we have no agency looking after growth and development. We leave all facets of economic policy in the hands of one ministry—the Ministry of Finance (MOF). Conflicted with many objectives, they naturally do a poor job.

MOF must be held to some performance standard. For the last 30 years, it has been unable to hold the line on expenditures and has never been able to put in tax reform. A poor quality budget is passed with little planning for the economy's needs. Soon after passage of the budget, MOF succumbs to demands for reallocation and overspending for unplanned incentive schemes, subsidies, and purchases of commodities and providing for losses of PSEs. Hardly a proposal from on high is refused. Reallocation and overspending is all too easy. On the other hand, MOF is also too weak (or...) at resisting issuing SROs. Despite adverse revenue implications, MOF continues to issue SROs. Issuing SROs is also too easy.

Both the tax and expenditure power lies with Parliament. These powers cannot and should not be delegated to MOF.

Currently, budget management is only hurting growth and development! Runaway fiscal deficits require exceptional financing from both commercial banks and SBP. SBP prints since it is controlled directly by the MOF, Finance Secretary, and all his nominees are on the board of the SBP. The result is creeping inflation, and credit for the private sector is crowded out. Growth, investment, and development suffer in both cases.

Poor budget management and runaway fiscal deficits also require some expenditure pruning. As is well known, this is done through several anti-growth measures. On occasion, development expenditures are slashed. In 2010 these were cut by 50%. Such cuts disrupt major infrastructure, education projects setting back their time to completion, leading to cost overruns and often upsetting the project's feasibility. Sometimes they resort to slow down of releases. Once again, this disrupts project management, cost, and completion.

On other occasions, MOF arbitrarily imposes taxes such as income tax surcharge and surcharge on imports stirring up legal battles and confusing investment decisions. Expecting such vagaries in policy, the private sector is likely to be wary of investment. On occasions, they cut expenditures everywhere on what they term "austerity". Not being able to resist ill-thought-out "packages" that had not been anticipated in the budget, MOF at times cuts non-wage expenditures. The result is cut in maintenance and "dispensable" activities such as training, research, conferences, etc. As a result, systems, equipment, and human capital depreciate. Obvious long-run consequences ensue.

EAD is a MOF wing that seeks foreign funding full-time. Hungry for money, they do not worry about the impact on the economy. Donors freely retail their whims of policy and use their contractors and consultants as they like. Donor projects such as TARP, SAP, Capacity building, Access to justice, and several others which are viewed as unsuccessful by their evaluations leave a loan that will have to be paid back by our children.

Often the search for foreign loans means compromising our development agenda. Sometimes it means following poor quality advice. In both cases, it marginalizes our growth and development thinking. In the long run, that is a huge loss to the economy.

This Situation Must Change. Here is How!

There are three main objectives of economic policy—growth, external and internal balance, and inflation management. The current practice of all three being managed by one ministry—may be the biggest folly of our poor governance. 50 years ago the first economics Nobel Laureate, Jan Tinbergen had argued that each policy instrument should not try to affect more than one goal. This means that each government agency should be a custodian of one goal. Hence central bank independence!

MOF is floundering on all three objectives and making a mess of it at the moment. Like the rest of the world, we should develop an independent central bank that manages inflation and a MOF that manages the budget and, through it, the internal and external balance. Growth and development need an independent champion. Like the SBP, it should be independent, staffed by competent professionals.

I call it the Economic Development and Growth Commission (EDRC). PC could and should be re-engineered to develop into this. (I tried but MOF, as usual, blocks reform). It is important that EDRC be independent and able to speak on behalf of growth. EAD should be a small part of EDRC. A better policy would be developed through the creative tension between three independent agencies—SBP for inflation, MOF for budget, and EDRC for growth and development.

2.10. GETTING THE ARCHITECTURE OF ECONOMIC POLICY RIGHT

The Ministry of Finance (MOF) has always found the discipline of the medium-term too difficult to live with. When the budget was in difficulty, it relied on either or both a) Cutting development or social sector spending and b) Introducing arbitrary and distortionary tax or tariff measures. In the short term, to please various special interests, MOF developed the SRO regime, which impeded market competition and openness and hence impacted growth. All three of these MOF initiatives—cutting development expenditures, distortionary taxation, and the SRO regimes—challenge the planning process while severely impeding growth and development efforts.

Consequently, since 1973, MOF has continuously struggled to take over the PC. PC was envisioned to be a technocratic ministry under the PM. The Chairman of the PC was the PM. Most FMs since 1973 have fought to become Planning Ministers, a position that should not exist.

Almost continuous IMF Programs since 1988 have contributed to eroding the planning process further. As is well known, IMF programs are not designed for growth. In the case of Pakistan, the programs remained focused on increasing revenues and holding the rein on expenditures, often either through a cut in development expenditures or through arbitrary cuts on overall expenditures. As the programs went off track when difficult revenue measures were not achieved, further arbitrary cuts were imposed often at the cost of maintenance or efficiency. In all cases, growth suffered further. With the PC and the planning process weakened, there was no challenge to the programming approach of the IMF and the MOF. Growth and development suffered severely in this period.

MOF expanded as part of Fund programs to take over functions of the PC as well as other divisions. While the medium-term, reform and development functions were the PCs, MOF, through donor support, managed to develop projects sections for economic reform, poverty management, and making the Poverty Reduction Strategy Paper, a substitute for a Plan.

Donor agendas are facilitated in a weakened planning system but lead to a fragmented development effort. Without a planning process to coordinate disparate agendas, individual donors find it easier to deal with ministries that are not coordinated to accept studies, programs, policies, capacity building, PMUs, and even new agencies. For example, we have several heavily funded projects running for years that no one has reviewed, e.g., PIFRA, TARP, PMDC, etc. EAD wants to coordinate donors without the discipline of the planning process even though the role of EAD is to purely manage donor relations without getting into economic policy. It should be noted EAD has no economic, technical, or planning skills.

Without the Planning process, fundamental reform is slowed down. The PSE problems arise because no one is pushing for, facilitating, or coordinating reform. Despite many Fund programs,

- (1) The tariff structure is riddled with SROs against the open economy that Pakistan has committed to;
- (2) Commodity operations continue to choke domestic credit and impose a claim on the budget;
- (3) Generalized subsidies continue unabated despite a well-conceived social safety net;

- (4) The pricing structure still has too many administered prices, e.g., gas, electricity, wheat, etc.;
- (5) Overall regulatory structure remains unfriendly to investment and promotes anti-competitive practices.
- (6) The gains from productivity increases as outlined in the PC FEG remain unexploited while all the government's time remains committed to projects that are riddled with inefficiency.

The Architecture of economic policy-making must be balanced to include growth and development as an equal player to fiscal and inflation management. In the current architecture, MOF places everything under the control of short-term fiscal constraints. SBP and the banking system are forced to finance the deficit while long-term growth is sacrificed unthinkingly through expenditure cuts and distortions as described above. While the IMF is arguing for SBP independence and there have been laws to that effect. Surprisingly in a poor country like Pakistan, little attention is paid to PC independence so that needs for growth and jobs are not forgotten.

Our failure to make reform happen should alert us to a poor reform process. Yet the way forward for many years is to mainstream and fast-track reform. Our outmoded system of governance and public sector management, our regulatory, our public service delivery, our work processes, and several other areas are in urgent need of modernization.

It should be clear that few in government understand the reform process. Reform mostly happens at the behest of the donor. There is little domestic research or thinking on reform. Donor reports drive reform and are often full of mistakes e.g. TARP, Access to Justice, Civil Service reform. Too often, reform is command-driven.

Reform is left to civil service officials who have limited experience in change management. Change management which is a significant part of the reform, must be driven, monitored, and incentivized externally.

There is little reform communication. The cabinet must mainstream change management and reform through its agent, the PC. To achieve growth and productivity, we must fast-track reform. Without a reform process, we will continue to muddle along. Through its mandate of long-term growth and development, the PC must be the cabinet's change agent.

2.11. COSTS OF POOR PLANNING

The Planning commission is the apex body for making visions and plans for the country's future and for coordinating the medium-term Macroeconomic framework. The vision and plans for the future gave all departments in all levels of government guidance and direction for policymaking and planning in all aspects of the economy. The medium-term macro framework defines the long term resource base and guidelines for fiscal discipline and planning.

The planning process instills a certain discipline in government economic policymaking. Both these activities are based on a widespread consultation at all levels and hence the development of coherence and coordination in government. In conducting these activities, the planning process collectively identifies the opportunities and constraints for the coming period.

Sadly we lost the planning process and focused only on projects. In the early days, when the country was young with limited infrastructure and in a post-war environment where aid was a newly developed phenomenon, and socialism was in the air, our planning relied heavily on borrowing and developing infrastructure projects. There was a strict project appraisal and implementation process. Over time, various government departments felt that the discipline of planning, which placed pressure on coordinating, research, sequencing, coherence to be too cumbersome. It was far easier to work in silos.

It was easier to push a policy on an ad-hoc basis. Besides, every ministry looked good presenting a policy. Today we have a huge proliferation of policies often contradicting and confusing the regulatory structures while feeding legal suits. Most of the policies also tend to be transactional and giveaways and hence against the spirit of policymaking.

As planning processes weakened, so did the project appraisal and implementation process. No longer did the departments want to concede to project appraisal and implementation norms. Without the planning process, they felt gut feeling was enough! In addition, politics was allowed to enter the planning process in the 70s, providing further impetus to denuding the project appraisal and implementation processes. The result is that projects are approved without due diligence, seldom completed on time, frequently have large cost overruns, and focus on brick and mortar. Moreover, project quality is poor and without focus on public service. In all cases, there is no provision for maintenance after the completion of the projects.

The rush to make projects has destroyed public service delivery. Often current budgets do not even provide for the running of a completed project. Completed projects, especially of a social and educational nature, are severely underutilized. There is an inordinately high pressure to build roads contrary to appraisal norms. Gas and electricity grids are stretched way beyond efficiency even at a huge cost to the economy. Consequently, the realized gain from projects is far less than that which was originally envisaged.

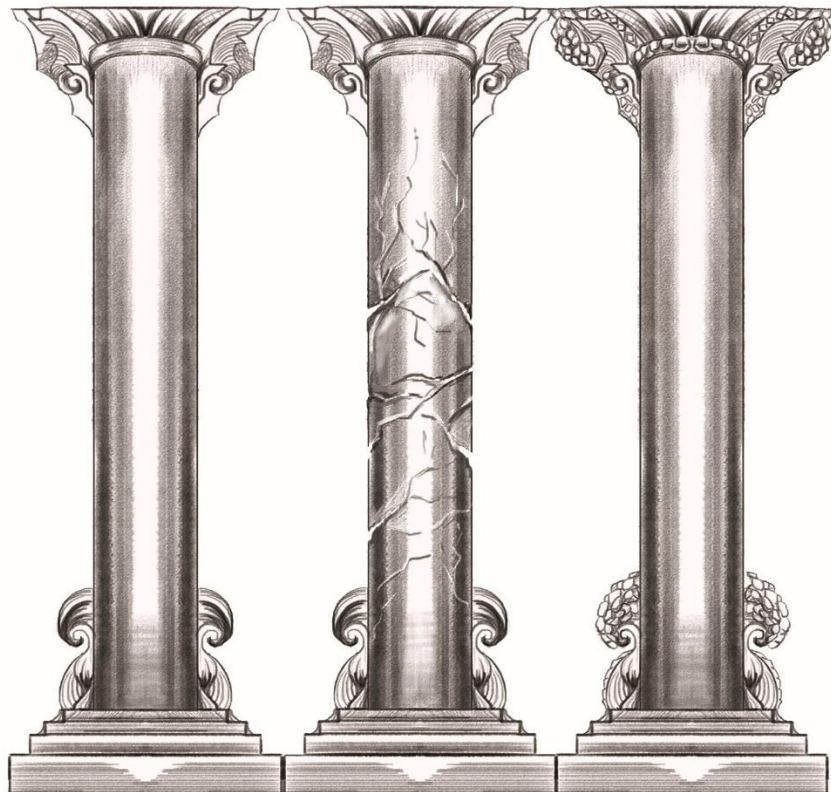
The weaknesses in project appraisal and implementation mechanisms have weakened the impact of development spending. A study by PIDE shows that development spending has little or no impact on long-run growth. APC study shows that development spending has a short-run impact of .07% on growth when development spending increases by 1%; in the long run, there is no impact of increased development expenditures on growth. Moreover, data suggests that further investment in roads has no positive impact on growth. Meanwhile, as argued in the

Framework for Economic Growth (FEG), international evidence has shown conclusively that growth and development happen with good planning and development processes focused on developing quality public sector management, vibrant markets, creative cities with an emphasis on youth and community.

The FEG laid out a comprehensive reform agenda that directed toward this development and estimated that this would lead to an increase in our annual growth rate to 7-8% from an average of 3% for the last five years, and this increase would be sustainable. Sadly, despite this evidence, the push for projects continues, and our leadership continues to labor under the impression that projects will lead to growth. While the FEG was approved by the NEC, it was never presented to the cabinet, the PM, or the president while project meetings were frequently held.

Chapter 3

Market & Economic Growth



3.1. WHY NOT KHOKHAS EVERYWHERE

As alien a concept as it may appear, liberalizing street vendors may be beneficial

Street-vending through kiosks (khokhas or dhabas) or mobile vendors (chabri wallahs, truck, bicycles, or motorcycles) are all legitimate activities that provide opportunities to the poor. All societies throughout history have had these activities. An unemployed person can buy some fruit and serve it on a small platform or a cart with a small amount of money.

Used to be a time we would see these vendors all over Pakistani cities selling all manner of things. There was a guy selling the most awesome wire puzzles that I wish I had kept. There used to be the guy on bicycle who used to be the only supplier of used Marvel comics and science fiction books.

As teenagers, we used to walk or bike to local khokhas to learn how to pick up all manner of goods as they were conveniently located and often cheaper than bigger stores. They were also willing to do things like give you one cigarette from a pack or one biscuit from a pack as opposed to buying a whole packet.

Then somewhere in the 80s, when we seriously adopted the suburban DHA model, all roads were widened to make way for the cars. Many of my favorite khokhas were taken away. I wondered where the owners had gone till one day I found one of the vendors in dire straits forced to beg.

Later our pristine suburban neighborhoods got very exclusive, and the mobile vendor who used to visit us earlier was now diligently stopped by the police as well as private security. Various forms of hawkers (the guy with the churun (a spicy paste or powder), the vendor carrying the rubbery candy with which he made bicycles or figures, or the kulfi wallah) disappeared. I wonder where they are begging now.

Meanwhile, bureaucrats who ran cities became increasingly wedded to the American Suburban model with endless single-family homes and broad avenues for cars. Of course, they kept prime areas for their government-owned housing and government-subsidized leisure clubs as well as plots for themselves. The poor did not fit into this scheme. With their perks and plots, the masters of the city got even stricter with the street vendors. Police were told to vigorously eradicate all forms of poverty—poor housing and street vendors—from the line of sight of speeding cars.

Occasionally a street vendor shows up on a side street, but in a matter of hours, you will find some policemen throwing him out. YouTube even has videos of policemen in Karachi upsetting street vendors' carts destroying their inventory. The pinnacle of good estate management, DHA will not allow any street vendors.

Meanwhile, we in policy circles began to measure poverty and continually talk of poverty eradication. Donors forced us to initiate many poverty alleviation projects. We have BISP, giving them conditional and unconditional cash transfers. We have skill development agencies in every province and at the federal level, and we also have funds to foster skill development. We also have several large microcredit-providing agencies and several banks that these agencies finance.

So, what is it that people do with the few thousand rupees that these programs give them? There are no studies on this question. Mostly people ad-lib, "they start their own business." And most frequently, the business is thought to be a sewing machine. One wonders: how many sewing machine businesses can the poor run?

So, the next question is, “where can they set up this business?” Here the consultants have no answer. Weakly they say, “at home?” But poor homes are so small and their families large. Do they have space to operate? Besides, their clientele would be the neighborhood? Or will they spend time peddling their wares? And how, when no such activity is allowed?

I have personally pushed for the liberalization of the street vending business for the last 15 years. I have presented this proposal to prime ministers and the chief ministers. They liked the idea until the bureaucrats shot it down. “Why?” you would ask. I can think of no reason other than power and hubris.

Unlike Pakistan, the rest of the world has a huge number of street vendors in their cities. Scanning some recent research on the subject, I found these estimates of the number of street vendors in some major cities in the world:

City	Street Vendors
Manhattan	50,000
Mexico City	185,000
Seoul	800,000
Manila	50,000
Kuala Lumpur	47,000
Bangkok	100,000
Dhaka	100,000

Street vending is a legitimate entrepreneurial activity for the poor. It also adds to city life as many of us have felt when we go to Manhattan, London, Singapore, or Bangkok. It adds vitality to and vibrancy to the community, promoting mingling opportunities among the most diverse segments of the society. It also extends the range of goods available and promotes price competition, which serves the community with more goods and services and lower prices. It also promotes street safety by putting more ‘eyes on the street.’

Many well-known entrepreneurs took their first steps as street vendors to grow large businesses. Vienna Beef is a large company that makes hot dogs, sausages, and other food items started as a street vending company. A heart-warming story from India is making the rounds about a blind man, Bavesb Bhatia, who has developed a multi-million dollar business starting as a street vendor.

Is it not time that we allowed street vendors everywhere in our cities. Every street and street corner should be allowed to have a street vendor. Cars must be made to give space to the poor. And there is no reason to associate street-vending with poor sanitation and aesthetics. A careful and good policy can be developed to develop street vending cleanly and aesthetically. We can work out a good policy for street vending.

I find it strange that there are street vendors within a stone’s throw of the White House, the Congress and Washington DC landmarks, and none on Constitution Avenue Islamabad. If hawkers hang out near Buckingham Palace and the Parliament, why can’t there be khokhas next to the Governor’s house, Gymkhana, Punjab Club, and the Corps Commander house in Lahore?

So, let us not give the poor mere handouts without the space to grow. Street vending is a legitimate right of the poor to claim their entrepreneurship share. Accept it and allow them to grow.

3.2. DOING AWAY WITH THE DEFUNCT

We Cannot Follow Economists of Yesteryears Anymore

Lord Keynes had famously said that “Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually slaves of some defunct economist.” Pakistan offers the best illustration of Keynes’s statement. We are still suffering from S M Akhtar even though most kids don’t even know who he was. If you know this name, you are probably old.

I remember I could never read that book called *Economics of Pakistan* by S M Akhtar. It was like memorizing the economic survey and a plan, both of which are unreadable documents. The trick was memorizing numbers, and throw them back at the examiner. And you also had to compartmentalize your mind. Whatever you learned of real economics — theory and empirics — you kept separate from the economics of Pakistan.

Pakistan’s economics is still recovering from the Akhtar. And it is never more apparent than at the budget time. People treat the economy’s numbers with the same sanctity that we treated them when taking our BA exam. Regurgitating numbers without any point was enough to win you points.

The economy was not about understanding relationships between key variables, uncovering agent and agency behavior, delineating the role of policy, or debating market or government failure. Mindless number pronouncements were enough. At least two common fallacies survive from the Akhtar days. (There are more, will cover them later)

Targets: It was also an era of planning when the book was written. Hence it was important to think in terms of government targets, plans, and achievements. The literature moved on, and we now know that the government has no way of targeting any variable. There is no serious economic work being done in the government. In fact, the government does not even employ economists.

More importantly, economists have known since the 1970s that prediction is not possible given the many forces at work in the economy. Without having meaningful forecasts, how can the government announce targets? Yet headlines are written about targets, and many columnists discuss these as if those targets have meaning.

There is much excitement around the setting of export and growth targets. No one asks where they come from? Just that the government fixed a target. Even in the earlier planning models, the announcement of targets were supposed to be accompanied by an analysis outlining the instruments of policy that the government had for trying to achieve the target. Not here. The government can announce any target and tell you nothing about their policy instruments and certainly not connect their policies with the target. But the old Akhtarites have been trained merely to memorize targets, and feel good.

Numbers are so all-important in this scheme. The export target is always mentioned as 17 percent or 18 percent. It remains in that narrow range, and no one questions it. The ministry of commerce (MoC) has no analytical model or anything that justifies that number. But more importantly no one notices that the nominal GDP often is growing by the same amount. Hence in terms of the share of GDP, exports will not grow. Indeed over the last decade or more, this ratio has remained constant despite MoC sounding heroic announcing the target and many media columnists being excited about it.

Numbers: Numbers are so all-important that we quibble over the 3rd decimal point. For example, headlines were given to the growth number this year, with the ministry of finance (MoF) claiming 4.1 percent and several economists claiming 3.5 percent. Much excitement was generated.

I have also seen MoF claiming an outstanding achievement by showing an improvement in the deficit of 0.2 percent. Can we measure these numbers so finely?

Unfortunately, a course in statistics was not a requirement for graduating with S M Akhtar. I have asked many a columnist who come to me with a question on numbers asking me to interpret a minor difference in economic numbers, if I have taken a course in statistics, and the answer invariably is 'no'. But then, this is directly from the way our curriculum was set.

A first course in statistics will teach you that most data collection can never be exact. It always comes with a margin of error. In reality, we have an interval of possible measures. More than likely, both 3.5 and 4.1 are in the realm of possibilities, statistically speaking. So the debate is useless as statistically, both numbers are indistinguishable.

In a recent paper on energy and growth, Imran Choudhry, Noreen Safdar, and Fatima Farooq present the mean and the standard deviation of the GDP in Pakistan over the period 1972-2012 to be 4.82 and 1.96, respectively. The well-established rule is that two standard deviations from the mean on either side mark a confidence interval where most outcomes can be considered possible and cannot be ruled out as different from the mean. Given this well-established rule, the confidence interval for our growth data is between 0.94 and 8.44.

The fuss that is being created about the numbers is totally uncalled for. The precision required to differentiate between 4.1, 3.5, and 3.3 is not there. It makes a good copy and shows people how clever we are when we question numbers even though they don't mean much. Sadly this mindless following of a defunct economist keeps the real economic debate away.

3.3. NARRATIVE OF GROWTH

The international financial order has been changed dramatically following the recession in 2008. More importantly, it has radically reshaped the way we think about economic organization and policy. Yet in Pakistan, we have continued in the same old chronic pattern—stuck in a stagflationary cycle with chronically low growth and a monetary policy unable to arrest inflation.

One of the basic problems is that in toggling employment and inflation, we have lost focus on growth and productivity. While we kept ourselves preoccupied with stabilization responses, emerging markets, especially in Asia, have concentrated on kick-starting sluggish growth to thaw out of the recession. While our narrative has remained more tax and subsidy-oriented, we have lost sight of key drivers of economic growth. Over time, our collective mindset has become accustomed to the subsidy (rent-seeking) system and aid-led public sector projects, which naturally discourages innovation and value-addition in the long run.

It bears noting that even a five percent annual growth rate (which is the potential growth rate of Pakistan's economy) will not absorb the extremely large number of young professionals entering the market every year. Therefore, the New Growth Strategy (formulated by the Planning Commission) targets seven percent sustained growth over the medium to longer-term horizon to avoid an employment crisis.

We must immediately adopt a more growth-focused posture. The strategy is straightforward but one that will require a mix of political will and structural adaptations in the country's economic machinery.

In the first place, the investment must be directed towards innovation and entrepreneurship. Private enterprise remains stunted when the government takes over the market in almost every sector.

Second, our urban areas are not properly configured for growth. The mere conceptions of dense and high-rise urban growth are missing from our narrative. Even our larger cities are not tuned to promote growth, and most of the country's urban setup still resembles a rural milieu. The current zoning and building regulations impede domestic commerce. The growth strategy aims to upgrade access from rural to urban market places and free prime urban property from government use, leveraging it for commercial enterprise. This will have several quick advantages. Labor-intensive activities, including medium-scale construction, will receive a boost. The private sector will now see an increased investment space and available portfolio. This will also benefit the government in the form of increased revenues required urgently for keeping social sector and infrastructure programs up and running.

Third, the growth strategy recommends improving public and private sector productivity by removing inefficiencies from the system. Our present model is too slow to adapt to changing requirements. In the public sector, the structure of the bureaucracy and size of civil-service expenditures need reforms to free resources for development. Public sector enterprises must be restructured to allow fiscal control and clear space for private investment. The legal and judicial framework for commerce should be overhauled if we are to encourage economic transactions.

Fourth, we advocate building better and inclusive markets. Presently, they are uncompetitive. We need to remove hurdles in the way of doing business. Bureaucratic

bottlenecks cannot be allowed to stunt investment in new businesses without which increased employment and consumerism cannot materialize. Entry of new firms should be facilitated, agricultural markets should be deregulated, storage and warehousing facilities should be improved. The unilateral trade liberalization program must be re-established, and the present system of distortive regulatory duties should be abolished.

Markets follow density. By combining our resources and encouraging innovative investment that efficient markets across receptive cities will tap, we can start on the road to high growth that is essential to break out of persistent stagflation.

Fifth, the strategy proposes stronger connectivity between people and places. Our rail, road, and aviation sectors are heavily regulated, and we punish the entry of the private sector through a distortive policy regime. There is a need to reform the public-private partnership process. Pakistan Railway's corporate restructuring should be a priority. The aviation policy needs to be revisited, and there is a dire need to embed ICT practices in our connectivity channels, including customs procedures.

Sixth, the energies of the large army of youth need to be redirected into constructive and growth-generating opportunities grounded in successful ideas and ideals. Once empowered through voice and capabilities, the youth will utilize market and urban linkages to promote employment and commerce. In doing so, we will also inculcate the habit of innovative thinking, prompting vocational learning and generating industry trends that will augment growth as well as exports.

Therefore, it is a matter of turning national attention towards economic growth processes and subsequently devising policies that facilitate growth-orientated private sector investment. In it lies the solution to our employment and inflation dilemma as well. Our academia, media, and relevant authorities should advocate this narrative of growth, without which we will not be counted among emerging economies that have fared the best in the global downturn.

3.4. CHANGE THE SHERIFFS DON'T INCREASE OUR TAXES

About 60 million uneducated children will enter our labor force over the next decade. Yet our policymakers are tailing donors into thinking that all economics revolves around increasing the tax-to-GDP [gross domestic product, a measure of the total size of the economy] ratio. As if tax alone will solve all our problems.

The refrain of donors is: 'our taxpayers should not pay for your development'. When some of us say, 'please folks keep your money and the poor quality of consultants it brings; leave us to our devices', they start pouting.

So what is this thing about the tax-to-GDP ratio? It is said that our tax-to-GDP ratio is now 11 percent of GDP, which by international standards is very low.

Donors point to selected countries with a higher tax-to-GDP ratio without establishing a basis for comparison. Are they implying all countries should have the same ratio? Examine the advanced countries: the US with 27 percent, the UK with 39 percent, Sweden with 46 percent, and Germany with 41 percent. Does this mean the US should increase taxes to 46 percent? Yet, the US wants to lower taxes.

Let us face it: no theory tells us that all tax-to-GDP ratios should be the same. Those who use this argument in the media should be reminded of this simple truth. If we want to compare our tax performance, perhaps we should go back in history and see how the advanced countries did when they were at our level of development. In 1901, the United States and the United Kingdom had a per-capita income of about \$4,500 and \$3,700, respectively. Their tax-to-GDP ratios were 7 percent and 10 percent, respectively.

Through most of the First World War, the UK's tax-to-GDP ratio remained in the low teens. Pakistan has a per capita income of around \$1,500; should we be aiming for OECD tax rates? Why has our focus been on the tax-to-GDP ratio for the last few decades and not on growth? What if our tax-to-GDP ratio went up to about 15 percent? Would that mean higher growth and more employment for people?

People associate a tax cut as a policy instrument for stimulating growth across the globe. Only in Pakistan will a tax increase stimulate growth. Do they think that investors will invest more, workers will work harder, and savers will save more because taxes increase? This theory belies all received wisdom as well as empirical evidence: taxes take from production; they do not increase it. Another false assumption is that more revenues will be spent wisely and judiciously, giving us more public goods like education, health, and infrastructure.

Recall the time when in 2002, a rescheduling generated fiscal space. Yet a decade later, debt piled up, as well as a humungous energy deficit, bankrupt public sector enterprises (PSEs), failing education systems, and a deteriorating law and order situation.

Were societal investments for public goods made? Not at all. Why then do we hold on to the assumption that more revenues will automatically increase welfare through a better public good generation?

Another theory that donors love to put forward is that when people pay taxes, they have (or will have) more control over governance. The fee-paying theory of revenue is not cognisant

of literature. The Sheriff of Nottingham, despite continuously increasing taxes, gave no representation to people.

This brings us to the heart of the problem. Taxes follow a social contract and a certain need for creating public goods. That is why through history, the sovereign's power to tax has been severely curbed through parliaments and popular vote.

Kings and governments had to prove a need to tax by identifying clear public welfare programs that the tax would finance. This was at the heart of enlightenment thinking. Donors have forgotten this history. Instead, without regard to public welfare, they want the sheriff to get more taxes.

On the other hand, people in Pakistan ask what their taxes are used for. 'I get no public service, yet I pay high taxes. Why?' This is a frequent lament.

People are intuitively in line with enlightenment thinking.

Surprisingly, the donors' philosophy remains anti-enlightenment, forcing all Pakistanis to pay more regardless of the quality and quantity of public service. Remember, there is no applause when the Sheriff of Nottingham raises his tax collection because everyone knows he is collecting for his own welfare.

Our poor governance and failed public service delivery mechanisms are well-known. Should we give such a system more revenues? Surprisingly, that has become the mantra.

What did the system do well when they had more money in their hands? They engaged in poor quality projects that did not deliver social returns. They also engaged in self-dealing, maximizing their perks, plots, and welfare schemes. They created unnecessary and unprofitable public sector enterprises.

When I raise this argument with donors, they point to the need to raise taxes to meet with the variety of donor initiatives that they want in the country, ranging from social protection to money-laundering to the environment. So, we should tax our people more to follow agendas determined in some dark corridor where we had no say.

Taxes and revenues should be increased in line with what enlightenment has taught us. Our governance system needs reform to make it responsive to people's needs and develop its capacity for public service delivery and public policy.

Reform will also remove rent-seeking mechanisms such as perks and plots and align public servants' incentives with public service delivery. When people see a responsive and capable public sector, their willingness to pay will increase.

To me, it seems that public service delivery reform must come before revenue collection. Donors have got it wrong.

Change the sheriff or taxes will go waste.

3.5. THE OPPORTUNITY OF DEAD CAPITAL

Economics has become a science of the loudmouth with numbers. Economists come on TV to show off that they have numbers and predictions. They will invent all kinds of estimates and terms that no one has heard of to prove how erudite they are. But never will they submit themselves to peer review, which is the international yardstick of quality work.

Whenever I hear them speak, I worry that this is not the economics I learnt—and I worked with about 10 Nobel laureates. These speakers and commentators always talk macro numbers—fiscal deficits and balance of payments, etc.—and always discuss simple accounting numbers with great aplomb. For example, “we must increase revenues because the government is losing money”? Never “why is government losing money like there is no tomorrow.” Then someone will yell, “we have money to repay and import bills that must be met, so look for aid or borrowing.” Why did we borrow so much? Why are our import bills what they are? Why is the government borrowing at a faster rate than the economy is growing? These questions are never asked by our economists and therefore never debated.

Adam Smith, the father of economics, authored the “Wealth of Nations” to initiate a worldwide study of economics. Since then, understanding the forces of growth, development, and income distribution have been the most important areas of study in economics. Individual behavior—consumption, savings, and investment decisions—are studied to understand how they can be tweaked for increased welfare. At the heart of economics is the quest for increasing human welfare through expanding opportunity for self-actualization through innovation, entrepreneurship, and risk-taking.

Is All Government Expenditure for the Public Good?

Seldom will you hear our economists talk of the Smithian grand quest of growth, development, and welfare. Led by international donors, their quest is to malign Pakistan as a nation of tax cheats and a den of corruption. Revenues must be increased without telling us what, if anything, will the government do for us. They remain unaware that many Pakistanis are paying income tax on a withholding basis on many transactions. It is well known that this tax withheld is never returned.

The mantra is that the government needs the revenue, and it must be increased. My fellow economists think that all revenues collected by the government will be utilized productively for the country’s welfare. They never review the waste in the government: the numerous houses made for officials; the real estate developments made to provide plots to favorites; the wasteful and needless road widening for the cars of the rich; the expansion of Sui gas pipelines even though we have run out of gas; whimsical projects that MNAs are allowed to direct for vanity reasons; wasteful expenditures on the PM or CM directives that are non-productive or too expensive; and ill-thought-out subsidies to the wealthy or political favorites.

The government is full of waste, and no one wants to discuss this issue. Instead, we are all ready to give it more money through a bad tax policy. The government has no money or time for innovative research to promote economic transactions. The government has lost more than 3 trillion rupees in energy over the last ten years. Unthinkingly this government is signing

sovereign guarantees without thought or planning to build more and more energy. As a result, both the circular debt and energy cost are increasing to impose a huge cost on the economy. Yet, my fellow economists think that a wasteful, inefficient, and thoughtless government's mistakes must be covered by more increased oppressive senseless taxation.

Where are Growth and Development?

Yet, the most significant issue I take with my fellow economists is that they never focus on growth and productivity. At most, there will be the usual plea for industrialization and export promotion, for both of which the only instrument seems to be more subsidy in one form or another. These economists have pushed the flawed strategy of promoting the government coddled industry and exports for over five decades. Despite the lackluster performance, considerable subsidies, tax concessions, and much tariff protection, the industry grows sporadically, and exports as a percentage of GDP remain virtually static. Yet, the mantra is maintained.

Economics in Pakistan has indeed become a set of mantras. They even go to the extent of saying, "we know what is to be done." "We have all the solutions." Basically, what they are saying is no new research is required. The old mantras of more taxation for more subsidy to industry and exports is enough. Mind you, this has been firmly drilled into us through a series of large advocacy programs organized by very expensive donor funding. Why do donors fund advocacy? Why do we allow expensive propaganda against ourselves? I will never understand.

For the last 50 years or so, we have been running on these mantras with committees, task forces, and many donor-funded consultants. Yet our long-run growth seems to be declining, as is our productivity. Few new industrial sectors have opened up while the old industry remains largely uncompetitive and cartelized if the Competition Commission is to be believed. The economy has grown thanks to the orphan sector that economists do not talk of — service or domestic commerce.

Einstein said that doing the same thing repeatedly and expecting different results is insanity. Back then, there was no donor funding! But now, failed policies are repeated without much rethinking, and it is not insanity. We merely call it "bad implementation."

Our economists also have little to say about the mess that is in the public sector. Another mantra prevails here: "just privatize." No matter that our previous thoughtless privatizations were not as successful as we thought — badly priced, accusations of insider transactions, and some still not fully paid for. Is the purpose of privatization merely to rid the government of a bad asset? Why would someone buy a failing asset? Can even government monopolies be privatized? Is a private monopoly better than a public monopoly? Should privatization not improve the market and consumer welfare? Mantras don't consider these possibilities. Think city-markets-governance

How would I like economists to think differently? In my book, *Looking Back: How Pakistan became an Asian Tiger in 2050*, I have outlined a different approach. We must look at the economy as a complex system in which humans interact individually or in groups to learn, innovate and transact for their collective and individual welfare.

Spatially much of this interaction happens in cities where markets, institutions, and the mass of people are located. Much of this activity is guided by laws and regulations that define physical and virtual markets. Economic growth is driven by technology that people in cities strive to develop to increase the exchange of goods and services in the marketplace. Discovery through exchange lies at the heart of the human enterprise.

Conceptualizing the economy properly in this fashion immediately suggests that at the heart of the economy is the city and its markets and how they are governed. My fellow economists must ask themselves if we have this nexus of city-market-governance configured for the requirements of the 21st century?

The Answer is Immediately Obvious. We Do Not Have.

The Pakistani state can probably best be described as an attempt at the preservation of the colonial structures for continued ‘control and extraction’ now for the brown elite instead of the empire. Much of the legal system, the judicial system, and the executive and regulatory agencies continue to function as inherited. If any innovation was made in these, it was to introduce politicization and corruption. The shortfalls of this system are often measured in the *Ease of Doing Business* indicators of the World Bank. Sadly, these measures distract from the main point: the need to modernize the state — reform it into the 21st century.

How can you expect the city and the market that is organized by a state that is not only stuck in past practices but has also been distorted for personal gain to provide for the needs of progress and discovery? Our cities lack modernity and hotly contested spaces for various mafias, one of which is officialdom that enriches itself through controlling city land.

Similarly, the colonial state so used to ‘control and extraction’ gives considerable advantages to vested interests such as large industries and large landlords. Antiquated laws and judicial systems make transactions and businesses extremely complicated to the cost of growth and welfare.

Is it possible to expect this state to deliver the kind of institutions, laws, and governance system that the 21st century requires? If not, how do we expect good things like exports and taxes to increase?

The Colonial State Chokes Investment

This state imposes a substantial regulatory burden on the economy, which does not seem to concern my friends. We estimated in the *Framework for Economic Growth* that I developed in the Planning Commission in 2011 that this regulatory burden may be as high as 70% of the size of the economy. It is clear that the economy is laboring under the yoke of obsolete, unreformed, and distorted colonial governance structure. Yet this issue is not of central importance to the economist at large.

Frequently, commentator economists lament the lack of investment in the economy — the investment-GDP ratio remains at 15% of gross domestic product (GDP). In contrast, in India it is over 30%, and in China, it is 40%. Because these numbers are pronounced upon without understanding the economy’s structure, analysts seldom ask: “where is the room for investment?”

Dig deeper, and you will find that the colonial enterprise is holding back investment in more ways than one.

As I state in *Looking Back: How Pakistan became and Asian Tiger in 2050*, the state controls over 70% of the market. With that big a footprint, the market competition which is the premier driver of investment, is crowded out by the state. In addition, crony capitalism, which has captured the colonial state, is able to erect barriers to entry in the form of SROs (statutory regulatory orders, bureaucratic code for selective tax exemptions), protective tariffs as well as exceptional access to inputs. In such an environment, investors correctly find limited opportunities.

As if this were not enough, the colonial state lacked specialized skills to manage the requirements of the modern public good provision. Complex areas like energy and water management, city design and development, and regulating markets are clearly of a larger era and far beyond the competence of the 'control and extraction' civil service.

The accumulated losses resulting from the poor management of the economy have led to repeated fiscal and balance of payments crises. IMF adjustment programs have frequently been requested but with little success in managing a policy coherence for sustainable growth. This policy uncertainty, which again arises from the lack of professional management of the economy, is a deterrent to investment.

Sprawls Without Commerce and Investment Space

Physically too, space for investment has been severely restricted by the colonial hangover state. Modern city development was never a part of the colonial enterprise. They wanted people to continue living in old cities while the masters lived in airy suburbs. Natives had no need for the serious enterprise. They would have small shops, limited schooling, and limited space for modern activities. They needed to be controlled, and the only enterprise necessary was to extract for the welfare of the empire.

The bureaucracy and the army took over the role of the colonial state and immediately occupied the colonial habitations, and proceeded to keep the colonial traditions alive. At first, they tried to keep everyone where they were to maintain the divide between the brown sahib and the natives. With the relentless population pressure, they had to reluctantly give ground. They protected their colonial habitats, which by then had become the center of the city and were interfering with commercial development as well as with city mobility plans.

Tight controls on the building were kept, preventing the development of organized density, commerce, leisure, and even education. For decades, city demand for space for commerce, storage and warehousing, offices, education, leisure, mobility, and many other functions increased. These developments were forced into the informal sector through encroachments or poorly conceptualized colonial zoning violations. Even today, we are going through a cycle of litigation and demolishing encroachments that arose because of poor city zoning that sought to prevent the natural growth of cities.

The poor, commerce and other constituencies counted for little in the colonial model. But the growing elite, of which the bureaucracy, the army, and the judiciary were now a part, had to be accommodated. Responding to this demand as well as the availability of the car, the colonial

state allowed for suburban development beyond the areas they had inherited from colonialism. As a result, cities have expanded to giant unmanageable sprawls, with the centers being occupied by elite mansions and clubs instead of mixed-use high-rise development as in other cities of the world.

Choked Up Engines of Growth

Early development advice suited the colonial bureaucracies for it prioritized industrial growth, which policymakers conveniently put outside the city in industrial estates. They also derived further power since the development policy advice of the time emphasized planning industrial development through licenses, subsidies, cheap credit, protection, etc. — all of which were dispensed by the colonial bureaucracy.

The country has remained beset with this early development model refusing to see fresh developments in economics. Our Ph.D. economists remain rooted in the past of the planning models vacillating between prioritizing between agriculture and industry and looking for exports. Domestic commerce, services, and construction were deliberately repressed in an effort to develop what were thought to be leading sectors — industry and agriculture.

In 1996, the Nobel prize was awarded to Robert Lucas and in 2018 to his student Paul Romer. Both of them pointed to the engine of growth being the city, a place where people converge to exchange and share ideas, goods, money, services, space, and activities. Many thinkers have pointed to the city's importance in history as a crucible of innovation, entrepreneurship, knowledge, and creativity. *It has also been empirically demonstrated that cities are engines of growth are dense, walkable with mixed mixed-use, high-rise city centers.* Unfortunately, our cities are sprawl with colonial officials' estates and polo grounds in the middle. And sadly, this research has not reached our policy economists who sit on task forces.

Construction always leads development. Even today, markets are continuously watching leading indicators, many of which are based on construction activity. Go to any city in the world you will see tower cranes everywhere, many of them. A rapidly growing economy like China has sites like forests of tower cranes. Yet, most Pakistani cities have hardly seen a tower crane. Look around you, and you will see no tower cranes.

As analyzed above, in Pakistan, the continuation of the colonial enterprise has preserved colonial estates in the center of the city while also maintaining the colonial bias against enterprise in the middle of the city. To preserve this model, the colonial bureaucracy which controls the city has archaic zoning and building laws that are biased against density, walkability, mixed-use, and high-rise. Is it any wonder that the construction industry is not a growth industry in this environment? Can we expect to accelerate our growth without a strong growth of construction based on real city development and not this colonial sprawl development?

Unlocking Dead Capital

There is an opportunity for real and sustained growth acceleration and huge improvements in welfare if Prime Minister Imran Khan takes up the challenge of changing the city paradigm. He must uproot the colonial centers that are located in busy downtowns and allow high-rise mixed-use construction.

In most cities, city center land for urban regeneration is hard to get. The colonial enterprise has kept this precious capital inert for their private use and held back city development as well as employment and growth possibilities. It is time to make this dead capital work for us.

There is a tremendous opportunity that is possible. The key challenge will be how to do it right for maximum public benefit. As an example, consider Lahore has more than 10,000 acres of prime commercial land held by the public sector in various areas. We must use this land for maximum value creation and employment gains. My tentative calculations show the following possibilities for only the five GORs (Government Officers Residences), which represent about 4,000 acres.

- We can make about 35 high-rise mixed-use buildings like Centaurus in Islamabad, leaving more than half empty for greenery. Each costs about \$500 million, bringing the total investment required to \$17.5 billion.
- Employment in construction is estimated at about 5,000 people per building directly employed, and a similar number indirectly employed, bringing the total amount of employment created during the construction phase to about 350,000–500,000 people.
- Each building will employ similar amounts or more when completed.
- At an average height of 35 floors, this will be 225 million square feet of construction for all uses.

It should not be made a speculative play for trading. It should not be hijacked by qabza mafias. This land represents a huge part of city wealth.

My suggestion would be for all cities to create City Wealth Funds that should own this land and professionally manage these funds. Professional managers can develop projects and sell these as public-private partnerships on a “build, operate, and transfer” basis. This could be a way for the city to earn maximum revenue over a longer period. The time-bound nature of these contracts would force quick construction and returns.

Sadly, the Framework of Economic Growth (FEG) of the Planning Commission did present this approach to developing growth acceleration to the cabinet and parliament in 2011 and 2012. Though the FEG was approved, it was never implemented due to the opposition of the colonial bureaucracy to preserve its estates. It will require a strong government to do this and a good process to make this happen professionally, protected from politics.

If we want to progress, we must truly end vestiges of colonialism and move into the 21st century.

3.6. KILL TRANSACTIONS, KILL ECONOMIC GROWTH

Shopping malls are empty, consumer businesses are reporting losses in double digits, people are losing jobs while new ones are not available, and new investment is not happening. This is not a downturn in the economy. It is merely the culmination of amateur hour in policymaking that international donors and the bureaucracy have combined to develop for decades.

The thirst for taxation has driven the economy to the ground. Economic activity is now gasping for air.

Decades of research has clarified the principles of taxation, which are: A tax system must be simple and clear. It should not tax different goods and services differently to allow all consumer and investment decisions to be based on market realities. Tax rates and policies should be stable and not change in mini-budgets every few months, forcing all to speculate on tax policy.

Tax administration is a collection agency, not an intrusive and oppressive bully using the power of collection to ruin your life as well as extract rents from you. Systems are used to stop anyone from cheating the government, including the taxman. The taxman is not allowed to treat the citizens as thieves and bully them into submission or bribery.

In the last 40 years, the Ministry of Finance and Federal Board of Revenue (FBR) have spurned these principles. They have sought taxation like the medieval tax-farmers that kept their populations in perpetual deprivation. They tax whatever they can see arbitrarily. They call indirect taxes withheld income taxes with the full intention of never returning the withheld tax. They nurture the narrative of tax thieves for their countrymen to cover up their incompetence and venality.

The FBR collects little tax itself, having farmed out tax collection to withholding agents, banks, utilities, schools, telecom companies, etc. Yet, it has wide-ranging powers with no accountability.

As in medieval times, in modern Pakistan, those engaged in trade, entrepreneurship, and economic activity spent real time, resources, and effort to hide from this predatory and thoughtless government. In Pakistan, the informal market grew similarly, not as thieves or smugglers but as people looking to make a life for themselves beyond intrusive tax farming.

Thanks to the large-scale migration of people from rural areas to urban centers, the middle classes grew in every corner of Pakistan over the last 40 years. Government policy impeded that growth, but the enterprise of the migrants and their families generated wealth and commerce everywhere. Land values went up as the dispossessed now found wealth to buy a house and perhaps set up a shop.

This informal economy grew to provide the “tax hunters”—international donors, the finance ministry, the FBR, and their followers—with more excuses for predatory taxation. They raised the specter of documentation and apartheid between the filers and the non-filers. The poor migrants, building a life from a high propensity to save, are considered thieves and precluded from accumulating wealth by an uninformed and thoughtless policy.

The finance ministry and the FBR have virtually waged war against the small saver who is saving in real estate and the small trader who is making a living by setting up a small business for the last decade or so. Their allies in this fight are the prominent industrialists who were raised under licenses and subsidies, then thrived on state protection and bureaucratic favors such as tax exemptions and favorable input prices, and sovereign guarantees.

The upshot of all these policies is that the state is now taxing all manner of transactions arbitrarily while also imposing huge documentation costs. Real estate has been particularly singled out to virtually stop all transactions.

Migrants and small savers have for decades bought plots in housing schemes that the state promoted over the last five decades. Development was delayed by decades as collusion between regulator and developer defrauded investors on many levels. Thirty to forty years later, some of these schemes are maturing, not because of any effort by either the regulator or developer. The natural urbanization process made these properties valuable.

The government is now busy maligning this investment as thieving and informal. Without evidence, all the government wants to do is tap into the capital gains of small savers that have taken decades to mature. No apologies for the failure of regulation, for the failure of courts to guard contracts, and no punishment for malfeasant developers. Instead, the government is busy abusing savers and cheating them out of gains they waited for decades.

Similarly, people who have attempted to set up a small business are forced out of business by government policy or asked to contribute way more than they earn. Any entrepreneur rising out of poverty has to face the state's calumny by being called 'informal', another word for thief.

For example, Hafeez Center, a shopping plaza in Lahore, is full of clever entrepreneurs who adapt to market needs by providing software, computers, mobile phones, etc. Most of them are small shopkeepers with shops with a floor area of less than 100 square feet. Their business has dried up with the recent push against the import of mobile phones into the country as well as more harsh checks on the informal economy.

There are many such centers for small entrepreneurs in every city. I recently checked some of them in Lahore, and they are hurting for business. The prime minister is now saying that making money is a good thing and the rich should get richer. Why are those lifting their heads out of poverty being called names and targeted?

The government and its advisers need to change their analysis and make it more evidence-based. Here are three things that they need to do:

- First, they must understand that an economy is a set of transactions and more transactions mean higher economic growth.
- Second, it is a fallacy to think that the government knows which transactions are better.
- Third, taxing transactions beyond a simple general sales tax (GST) or value-added tax (VAT) is inefficient and counterproductive. It will kill transactions and slow down growth.

It is time that the government should stop making policy on rhetoric alone. There are no good or bad transactions. Nor is documentation a tax on transactions. The primary reason for much of the legal framework and government machinery is to facilitate transactions.

There is a clear need for the government of Pakistan to be a transaction-facilitating government rather than a transaction-blocking government. The economy is shrinking because of this policy of suspicion on all transactions. If the government wants to revive the economy, they should carefully review all policies to weed out those who are impeding transactions.

Policymakers should remember: kill transactions, kill economic growth.

3.7. GOVERNMENT FOOTPRINT ON THE ECONOMY IS 67%: PIDE ESTIMATES

By: Dr. Nadeem Ul Haque and Raja Rafi Ullah

For a second consecutive year, Pakistan's economy has failed to achieve its target for increasing investments. The investment rate currently stands at 15.4 percent of the GDP which is about half the South Asian average. Factoring in the rate of depreciation shows that net investment in the economy is negligible, or put in layman's terms, there is hardly any new investment in the economy. Successive governments have expressed their desire to increase the investment in the economy to little or no avail. The private investment that represents a major chunk of total investment is also chronically low at about 10 percent of the GDP.

Sector	Govt. Share in Sector (%)	Sector Share in Economy (%)	Govt. Share in Economy (%)
Agriculture	43.1	19.3	8.3
Manufacturing	11.9	12.5	1.5
Mining & Quarrying	79.6	2.5	2.0
Construction	75.0	2.5	1.9
Transport & Communication	73.4	12.3	9.0
Electricity Oil & Gas	77.6	1.8	1.4
Wholesale & Retail	7.9	18.2	1.4
Health & Education	49.3	6.5	3.2
Finance & Insurance	45.5	3.6	1.6
Other Services	60.0	20.8	12.5
Total		100	42.8

Although a range of factors amalgamates together to cause low investment rates, one reason that hinders private investment is the heavy **footprint of the government** on the economy. This has crowded out private investment. According to our estimate, the **total footprint** is as high as 67 percent of the total economy, something which is not apparent by observing government expenditure figures alone. (PIDE working paper)

In Pakistan, the General Government Expenditure is 22 pc of the total GDP. However, the government is much more than what it spends as it also controls nearly 200 State-Owned Entities (SOEs), many of which are large public companies also listed on the Stock Exchange. In addition to direct control of these public companies, the government also influences the economy through arbitrary changes to tax regimes in the shape of SROs and through regulations that restrict the growth of competitive markets in the economy or cause delays due to excessive time consumed in seeking permissions.

In 2011, while developing a new growth strategy for Pakistan, the Planning Commission estimated that the government controls 44 percent of Pakistan's economy through State Owned Entities (SOEs). Come the year 2020, the situation has not changed much, and if sectorial

percentage changes were taken into account, the figure still stands at 43 percent. The government is substantially involved in agriculture, construction, finance and banking, electricity and gas, and even in wholesale and retail.

Estimating the Government's Share of the Economy

In addition to what the government directly influences, the regulatory frameworks in Pakistan add to the growing footprint of government on the economy. Businesses in Pakistan face high transaction costs, excessive paperwork, barriers to trade, and lengthy delays in getting permits. This is reflected in the country's percentile ranking on the Worldwide Governance Indicators' 'Quality of Regulation', which ranks Pakistan in the bottom 30th percentile worldwide. Moreover, the country is ranked 108th for 'Ease of Doing Business' by the World Bank. For instance, it takes an average of 9 procedures to gain a construction permit for a warehouse in Pakistan, and the associated cost of these procedures is around 8.8 percent of the total warehouse value, which is the highest in South Asia. Another example of a cumbersome compliance systems for businesses is the tax payment system, which involves excessive paperwork and a plethora of paper and online procedures. It takes an average of 283 hours and 34 procedures per year to file all taxes in the country compared to the world average of 233 hours and 23 procedures per year.

The aim here is not to criticize all business regulations as some regulations are necessary to make markets function. However, there are many that make transactions difficult and inhibit competition. The latter adds to the regulatory burden and increase the government footprint in the economy while the former facilitates markets to create competition, jobs, and growth.

Estimating the cost of regulatory burden is a more complex process than estimating direct footprint. Nonetheless, we at PIDE estimate that unnecessary government regulations cost the Pakistan's economy an average of 24 percent of the GDP. The methods behind this calculation, among others, are explained in our recently published PIDE working paper. Thus, with 43 percent as the government's direct share in the economy and 24 percent as the cost of compliance with inhibiting regulations, puts the total footprint of the government on the economy at 67 percent.

A significant facet of the government's footprint , which we have not included in our estimates, is the share of the government in the economy through ownership of public land. One example is the government's ownership of the prime real estate in most Pakistani cities used for government offices and for providing housing to public officials. If the opportunity cost of such land ownership is taken into account, the government's footprint in the economy increases further.

Given the high government footprint on the economy, private investors have little space to operate. In such a scenario, there is an urgent need to reduce the government's footprint through; privatization of loss-making SOEs and doing away with unnecessary regulations that inhibit the growth of the competitive private market or curb efficiency in any manner.

3.8. BUILDING SOCIAL CAPITAL!

The Framework for Economic Growth (FEG) that the National Economic Council approved in 2011-12 was never seriously pursued by the bureaucracy and has since fallen into disuse (never discarded through the due process) was a program of reform for unleashing the productive potential latent in the economy. FEG importantly noted the development of the much-neglected area of “social capital” as an important cornerstone of the reform program.

“Social Capital” is the potential for collective action among groups and individuals in society. It implies a high degree of trust, networking ability, and capacity for teamwork and collaboration. For example, the collaboration capacity among the US research and university system gave birth to the internet. The industrial revolution and the success of Europe in attaining economic advance and conquering the world have been attributed to the development of a network of merchant towns and collaborative science across Western Europe.

In Pakistan, relationship capital sometimes exists in ‘biradaris’ and extended family contexts. The level of trust and collaboration outside such historical relationships remains low. This is severely limiting as large ventures require high levels of social capital. Historically trust networks led to the development of long-distance partnerships and joint-stock companies that were able to leverage way beyond local jurisdictions and conquer the world.

How did Europe develop social capital, and despite our many claims to history manifested so well in our monuments, we could not create an East India Company or Royal Society or a stock exchange? Broadly speaking, the answer lies in the development of the urban middle class that had cut its rural roots and developed new forms of associations such as clubs, trade, and professional guilds, schools, universities, and many other forms of collaboration. Through conscious development of an esprit de corps, discipline, and team sports, English Public Schools prepared the Company administrators who ruled us for over 200 years.

While we have learned to pay lip service to enrolment ratios and school attendance of low-quality literacy, we have yet to understand the value of social capital. Even when we get school or college completion, questions remain about the attitude to discipline, collaboration, responsibility, and accountability. If our leaders are any evidence of this, we can certainly see that all elements of social capital are at very low levels.

My dream in the FEG was to take some initiative for social capital. I knew big steps were difficult for the level of comprehension in the cabinet and among ministers was very low. Indeed presenting the framework in the cabinet confirmed this collective comprehension deficit. All they wanted was the ‘fat’ in their projects.

Several approaches are needed. The one that I tried to initiate was something like this.

I dreamt of an innovative Community Center in every urban locality (*Mohala*). The premise was something like this. A place where the whole family can come in and actively engage in creativity, teamwork and knowledge development etc. with neighbors and strangers. This would be better than sending kids only to school in some sense. The involvement of parents and the whole family could set up currents and eddies of knowledge, creativity, collaboration, and more that would cultivate kids way beyond our deficient education system.

The community center must be a very attractive, flexible space that adapts to multiple needs and facilitates activities. One such configuration is a 6-floor building. If possible, land in front of the property (1/2 an acre) would be dedicated to a flexible playground with volleyball, basketball, badminton, etc.

A basement would contain auditoriums and meeting rooms that could be booked for meetings and events for a nominal fee.

- Floor 1 would have a subsidized cafeteria and coffee houses for people to sit and chat in. Such places have been shown to be great for developing ideas, innovation, and networking among people.
- Floor 2 would be a flexible space dedicated to women's activities such as games, support groups, self-help, learning, etc.
- Floor 3 would be a similar flexible space to organize men's activities of various kinds
- Floor 4 could be a flexible space for the whole family to engage in activities together.
- Floor 5 would be a library and networking space with high-speed net access.
- Floor 6 would be dedicated to net learning, where Khan Academy and MOOCs would be organized in sessions to draw the whole family in.

(Important caveat DMG will have to allow the height restriction because this cannot be done on a 2 level building that they love.)

The point is to create a space where families can be involved in creative interaction and play. The different spaces should allow enough activities to attract all in the family at different levels.

On each floor, there will be counselors who will try to guide and develop activities in collaboration with active participants. The counselors should be handpicked to be the brightest young people, graduates of our finest universities and fresh graduates of foreign universities. They would be given a good salary with a 2 to 3-year tenure. More importantly, this should be a challenge for them, and they should be ranked on a competitive basis. Experience at these centers and a positive recommendation should be a big plus in their future ventures.

The counselors and their creativity would be an important cornerstone of this program. Activities could be competitive such as creative games, fitness programs, talks, internet activities, Khan Academy and MOOC courses, etc. Groups of Counsellors would meet and share experiences within the center every week and across centers every month.

My view is that the center usage should be on a membership basis although there should be a government subsidy for developing community spirit and social capital. Yet a membership charge and some activity fee would help select more serious, interested people. But the membership should not be selected like our elite clubs where it becomes friends and relatives only and restricted. The government subsidy should ensure it is for everyone and not just some select segment.

This is just one initiative for building social capital. If we have a string of these well-managed embedded in the community, many people will develop a variety of skills and knowledge. More importantly, the process is likely to lead to a lot of innovation and further theme development. Social capital will develop as a result of this positive feedback.

What a pity, this was not allowed to happen. Worse still, it never will happen!

3.9. WOULD YOU INVEST HERE?

Whether there is a Dharna, a flood, or a leaky Fawcett, ‘analysts’ are quick to point out economic consequences. When the flood of 2010 happened, the FM would sing this story of how Pakistan has suffered, and the donors loved it. Their doleful expressions and our FM’s heartbreaking story (meant to cover our policy failures) outdid Hollywood pathos in real-time. Some donors actually pushed us toward the hyperbolic as their business thrives on country misery. Of course, all the government wanted was more money to alleviate the pressure of hard policy decisions.

Now again, we are counting the economic impact of Dharna, ranging from 300 to 600 billion. Again all manner of hyperbole is being used to estimate this cost. With Nominal GDP at about RS.25 trillion, output per day is about RS 68 billion. Recent political shenanigans have lasted about 20 days. If the whole country stopped working for 20 days, the total cost would be about Rs 1.3 trillion. Now think about a few thousand people holding a circus in Islamabad, what percentage of national output could they affect. Maybe two or % at best! Could it be over 50%, as some of these estimates imply?

Then there are those who say that somehow these events have increased the political risk and hence are going to hold up investment. Once again, the desire to read the crystal ball and pronounce daily forecasts! I am sure many donor consultants will produce reports to justify such thinking.

One way to think about it is to look at the global competitiveness report that has just come out. This report was prepared before the Dharna, and hence measured the state of the economy before it.

Would you invest in a country that ranks at 133 out of 148, with one being the best? If you look beneath the headline number, you find that in terms of property rights, this country ranks number 123. Is your investment safe?

Look further, and you find that violence ranking is even closer to the bottom at about 140 out of 148. How is the government responding to this situation? Well, it seems nepotism prevails with the ranking for that 130. Moreover, the government is wasteful, ranking at 116. And it provides a legal framework for business that ranks at about 112.

What about the macroeconomic environment and macroeconomic policy? Well, the average of 5 indicators charted this country ranks at 127. Even in health, this country beats many African countries in terms of Malaria and Tuberculosis and their impact on the economy. Primary education quality and enrolment, the country ranks at 116 and 137.

The story does not change when we look at higher education. Kids are being very poorly prepared for a highly competitive environment. Markets are poorly developed with a weak regulatory regime and not favorable to competition. Entry into markets is not easy, with the high costs of setting up a business. Most surprisingly, the country is not open, ranking in the 130s on tariffs and trade. Corporate governance does not look good with the Efficacy of Corporate Boards at a ranking of 123 and delegation of authority at 122.

If you are already losing interest and saying, “this is easy, no one should invest here” you will be right. And this indeed is what both local and foreign investors are and have been saying

for many years. Domestic investment has averaged 14% of GDP, and foreign investment has averaged USD 1.6 billion. This is the picture of Pakistan as it emerges from the very respectable Global competitiveness Report!

No short Dharnas will change this trend. Nor will investor conferences, foreign visits and government pronouncements. Global rankings are available for all countries, including Pakistan. All countries are being measured all the time. Investors –both Pakistani and others—are very sophisticated and go where the economy looks attractive as measured by such rankings.

Changing a countries ranking requires sustained good policy and reform by a committed government. Reacting to the event of the day is mere crisis management. Perhaps it is time that the government got to serious work building an economy with property rights, effective government, a market-friendly legal and regulatory system, an open and competitive economy, a modern corporate culture, and an education system for the 21st century. Commentators also need to get away from daily crystal ball gazing and hourly pronouncements of aid to look at how to build an economy.

So when you see a donor consultant report quoting absurd figures for the cost of some recent event like a dharna or a flood, remember there are better uses of time and paper. Pakistan has not yet built a modern economy, and no economy turns on a dime.

I dream of the day when Parliament will debate these rankings and determine a way out. Perhaps then debates would be more meaningful and less personal and contentious. We tried with the Framework of Economic growth as a footnote, but the donor-FM dance of funding and consultant reports was too distracting.

3.10. MAKE WAY FOR CARS: NO ROOM FOR KHOKHAS

There were small kiosks (khokhas) all over Lahore when I grew up. Vendors on bicycles and foot used to hang around our houses and schools. As kids, they offered us many delights from spicy concoctions (chooran, Chaat) to puzzles and other toys such as tops. Craftsmanship was on offer. A spirit of entrepreneurship was displayed.

This was when the city was compact, and most of us walked or biked and as a result were somewhat lean. Roads and sidewalks were lined with khokhas. The sidewalk indeed was a public space where community interaction happened. People walked, haggled, and interacted.

Then came our romance with garden city suburbia. Bureaucrats, both civilian and military, learnt that plotting was profitable and began a horizontal expansion of the city. To them, distance did not matter since public sector picked up their car expense. Besides, downtown development was theirs to stifle so that suburban values would go up. And they got those suburban plots for a song. So they could pocket substantial capital gains. And tax-free too!

Suburban expansion and stifled downtown development eventually fueled the demand for cars. A rent-seeking domestic industry developed to provide cars with yesterday's technology. But the people were forced to buy them as policy gave them no choice.

But cars are such a necessity in this suburban model of development that anyone who can afford one has to keep one no matter how old or beat up. Or at least you need a motorbike. As cars grew in number and suburbs spread, more and more money was spent on making roads and broadening them.

This resulted in 3 negatives for Pakistan.

- (1) Valuable agricultural land developed though harnessing rivers at a huge price is being converted to housing colonies.
- (2) The spread of the city has increased our car dependence. In turn, our car dependence has increased our oil bill and is rapidly increasing our environmental costs.
- (3) Most importantly, the car has displaced the sidewalk and the khokha.

In addition, since all policymakers have free cars with chauffeurs, they have absolutely no incentive to develop public transport. Only a political leader like Shahbaz Sharif forced the issue and developed Pakistan's first post-independence public transport system in Lahore. (we used to have public transport in colonial days.

Through 3 governments, I have tried to put together a policy for khokhas and sidewalks but with little success. The bureaucrats are opposed to this. Unless perk/plot/protocol culture is removed, they will remain married to cars and plots. After all, they benefit directly from these.

Whenever I go overseas, I am amazed at the opportunities that khokhas offer. Constitution Avenue, the heart of Washington DC, has khokhas, some of them, operated by Pakistanis. Right next to the White House there are khokhas. Manhattan is full of them, and Wall Streeters frequent some of these for a quick lunch on a nice sunny day.

The far eastern cities are littered with khokhas everywhere, and shopping and eating there is a tourist attraction. They even have dedicated buildings with khokhas in them—small stalls where poor entrepreneurs work hard to climb up the social ladder. None of these khokhas are

unattractive or filthy. The government has a regulatory and licensing framework that ensures certain quality standards. This makes visiting khokhas attractive and offers the poor opportunities for entrepreneurship.

All governments give us the usual youth and poor incentive schemes based on handouts or loans. Microcredit has mushroomed. But no one has given thought to opportunities for poor entrepreneurship. Without space to invest, what with do with an incentive or a loan. Cities become inclusive and humane when policies like this are adopted. This is why the Framework of Economic Growth (FEG) of the Planning commission of 2011 highlighted city development.

However, this reform is quite unlikely to happen unless our city planning paradigm based on plots/perks/protocol is changed. Following the FEG, we must discontinue our suburban garden city approach to city development. But unless the system of rewarding through plots is discontinued, this will not happen. This is one of the reasons that the FEG linked civil service reform with city development.

Politicians see the vision because they know that this is a vote-getter. However, they are unable to push this bureaucracy into making the change. Now, do you see why change must begin with the elimination of perks/plots/protocol?

3.11. HOW IMPORTANT IS TRADE WITH INDIA?

There is a lot of noise on how the only thing that will save Pakistan is trade with India. On bended knees, we should beg. The donors have spent over 10 million dollars on buying out all our leading intellectuals on worthless studies that state the obvious conclusion that they want that trade with India will be good for us. They have another ten million+ to spend on this subject. So whatever you read by people know that it is not freely written.

But do not get me wrong! I am all for trade with not only India but with everyone. I have been for it forever. As an economist, how can I disagree with openness? That is the fundamental tenet of economics that has been established since Adam Smith and David Ricardo in the late 18th century. But openness means trade with all. Indeed Pakistan should be open to trade with all, including India.

But the rhetoric is that it will be a panacea for Pakistan. Fantastic numbers are quoted with no basis because there can be no basis for a situation that has not happened. Besides, we have possibilities of trading with everyone else. Why is our trade/GDP ratio not growing even though we have openness with many other countries, like Iran, Afghanistan, Central Asia, and the Gulf? So some structural impediments are not letting trade work. And they will be there even if we do trade with India.

Yet a large number of conferences, op-eds, and media headlines are yelling all manner of grandiose claims on trade with India. Ten million dollars will buy you a lot of claims on the subject.

Interestingly enough, while we are spending 10 million dollars on this subject (and it is our money since it comes from aid committed to us), we have no money to study energy, governance, pricing, deregulation, and many other such subjects. All our bets are on one issue trade with India, which I find surprising as a policy analyst. Like in life, the policy also must seek a multipronged approach for building an economy and society.

Let us look at the issue a little more closely. India is a large country with many states, some larger than even our Punjab. There are no trade barriers there. So one would expect that all states will benefit from the union of India. All states will be growing at the same rate and converging to the same level of welfare. Over 60 years, equalization would have taken place.

In a recent paper, Cherodian and Thirlwall look closely at the data and after much econometrics found that “regional differences in gross State domestic product per head in India have continued to widen” through the last six decades. Even if they control for various policy and other state-controlled variable as well as resource endowments, they find that disparities are widening. They find that without state reform and development efforts, Indian integration or trade within India is not enough to get the poor regions to catch up with the richer regions.

If the trade has not helped the poor Indian states to catch up with the rich, why is there such grand expectation of it? Why are we willing to postpone domestic reform and wait for trade with India? Perhaps the donors will use some of their dollars to tell us why this is so?

Economics 101 affirms that openness is important. It opens up a highway. But the highway is only useful to someone with a nice car, a smooth powerful engine, a good driver, gasoline in the tank, and passengers ready to travel. If we have a poor quality car (poor governance),

amateur driver (nonprofessional, non-research government), no energy, and all the passengers living of SROs, who do we expect the car to move well on the highway. We can continue to ask for more openness but let us not forget domestic reform.

In fact, domestic reform must be our top priority !

3.12. ECONOMICS IN PAKISTAN

The tragedy with economics is that everyone is an economist. At gatherings, several people are pontificating on how the economy would pick up if only we would make sure that everything works well. Economics to these people is just wishing—just say all that you wish should happen and expect it will. So, fix the economy, and all will be well is the usual prescription I hear. Our education system has not taught them tautologies!

Such speakers will say in one breath, build Bhasha, Kalabagh and several other dams and several coal based plants and then import LNG, educate all, export more, expand industry and agriculture especially horticulture, develop more infrastructure. These speakers will not stop for a minute to think that most of these are objectives or wishes of things to happen. To make these happen, we must think of processes on how to make them happen, the instruments that we have at hand, if any to make them happen, financing if required, and most important of all the human skills and incentives that will make them happen. But unlike economists, speakers and columnists of this variety will assume that instruments, capacity, and financing for their wish lists exist.

Another group of economic pontificators only think fiscal deficit and stabilization. For them, every speech/column is lamenting the fiscal situation and presenting a single item remedy—increase taxes. They seem to have confused economics with accounting. Expenditure minus taxes is the fiscal deficit. Since the deficit has gone up and they feel that expenditure should not be cut down, let us collect more taxes—simple arithmetic.

Column after column, speech after speech, this arithmetic is repeated. If you ask a few questions like fundamentalists, they turn on you to shout out a defense of their arithmetic. Why not cut expenditures? Can you not see that social sector spending is so low, public investment is low, debt servicing is high! More arithmetic!

Of course, the slightly more erudite will very cleverly argue, “How will you finance your deficit?” Print more, and you will increase your inflation rate, and we do not want inflation. More debt is not possible since we are already way beyond our self-imposed debt limit, still in arithmetic mode. And, of course, there is the constant reminder of our reserves and declining BOP situation—more arithmetic.

Then, of course, some will vociferously argue for subsidies to industry and exports; after all there can be no growth without this. Is that not what East Asia did? This is the model of the sixties that these people are clinging on to without realizing that the world has changed. Nor do they know that each country’s path to development is unique and mimicry wins nothing.

There is another tiresome refrain, “we know all the solutions and all we need is implementation.” When you ask them what is it that you know, they will hand you their wish list and ask for its implementation. It is like wishing to be a Wimbledon champion and asking someone to implement your wish.

Economics is not mere accounting or arithmetic. Nor is it wishes. Nor is it static, stuck in the sixties. Nor is all known. Anyone following the global crisis will be stuck with the complexity of the problem. The world’s best minds are involved, and solutions are far from obvious. So a little humility is in order. But not our know-it-alls! Without research, thought, and reading, to claim that we know all is very dangerous and should be shunned.

These people need to understand that economics is most importantly concerned with understanding human behavior at the individual and group level. People individually or collectively develop responses to their environment to maximize their own, their family's or their groups' welfare. The environment is largely the manmade frameworks of laws, regulations, systems of governance, market organizations that humans operate in every day. The varieties of these responses make up what we know as GDP in the economy.

If GDP grows, it lifts welfare in general. It also provides the government with more operating room, allowing space for more debt and deficits while also inducing more tax revenue. Most economies think of ways to increase growth for good things to happen. But our accountants/economists are focused merely on stabilization, accounting, and arithmetic.

Those who want growth cannot have growth through wishing for all good things. If only we could trade regionally from China to Kazakhstan to Sri Lanka. If only we could build a solar station on mars and give all manner of subsidies to industry and exporters. Growth does not happen like that.

We know now that growth happens when the institutional/incentive framework is conducive to people's efforts to innovate and engage in entrepreneurship in open competitive markets. This is clear. However, operationalizing this statement is a considerable research agenda. No one can claim to know what is it that needs to be done.

We can now start researching and learning and see how we can create the winning institutional/incentive system. It will have to be a slow learning process, and one that we will have to continually research and tweak for this system is high maintenance and needs constant attention.

This is why I have been writing for over two decades on why and where our economic system needs change. This is why serious economists argue, the government should stop chasing money, wish lists, false targets, and yesterday's models. Instead, it should focus on economic reform to make a system of incentives and property rights conducive to economic growth. But this cannot be done while thinking that we know all and that we can be mere monkeys mimicking some distant country.

Instead, this will mean serious research, serious debate, serious humility at every level—bureaucracy, politicians, and thinkers—an acceptance of our ignorance.

In their speeches and columns, serious economists should discard the outmoded method and start developing ideas on understanding our economic system and educating the rest of society on how to think afresh on the economy.

The Framework of Economic Growth (2011) of the Planning commission could be one such point of departure. It deliberately talked of only a small number of linchpin reforms that underpin the rent-seeking system and can disrupt it. It should be understood and discussed more widely.

3.13. WHY ARE APPOINTMENTS IN PAKISTAN SO BADLY MADE?

People are perplexed about the economy. One way of looking at the economy is that it is the aggregate of all economic decisions taken in a period. If the government is run on archaic principles with poor decision-making, don't expect great economic outcomes.

The government's human resource management process is at the heart of the slow growth in our economy. Think about it. Let me give you some food for thought.

All appointments in Pakistan's public sector are highly centralized. The refrain is that we cannot trust appointments to be decentralized, for there will be poor quality appointments and possible corruption. Hence the rationale for secretaries and bureaucrats to be on all governing bodies of public sector enterprises, including universities, think-tanks, and other non-profits. Meanwhile, the principal accounting officer of all these bodies remains the secretary who does meddle and vitiate the authority of the board and the CEO. The result is that we have a system of diffused responsibilities so that no clear goals or business plans in any agency or organization.

Why do we cling to this system when the results have been atrocious? No, I am not exaggerating. The results have been atrocious. Public sector enterprises have been poorly managed and are bleeding at over Rs. 500 billion rupees annually; universities and all educational institutions continue to be poorly managed; and most government nonprofits, as well as regulatory agencies, are treated as parking lots for retired bureaucrats.

All board and all senior appointments everywhere are made directly by the PM. Positions lie empty for months, even years. Files are sent to PM offices where they wait for months and all manner of bureaucrats' advice on those appointments, and even then, a poor outcome emerges most often. Politics and other motives then contaminate this appointment process.

Then there is the fiction that all positions must be advertised and interviewed. Who will interview with the secretaries? It is not surprising that all advertisements produce no serious appointments. Serious professionals do not want to be treated poorly, subjected to an interview by non-professionals, wait to hear the PM office for months, and more than likely learn that some retired bureaucrat was preferred. And if you do get the appointment, you will never have an independent charge since the secretary, and all manner of people will interfere. And, of course, the PM has arbitrary authority to fire you at will.

Then there is the fiction of salary. A big deal is made out of the MP1. It is all told about Rs. 3.5 lacs which is just about the rental value of the house that most grade 21 and 22 bureaucrats get. And, of course, these MP1s have no right to a plot which all the bureaucrats get. Not to mention the myriads of other perks as well as lucrative board appointments.

To add insult to injury, MP1s have contracts of 2 years which have to be approved/extended by bureaucrats—a committee of secretaries headed by the Finance Secretary. Often MP1s are waiting for approval for months without salary. And often they leave with many months' salary owed to them.

The fiction in all countries is that we serve at the whims of the chief executive. But in reality, that is not true. Obama cannot fire people at will or transfer them from Utah to Nebraska on whim. Recall when his administration was being set up, there was a panel of staffers who were "recommending" serious candidates and if commentators are to be believed, Obama had limited say in the process.

And some appointments the chief executive does not even get into. Prime among these are vice-chancellors and professors who are appointed through systems in academia without involving government or its functionaries. PSEs should be run like any company by their boards and held accountable to their bottom line.

It is time that the human resource management (HRM) in government was taken seriously. The fiction of PM making all appointments may be kept, but the PM must not get involved in more than choosing his ministers. The rest of the system has to be developed such that serious professionals can be brought in and not be totally subservient to secretaries. Indeed the secretaries' grip over the system needs to be loosened.

Better HRM is the key to development, and we must learn that. US has led the world by developing an HRM system that attracts the best talent from all over. They are ready to pass a new immigration bill primarily for this purpose. Our archaic system must change!

Can we expect good outcomes from a system that is so poorly managed?

3.14. ESTIMATING THE FOOTPRINT OF THE GOVERNMENT ON THE ECONOMY

The Planning Commission Framework for Economic Growth (FEG) established that the footprint of the government in the Pakistan economy was very large. Often people note that government expenditures as a percentage of GDP are only 22%, and therefore, the size of the government in the economy is not large. This line of argument is again used to establish a basis for arguing for increased taxation.

The FEG noted that the percentage of government expenditure in GDP was not the correct measure of the influence of government in the economy where the government is

- (1) Still controls a large number of Public sector enterprises (in fact, the largest companies listed on the stock exchange are largely owned and managed by the government).
- (2) The government still engages in many market transactions, often as a dominant player (e.g. energy, construction commodities, etc.).
- (3) An aggressive tax subsidy policy and tax expenditures (SROs) direct market activities even at the cost of excessive barriers to entry.
- (4) A regulatory framework that often inhibits investment and market opportunities (the most egregious example of this is the serious hurdles in the development of the construction industry and city development).

With this in mind, we calculated the *footprint of the government* based on the contribution of government in all sectors of the economy, which is measured by government spending, earning of government institutions, price support subsidies, and based on market share in these sectors. The final results of the calculation are given below.

Table 1

Size of the Government Foot Print

	Govt. share in sector	Sector share in the economy	Govt. Share in the economy
Agriculture	43.06	20.91	9.00
Manufacturing	11.90	18.70	2.23
Transport and Communication	73.38	9.99	7.33
Electricity and Gas	77.63	2.20	1.71
Wholesale and Retail	7.90	17.20	1.62
Health and Education	49.26	12.29	7.17
Public Admin and Defense	100.00	6.60	6.60
Finance and Insurance	45.5	4.50	2.03
Construction	75	2.51	1.88
Ownership of Dwellings	100	2.70	2.7
Mining & Quarrying	79.6	2.40	1.91
Total		100.00	44.17

In this calculation the share of government is **44.17%**, out of total GDP. This is what the government directly controls in the economy. The decision in these areas is dependent on the government.

In addition to directly influencing the economy, governments also use regulations to control the direction of the economy. These regulations can be in the form of wage control, tariff, and non-tariff barriers, regulations for starting new businesses, and legal framework as an obstacle to competitiveness etc.

Calculating the regulatory burden is a complex exercise. For the US, the regulatory burden accounts for 8% of the national economy. Kaufmann, Kraayand, and Mastruzzi (2010) have come up with Worldwide Governance Indicators, which also look at the effectiveness of all the regulations in every country (Regulatory Quality index). The index includes all the variables needed to calculate the regulatory burden. The US gets a score of 89.5 out of 100 (higher is better), whereas Pakistan gets a score of 33.3 out of 100 i.e., Pakistan's regulatory burden is at least three times as much as the US (assuming an unrealistic linearity).

Here we will consider Pakistan's regulatory burden to be only twice that of the US to make our point. Crain and Crain (2010) have estimated this cost of regulation to the economy to be about 8% of GDP. By this reasoning, we can expect Pakistan's regulatory burden to be about 16% of GDP. In other words, trade barriers, obstacles to investment etc., are **costing Pakistan's economy 16% of its GDP**. I may also add given the reasoning that we have presented in the FEG on the manner in which city development, the services sector, and the construction industry are held up through bind regulation, this is likely to be a significant underestimate.

However, for discussion purposes, let us add the two together we can find an estimate of *the size of the government footprint on the economy to be over 60% of GDP*.

3.15. SOCIAL CAPITAL IN PAKISTAN

Pakistan is a society that seems to have lost self-confidence and self-esteem. Opinion pieces are beginning to recognize that what drives us to failure may lie deep in some intangible factor in ourselves and our society. Shafqat Mahmood writes in a column entitled, **“The absence of morality” (Jan 29, 10)**

“We are a deeply religious people. We even have it in our Constitution that no law would be made that is not in conformity with Holy Quran and Sunnah. And we don’t just leave it to a verbal commitment. The attendance in mosques for prayers and at other religious occasions is large and growing. And yet, how do we explain this moral vacuum within? Morality is a luxury in our society. Pragmatism a necessity.”

Ayaz Amir writes in a column entitled **“A governing class which makes one cry” (Jan 15, 2010)**

“Odysseus would have had to revise his understanding of patience were he to have undertaken his voyages in the salubrious climate of the Islamic Republic. Adversity and facing up to it are part of the human condition. But the consistent ability to make simple problems worse and invent new problems all the time is a distinction that sets us apart from many other countries in what used to be called the Third World. RAW and Mossad, in their wildest imagination, can’t do to us what we are capable of inflicting on ourselves. We just can’t get things right, and governance or administering things seems to lie wholly beyond our collective ability or our collective endeavors. Yes, we face a challenging situation that would have taxed all of Odysseus’s cleverness to fix. But what explanation for the collective death wish which seems to afflict our governing class, from one end of the spectrum to the other?”

Many countries have become failed states despite many attempts at modernization, economic aid and all manner of nifty economic policies. Learning from these failures, several important thinkers have been turning to new concepts such as “social capital!” We are all cognizant of the importance of physical capital—factories, roads, construction, etc.—and our current measure of investment in national accounts only measures this form of investment. “Human capital” is also now very well known but often thought only of schooling and measured purely in terms of years of schooling or numbers of schools with very little measurement of quality. The third form of capital—social capital—is little understood, very difficult to measure, and not easy to define rigorously. It has been defined by Fukuyama as ‘Social capital can be defined simply as the existence of a certain set of informal values or norms shared among members of a group that permits cooperation among them.’ Putnam defines it as ‘features of social organization such as networks, norms, and social trust that facilitate coordination and cooperation for mutual benefit.’

To me, what most Pakistanis are talking about is a sharp erosion of social capital in Pakistan that most of us have witnessed in our lifetimes. Increasingly we lament the lack of trust or loss of a moral compass, or the inability of Pakistanis to cooperate.

I recently completed a small survey among Pakistani immigrants in Dubai to look into this issue. These are mostly poor people who have migrated under challenging circumstances to escape poverty and lack of opportunity at home. They represent the poor but enterprising Pakistani who has shown the ability to understand and seize a migration opportunity often at considerable cost and hardship. The sample contained people from many different backgrounds (taxi drivers, waiters, shop assistants, clerical employees, etc.) and from all provinces in Pakistan (Sindh, Punjab, Baluchistan, and KPK). They go to Dubai without families and save about 90% of their earnings to remit to their families. For 30 years, Pakistan has been using these remittances to sustain an otherwise unsustainable exchange rate and Balance of Payments situation.

To me, the views of these fairly representative but entrepreneurial Pakistanis are very informative of how the best of Pakistanis are thinking of our society.

Social Capital: What ordinary folk think (98 immigrants Dubai)	
Proud of Being Pakistani	16
Pakistanis at Fault	72
Work Together	22
No Trust	69
Faith in State	12
Faith in Leadership	7
Pakistani Education Valuable	19

If this data is to be believed, people have lost national pride and have little faith in the government, the state and the leadership of the country. But what is more worrisome is that Pakistanis seem to lack trust and the ability to cooperate and work together. The lack of pride in being Pakistani seems to come from this consistent lament that I heard that it is our fault that we cannot find better leadership and better governance.

As a side note, many of these immigrants had received several years of Pakistani schooling in government schools. They were very critical of that education, often saying that it was a waste of time.

I would love to hear your own personal observations on Social Capital in Pakistan.

3.16. THE FORGOTTEN SECTOR: DOMESTIC COMMERCE

It has been eight years since the minister of commerce accepted my advice and research and announced that the Ministry of Commerce also undertakes some work on providing a supportive policy framework for pulling domestic commerce out of its suffocating state. He had also announced that the Ministry of Commerce would produce a “State of Commerce” report annually.

At considerable expense, consulting reports on domestic commerce were done. But then where is the “State of Commerce (SOC)?” When will the MOC have that?

The following outline for the SOC was agreed upon between the MOC, DIFD, and the UNDP. The report was to consist of 2 sections with 11 chapters.

The first section was designed to cover external Trade. MOC agreed to speak to the country’s competitiveness, develop local indicators and analyze trends in competitiveness to determine the appropriateness of policy and regulatory framework. In understanding competitiveness, MOC would also analyze the appropriateness of the macroeconomic framework (fiscal policy, interest rate, and exchange rate, etc.), the benefits and the costs of regulation, and the quality of public service provision (electricity, roads, railways, legal framework, set-up costs, etc.).

Note MOC will not be able to affect most of these indicators directly, but through the development of these indicators, it will be able to identify the impediments to commerce in the country. Then through public dissemination, it will be able to develop a dialog for change. In any case, the discussion of subsidies and incentives can be put in the perspective of true business costs. For example, if there are huge regulatory barriers and legal framework problems in doing business, then an interest rate or a transport subsidy is not the appropriate instrument for generating commerce.

For too many years now, we have offered to many industries such as cars through banning or placing high tariffs on competitive imports. MOC would do well to explain this protection policy in a clear transparent manner and tell us how consumers are being taxed for this protection. By giving us a complete picture of protection policy and the costs and benefits of such policy, MOC could develop a discussion of the maintenance of protection policy.

Similarly, many industries are offered subsidies without any transparent public debate. The SOC should provide a tabulation of all subsidies and incentives that the government is offering. The second main section of the report covers domestic commerce. Internal commerce is the key to economic growth. Developing high margin and high value-added products could lead to an acceleration in export growth. Most of our employment is in this area, and most of the poor find refuge in this area. Yet MOC explicitly neglects this area. MOC needs to develop work in this area and deepen it over time. This is an area that is crying out for attention. Sectors such as retail, wholesale, construction, storage, and warehousing, transport, agricultural inputs, and commodities are so underdeveloped that better policies, more information, and clearer directions could have a huge payoff.

Understanding the current structure of market regulation in Pakistan, we will attempt to quantify the cost of regulation and its effectiveness. Through this analysis, we can attempt to

understand regulation policy as well as competition policy. It is imperative that the MOC produce this report, and the media and intellectuals must push for it. Only then will we learn what is happening in the economy. Currently, car import policies are changed at will, and with no transparency' the resulting tax burden on the population is unclear. Subsidies are again announced with no transparency or analysis. We have no idea about the state of regulation that prevails in our markets.

Domestic commerce, where most of our employment is and where most of our poor are situated, remains an orphan child of our economy. We have no serious construction -- no tower cranes, no large projects. We have no retail chains or serious departmental stores. We have no hotel chains other than Pearl. We have no warehousing or grain storage of any consequence. We have no shopping malls. We have no leisure industry. The list is long.

I ask you in the 21st century, why do we not have these major activities to help increase employment and reduce poverty. Because our ministries have no serious thinkers and idea makers. Because the donors are not serious about development. UNDP and DIFD hired the consultant who recommended that the MOC should be restructured to take on the responsibility of promoting domestic commerce and the SOC. After the consulting assignment, the donors moved on to the next consulting assignment, and the MOC reverted to the usual bureaucratic make-work. Domestic commerce remains stifled and dead.

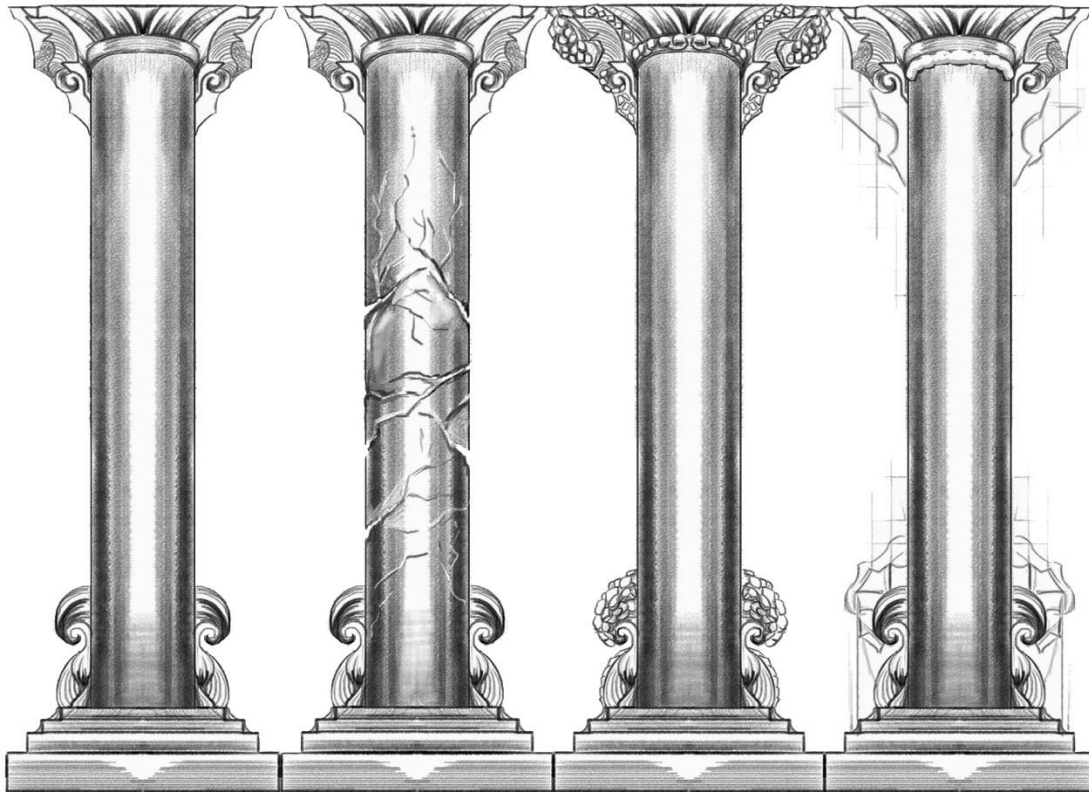
Without domestic commerce reform, we will never make economic progress. Truncated economies cannot perform at their peak. So please get MOC to produce the SOC in the interests of good governance and economic progress.

As a footnote, it should also be noted that DFID and UNDP refused to pay for the best advice given to the MOC upon directions of the bureaucracy.

A further footnote: the bureaucracy in the MOC has spent over a billion rupees on building capacity for domestic commerce without any results.

Chapter 4

Growth & Development



4.1. THE MUCH-NEEDED SPACE FOR GROWTH REFORMS

I am writing only to clarify economic reforms and their role in our society. I have no issue with any other agenda in the country. A reporter from an English daily called me and told me that I was scheduled to talk against the nuclear program at the National Defence University (NDU) on 26 December. I told him the factual position that I had scheduled a conference at NDU on the said date on the Planning Commission's (PC) New Growth Framework (NGF). The conference had been canceled because NDU felt attendance might be weak given the end-of-year holidays.

The NGF which was adopted by the National Economic Council last June, needed a national discussion to develop understanding and ownership. For that, the PC had arranged about 20 conferences around the country with a simple message that growth and development require strong national effort and a large measure of economic reforms in coming years. Conferences in various universities and chambers, in our view, were necessary for us to debate reform and development issues for better mutual shaping of a national agenda.

I also told him that society at large and the media seem to be uninterested in reforms, economic development, and growth. The media needs to give more attention to these issues alongside security and other issues. Unless a society takes an interest in reforms, they will not happen. Pakistani intellectual space, which is fuelled daily by the media, is too preoccupied with issues other than economic development. Because of this, economic reforms remain little understood. Unless this changes, there will be no economic development in the coming years. I also clarified that the PC never discussed defense or nuclear issues. Our focus is on economic development. Our NGF is focused on economic reforms which are constraining growth and development. It clearly identifies areas of reforms that can allow productivity and economic growth. Such economic reforms can happen without large doses of public investment. As someone who has written extensively on Pakistan, I have never written on issues of defense or nuclear for the simple reason that my analysis suggests that countries can choose their levels of defense provided they allow serious forces of economic growth and development to be unleashed.

NGF argues that our lack of development is not because of a lack of resources but because of a lack of reforms. Pakistan is not growing and developing because we do not accept change. To make this change, we need a national discussion. My efforts have been to make that national discussion happen. That is why we at the PC went to universities at Lasbella, Karachi, Gujranwalla, Jamshoro, Abbottabad, Peshawar, Lahore and Islamabad, among others.

People need to understand the continued low rankings of Pakistan in global indicators such as "competitiveness" and "cost of doing business" means. Our analysis clearly shows that while we focus on developing complex infrastructure, our efforts at developing "economic software" (governance, management) are coming up severely short. All indicators suggest that our assets such as Railways, PIA, educational institutions, power generation, and irrigation can all be managed better for increased productivity, growth, and employment. The NGF places a strong emphasis on this "software" development. These are complex reforms involving all tiers of government and society, and they need much research and discussion.

The international growth experience illustrates the power of vibrant and creative cities that foster entrepreneurship and are ever-changing. Such cities are densely populated, allow for high-rise and mixed-use construction, and discourage excessive reliance on cars. Cities so configured have been shown to increase individual and national productivity and foster creativity and entrepreneurship. Our cities are highly over-regulated to be the opposite of what this international evidence suggests. We would like all of us to debate this difference. Making such modern, dense, mixed-use and walkable cities will unleash construction activity that could buoy employment and growth for years. The economy surely needs this flip; the youth needs employment. Our cities also need more community and public space where creativity and commerce abound. Why does this new thinking must now permeate our city management? Once again, a software issue.

Why should such reforms not get media space? Whose fault is this? I keep telling the press that our mindset is not the result of the policy or views of any one government. I know they want a headline against the current establishment. Consequently, I tell them that all governments regardless of creed and origin have avoided serious governance/civil service reforms. All have failed to change the paradigm of market competition. No government has attempted to use public service delivery to underpin our governance approach. No government has reviewed our current approach of urban development that fairs a sprawl. This government has adopted the NGF, which is taking up these issues. Let the media review the NGF. But then why blame governments? The society also unveils its preferences through discussion and debate. Our intellectuals' efforts, evident in the media, display little interest in these crucial issues. Countries seeking development spend a far more significant proportion of their public debate on crucial development issues than we do.

We must learn from the rest of the world and change. For development, we look only at stray whimsical infrastructure projects. In contrast, others have understood that development happens with quality policies and programs for lowering transaction costs and improving public service delivery. The NGF argues for results-based governance as opposed to our current input/project-based governance. These are deep reforms requiring much thought and research. Will the media be interested? Will society at large take an interest in this? I hope you appreciate why I am deeply absorbed in growth reforms and development and have no time to worry about other agendas. I argue only for space for growth reforms and development without pulling down other agendas.

4.2. THE ECONOMY IS NOT A POLITICAL ENTERPRISE

Alfia T. Hussain Asks Intricate Question from Dr. Nadeem Ul Haque

The News on Sunday (TNS): According to the Pakistan Bureau of Statistics, inflation in Pakistan is at a four-year high at 7.2 percent, and the component of non-food non-energy items is showing a steady rise; this is despite the tightening of the monetary policy by the State Bank of Pakistan (SBP) which has raised the interest rate by 4.50 percent in one year. Would you agree that Pakistan's economy is in dire straits? How do you look at the SBP's current monetary policy? Will it be able to stabilize the economy?

Dr Nadeem Ul Haque (NUH): Yes and no. The economy is not in dire straits but certainly in a difficult situation. Pakistan's economy has always performed in a strange way. In the sense that the ministry of finance (and the government) is always trying to kill the economy because they are stuck in the realm of extractive, colonial state. The bureaucracy, the judiciary, the army still behave in a colonial fashion. Only the informal sector drives our economy, and that's very good; it'll continue to kick away. However, presently, our bureaucracy is working overtime, alongside the donors, who are thriving on a wrong analysis of the country. Donors don't understand us. They're trying to tax us to death and driving the informal economy down. So obviously there are problems.

Inflation in Pakistan is going up, but the good thing is inflation in the world is low -- and that'll help us because our inflation is normally linked to global inflation. Right now, whatever we import will not be expensive.

The stabilisation of the economy is not a joke. The economy is not like a fighter plane that the finance minister can fly at will. The economy runs on its own. The economy is what is produced by people through their own exchange and institutions. But if we continue to hold on to colonial institutions, yes, there will be problems because they are designed to be extractive.

The help from IMF may stabilize the Pakistan economy in the short run, but in the long run, borrowings have to be repaid. Getting growth up to 5-6 percent will become very difficult. The only way out is to modernise the colonial structure. The *raj* infrastructure based on cronyism has to go. This is a long-term solution, and, believe me, there are no short-term solutions in this country. We must learn to manage our economy by starting to bank on professional management and professional, decentralized decision-making, and create a huge demand for data and research. Politics must be separated from the economy. The economy is not a political enterprise.

TNS: Was it in the country's interest to keep the exchange rate unnaturally overvalued in the country in the last five years or so? The past year has seen the Pak rupee go down by almost 40 percent against the US dollar. How are the exchange rate policies of the past impacting the present? And what does the future of the rupee entail?

NUH: The State Bank of Pakistan has muddled up for the last 70 years. It doesn't understand its exchange rate policy. They and many of our economists think that the exchange rate must be overvalued. Volumes have been written on how the overvaluation of currency harms the economy, and, yet, for the last 70 years, we have overvalued the rupee. It's pure stupidity.

The finance ministers guide our monetary policy, and that's why the IMF is arguing that the central bank should be independent. The only way out of this mess is to refrain from any kind of intervention—just leave the exchange rate to the market. No finance minister or even prime minister should have the power to control our currency rate. The SBP should never throw dollars in the market. The government must purchase dollars from the open market to pay its bills, not borrow from the central bank.

TNS: Pakistan's budget deficit is estimated to increase to 6 percent of GDP in the financial year 2018-2019 (Fitch Solutions). Are we likely to see more public sector projects? Can we still afford to build metros and motorways? Where will the money come from? What's the way out?

NUH: The real budget deficit is close to 9 to 10 percent because, in the 6 percent, they have not included the circular debt and the PSE losses. If one includes all of this then, the budget deficit will increase to 9 to 10 percent. Strangely, the fiscal deficit depends on how the government defines it.

I think all public sector projects should be put on hold for the next 5 to 6 years. The ongoing ones should be completed. Because, first, there's too much wastage of our precious resources in our public sector developments, and second, our public sector projects are too politicized. In the future, the PSDP must be fully segregated from politics. Only the cabinet, through the parliament, can give direction to our public sector development. Politicians should not be able to whimsically make highways leading to their houses in remote villages, nor should ministers or chief ministers be able to dictate the design of ring roads or metros. Project design and selection must be on technical grounds based on procedures. No one should have the power to bypass those procedures. Due to politicians' pressures, the emphasis is on roads, even though few in this country own cars and the environmental costs are high. Railways, the poor man's transport, has been ignored.

We don't need any more roads. We have already built more roads than we need. We may need more in the future. These roads are not even paying for themselves. Let's think of cleverer ways in public sector development. We have made 200 universities, but not a single one is worth its name. It's time to ask tough questions.

TNS: The PTI government is relying on indirect taxation and on external financing than on economic activities. Agriculture is clearly a casualty of this rule. Though in the recent mini-budget, Finance Minister Asad Umar announced incentives for banks to offer agricultural loans by reducing the tax rate from 39 percent to 20 percent on their interest income, it has failed to satisfy the farmers who maintain that this will not reduce the cost of production and increase the access of small farmers to short-term financing. Being an agrarian economy, shouldn't there be more focus on generating agri-related activity to fight inflation?

NUH: We're not an agrarian economy. The latest census discloses we are over 50 percent urbanized using obsolete definitions. Reza Ali, a researcher, has used satellite data to show that we are over 70 percent urbanized. With a proper definition of urbanization, the census will also show us that we are more than 70 percent urbanised. We are probably one of the most urbanized countries in the world.

It's a myth that we are rural. The contribution of agriculture to our GDP is 20 percent. Anywhere in the world, development happens only when urbanization increases and

agriculture's share in economic activity decreases. Let's stop attempting to favor agriculture. Let industry, service, and agriculture all grow -- productivity of all three sectors must escalate alongside innovation and entrepreneurship.

TNS: The latest United Nations report projects economic growth in Pakistan to slow down in 2019 and 2020 to below 4.0 percent. What downside risks do you foresee?

NUH: The exchange rate policies have always slowed down our economy. They have always been responsible for our balance of payment situations. There is no doubt about it. The biggest downside is that we don't want reforms, and by not introducing appropriate reforms, the government is dumbing down the people. Growth is an urban phenomenon. Sadly, we have ruralized our cities and have over-regulated investment in urban areas. This is a huge cost to the economy.

TNS: In your book, *Looking Back: How Pakistan Became an Asian Tiger by 2050*, you create a fantasied Pakistan that has reached a stage of development where it is capable of launching a spaceship, where you propagate a bottom-up approach to develop the community and opportunities for youth. In today's Pakistan, that's nothing rather optimistic. With inflation on the up, the family finances are squeezed. Life is more expensive. How will a common man live your dream?

NUH: The common man is living his dream. He is looking after himself very well. In fact, the government is preventing him from further prospering and living freely.

The middle class has grown and is more prosperous because it has migrated to mainly the Middle East and is sending back remittances. They are growing because they are smuggling in mobile phones and tape recorders. By preventing them to bring in these lifestyle products, the government is trying to hold them back. What's the big deal if they smuggle these things in? It only bothers the *raj*! Smuggling is only a by-product of the government's bad policies. To grow, a bottom-up approach must be adopted.

My theory of development is very simple. I keep the quality of life at the core, and quality of governance, vibrant markets, energetic youth, and community and creative cities surround it. Market and governance are the parents of the economy, and development is the child. In Pakistan, the child is suffering because the colonial government is stunting market and city development as well as imposing huge regulatory costs everywhere because of its DNA of control and extraction.

In order to grow, I hope that Prime Minister Imran Khan can reform the governance structure from colonial command and extraction to a modern, thoughtful, decentralised, professional, and non-politicized. This structure, in turn, will thoughtfully develop markets and cities for the 21st century. People will then respond with their entrepreneurship and innovation. The promise of Pakistan will then be realised.

4.3. UNDERSTANDING GROWTH IN PAKISTAN!

FEG was developed after many consultations across Pakistan, mostly outside Islamabad, in many of the smaller universities, Janshoro, Quetta, Haripur, Sargodha, etc. It was also based on the latest research on growth. It shunned the usual practice of endorsing a donor or consultant written paper. The FEG was approved by the National Economic Council in 2011 and 2012. Any new plan must take FEG into account as it is a part of the country's policy and is not related to any political party. It is a totally non-partisan effort with the ownership of many Pakistani intellectuals.

The key findings of the FEG were that:

- The current strategy of pursuing aid-funded projects and postponing reform would not lead to sustained growth; and
- It was not the “Hardware” (roads, bridges, dams, etc.) that was constraining growth but the outmoded software (public sector management, productivity, regulation)

FEG then identified the software changes in the form of critical reforms necessary to lead Pakistan to the path of sustainable growth.

First agenda item: Developing quality governance through a civil service reform that builds professional, decentralized governance with autonomous results-based agencies focused on public service delivery (law and order, property rights, managing social sectors as well as public sector enterprises). The envisaged reform called for open and competitive recruitment at all levels, removal of political influence through the old transfer system, introduction of merit at all levels, removal of the centralized federal control at all levels, and a modern incentive system based on results achieved and transparent cash payment (no perks and plots). It is important to understand that the current payment system through perks and plots is the genesis of rent-seeking and non-professionalism. It also retains the raj mentality in government, where the executive can arbitrarily and without due process dispose of public property. This is where reform must begin.

Second agenda item: Developing vibrant and competitive markets by reducing the footprint of government in Pakistan. Reform would involve the dismantling of the various subsidy/protection regimes that are marinating a cartelized and rent-seeking private sector in close collaboration with the government. The practice of arbitrary tax exemptions by the Ministry of Finance which costs about 3-4% of GDP loss of revenue while also retarding competition, would have to be given up. It would also require careful deregulation and pulling the government or its various ministries/secretaries out of the business of managing markets. It is a much larger agenda than blind, unintelligent privatization without reform.

This reform can only happen if we have a professionally managed system for economic management and market regulation, which are critical for modern economies to develop. Such a system also requires autonomous and competing agencies seeking to results for societal objectives. For example an independent central bank, an independent reform commission, an independent results monitoring agency, independent regulatory bodies. And independence means no secretarial, ministerial, or even prime ministerial arbitrary interference. Once again, note that this will only happen if we have a civil service reform upfront.

Third agenda Item: Developing creative cities by removing the excessive control of the civil service that has arisen from a self-dealing system in a regime of perks. Autonomous cities run for commerce, entrepreneurship and innovation will generate sustained growth, including the excluded, provide opportunity for the poor, and open up investment space. This would mean dismantling current regulation that prioritizes sprawl and bureaucratic “perk-seeking.”

City management has no reason to be beholden to a distant layer of government, be it a minister’s secretary. The current system of DCOs, EDOs, being junior officials of a federal or provincial bureaucracy, is destroying city government by placing people there who neither belong nor are they interested or motivated to make a difference. In most cities, prime downtown is used for official housing, leisure activities, etc., denying commercial development to huge foregone opportunity costs.

Fourth agenda item: The policy of building hardware has long forgotten social capital and the community’s needs. Community amenities (libraries, community centers, playgrounds, etc.) have not been favored in plans or visions for the last 40 years. Cities are devoid of such facilities. Meanwhile, as governance has deteriorated and rent-seeking has become entrenched, social capital and trust indicators are all showing a marked deterioration.

Officials are continually finding prime space for their exclusive leisure clubs, golf courses, and polo grounds, yet libraries, community centers, and playgrounds remain very scarce. Unless the paradigm of perks and exclusion is changed through a civil service reform, community infrastructure will continue to deplete, and with that our society will continue to fragment and decay.

So what are the important lessons from the FEG that vision 2025 should take?

First, FEG is a reform program and hence not seeking aid or projects to the regret of many donors. Our leaders can stop begging and devote themselves to reform; the payoff is much larger.

Second, the critical reforms that will allow the current extractive structure to move towards competition and openness are identified in the FEG. They are outlined here and do not need volumes to detail.

Third, the centrality of civil service reform which historically sits at the heart of the rent-seeking system must be the point of departure for progress. We cannot run a modern state with a 19th-century bureaucracy. Our many failures, including the war against terror, amply illustrate this. It is time this serious issue is taken up and our country’s intellectual muscle put to task on this.

A word on implementation. Because these reforms are easy to understand, it does not mean that they will be easy to implement. Indeed it will be very difficult.

Such reforms are a process that will take many years to implement. What is necessary is to build a process of reform based on continued research and measurement. The process will be to make reforms, measure results, and correct course as required. Leadership must imbue the country with the spirit of reform.

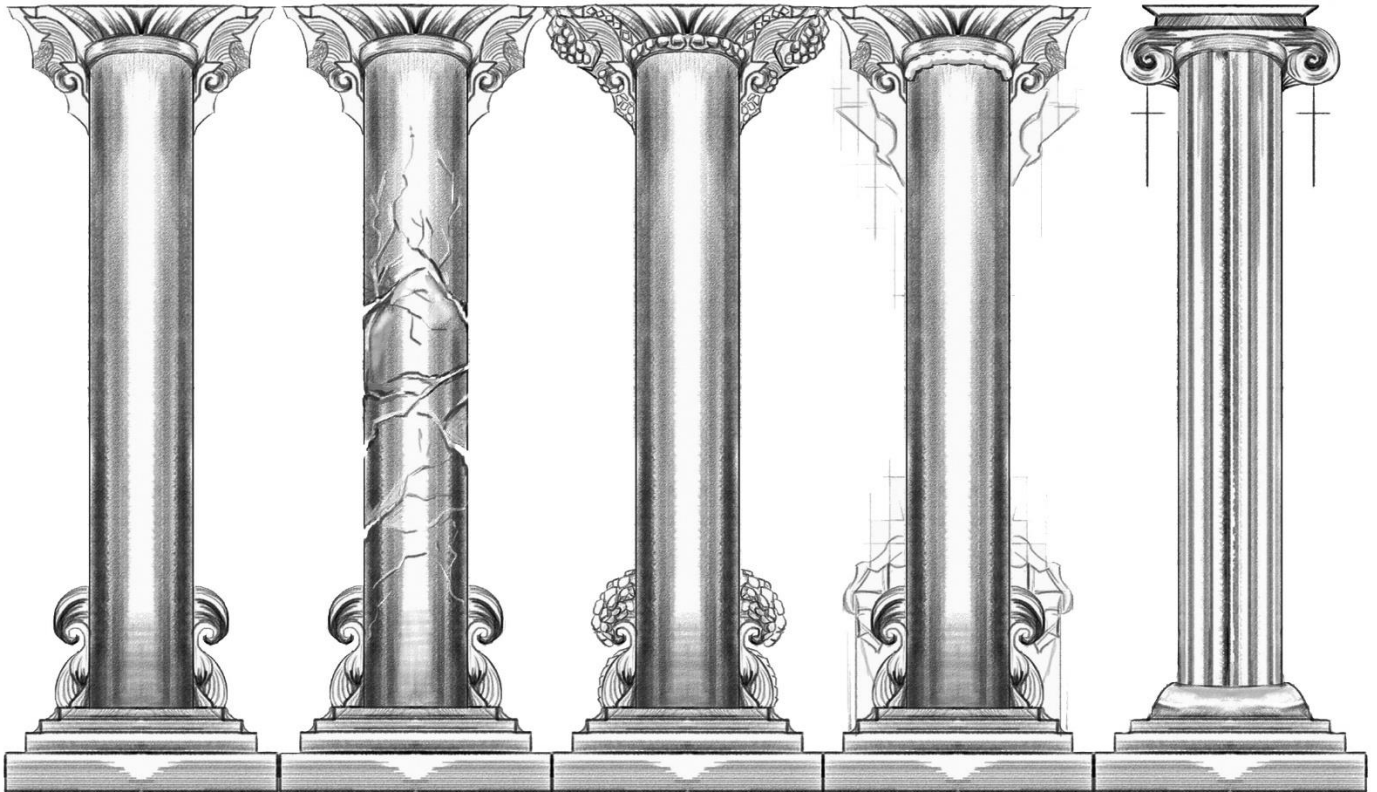
The PPP government at all levels (President, PM, and FM) failed to think of reform despite the FEG. Let us hope PMLN can learn. Sustained reform will require both to cooperate on

reform and press the agenda with their tweaks. The debate must be on aspects of reform with the agreement that the status quo cannot be preserved. This means the childish struggle to “blame the past” or “erase the past” must stop.

The FEG was based on the best global knowledge and the best available Pakistani thinking. Newton noted, “I stand on the shoulders of giants!” paying tribute to his inherited knowledge base. The FEG should be a part of the intellectual legacy of Pakistan and should reflect in future policies, research, and citations. But then, our ministers do not know the Newtonian mission. Moreover, they are comfortable signing donor prepared documents resting on “some cookie-cutter PowerPoint form an earlier assignment” and designed to push money.

Chapter 5

Colonial Legacy & Development



5.1. CAPACITY, RENT-SEEKING, AND TRANSFERS IN PAKISTAN

Egoism has led to a certain form of transparency in the Pakistani government, and it is disturbing. Most government offices now have nice wooden boards posted on the walls. These wooden boards have the names of officials who served in those offices as well as the dates of their tenure.

In recent visits to many of these offices, I did a quick calculation and found that the tenure of officials in a posting has been extremely short. Most officials are lucky if they remain in a position for more than a year. Secretaries are rotated out almost yearly, customs officials are fortunate if they last a few months, and the director cooperatives board is moved so rapidly that the poor director probably remains in a daze.

Why do we have such quick transfers? The explanation is a combination of the following four factors.

- (1) Each of these offices confers certain power and privilege and even the possibility of pecuniary advantages. Quick transfers may be an egalitarian method of sharing these advantages.
- (2) Longer tenures could make the officer more entrenched, increasing corruption and power gains and possibly even making them difficult to remove. Quick transfers would prevent anyone from being too powerful.
- (3) Longer tenure could also create a sense of pride in the job leading the officers to improve the situation to the detriment of those that follow. Quick transfers would, therefore, keep the rent-seeking equilibrium stable.
- (4) There is a stable group around any leadership that is strengthened by these quick transfers. Key secretaries, such as the principal secretary and the finance secretary, are relatively more stable. Their role is obviously strengthened by these quick transfers.

Do these quick transfers affect the efficiency of the department? In every job, there is learning content. Management specialists say that a person takes a few months to a year to learn the job. Every job also has creative content in that the incumbent can, once having learned the job, develop better methods of doing that job. Learning by doing in a job and innovation through such learning often results in productivity improvements and reforms. If this also applies to Pakistan, these quick transfers certainly are detrimental to efficiency.

I also argue that transfers are a colonial legacy. Nowhere in the advanced countries do you have the concept of transfers. Most civil services do not have common cadre. Each department employs, trains and manages its own staff. No transfers are forced on any official to arbitrarily move either location or department. As a result, employees are happier and specialize in their respective areas.

5.2. IMRAN KHAN: BUILD GOVERNANCE, DISCONTINUE RAJA RULE

For too long, we have had arbitrary government run by elected rajas who personalized governance without due process, record-keeping, or transparency. One lasting legacy Imran Khan can leave is to establish modern norms of government banishing kitchen cabinets, sycophants and hasty un-investigated decisions.

I have argued in my book *Looking Back: How Pakistan Became an Asian Tiger in 2050* that perhaps the single biggest step towards good governance could be to build up due process. Both because of laziness and lack of work experience, politicians do not want to build due process. Besides, they dislike due process as it limits freedom of action and leaves a paper trail.

The civil service, which was the keeper of due process, has been beaten into submission (through a harsh regime of transfers and an incentive mechanism of invisible perks) to ignore due process. No longer are meetings properly conducted, nor are minutes fully kept, and the technical requirements, especially for financial flows, are often overlooked.

With due process, many of our expensive projects may not have taken place and saved us billions. We might have devised alternatives to the expensive metros. Technical considerations would have ruled out Nandipur and the solar park. A balanced and well-investigated policy through research and debate would have allowed us to build better education and energy with far less money than we have spent.

Due process will begin with a working cabinet and parliament. Past governments have used both as inconveniences that are occasionally woken up only for show.

In the coming government, the cabinet must meet every week with proper well-prepared agendas and supporting documents that are according to rules submitted at least two weeks before the meeting. They will use a feeling of crisis to present hasty last-minute stuff to the cabinet for a quick decision. That should be resisted at all costs. Nothing is so hasty that it should spoil governance.

All cabinet documents must be well prepared and commented on by the required ministries. Nothing should come to the cabinet without comments from other ministries. That discipline ensures that thought and debate have gone into the document before it comes to the cabinet. I saw too many poorly prepared hasty proposals come to the cabinet without comments at the last minute, leading to extremely poor decision-making.

All economic proposals must be in conformity with the budget. The budget is a law and it must be respected. If there is a spend proposal such as buying fertilizer or sugar, it should be shown where it will be funded from. Will it break a budget ceiling? Will it require a reallocation? In either case the matter must go to parliament. If this is done, agencies will plan and budget more carefully.

By the way, discontinue the ECC. It does not coordinate but merely destroys the budget by constantly spending outside the budget law. Let it all come to the cabinet.

Each cabinet there should be a few standard items. First there should be a presentation on the economy made in rotation (only one in each meeting) by three ministries, Finance, Planning and Commerce and the SBP. You need differing views and they must all emphasize their perspectives and vantage points. They should all choose their own themes—fiscal, monetary,

inflation, growth, energy, water, sectoral growth and development and more—and their own issues for discussion.

Second, a roster should be set for each ministry to make a presentation at least once a quarter to report on the state of its sector. The report should tell you the goals for the sector they are managing, plans for meeting those goals, policies and most importantly reforms that are in play or considered. This progress report in each sector must come to cabinet for each ministry or agency once every quarter. The Planning Commission which is the PM secretariat must comment on these presentations and must be in constant consultation with ministries to be able to monitor progress. Reform must be the key focus for the coming period and each ministry must show you how dextrous and keen they are to change and build service delivery.

Third, key public sector enterprises should also be made to present their reports on their work goals and efforts to achieve profitability, provide public service and build the economy.

Fourth, for open government, following cabinet review, substantial versions of these reports should be made public. There should even be a maximum lag after which cabinet minutes should be published. For too long too much has been kept secret.

Finally, a rolling agenda for the cabinet should be maintained and published every six months so that concerned staff has adequate time to research and prepare and the people know how their government is working.

These are elementary rules of management that we used to follow. Sadly, we have forgotten these. Do this, and governance will improve, and corruption will remain in check.

5.3. GOR: WALLING OFF PUBLIC LAND FOR PRIVATE GAIN

Those who develop expertise in the mess of Pakistan must understand the abuse of power and its associated rent-seeking that prevails in Pakistan. One important example of that is the GOR Estate. Let me explain. (For the perceptive, there is much to be learned about the political economy of Pakistan through this example).

Rent-seeking—Colonial Style

To house the officials that were shipped out of England, the colonial masters—the British Government—built a housing estate (using about 100 acres of land) about 10 miles from what was then the City of Lahore and called it the Government Officers Residences Estate (GOR Estate). Understandably, the colonial managers built luxury for themselves, including clubs, sporting facilities and parks for their exclusive use. And for all this, the public exchequer was feely used. The homes could only be retained for the tenure of one's position. Maintenance rules were clear and straightforward and could not be flaunted.

One would have thought that the independent state of Pakistan that lives in a chronic state of international beggarhood would have dispensed with this colonial luxury. Quite the contrary, Pakistan has developed and expanded this concept. The senior government officials, including senior judges, ministers, and government favorites, are all given houses that would envy their colonial masters. These houses have now been expanded and renovated to luxurious levels at public expense. Utilities are all paid for extensive gardens are maintained by the taxpayer. Interestingly enough, the British houses were simply made according to strict government guidelines. Our rulers cannot live like that.

Many GOR type estates have now been built in many cities, and no one has any reckoning of the funds that are spent on this luxury for senior officials.

As the city developed, GOR now lies in the heart of the city of Lahore. Unlike their colonial predecessors who recognized the need to stay out of the city, the new masters wished to live in the heart of town in great luxury. In each city, they now have built palatial housing for themselves right in the city center. The result is the stunted downtown development in all cities in Pakistan

While the colonials had rules on maintenance and retention of houses, there seem to be none now in Pakistan. The powerful few keep these houses for a lifetime. They may get transferred to another station, but they do not give up their GOR house. Even when they retire, they find an excuse to retain the GOR house. You can imagine the favors that are exchanged to keep possession of these prizes.

GOR Land is Private Land at Taxpayer Expense

The GOR land is considered for the private use of those who run the government without any consideration of the law. For example,

- (1) There was some acreage in the middle of the estate preserved for a small park. It was converted to a small market some 50 years ago. About ten years ago, arbitrarily and with no consultation, it was converted to a place for holding events for the exclusive use of this elite group that controls GOR. Who paid for this conversion—the taxpayer.

- (2) While this elite group has inherited the British clubs—the Gymkhana and the Punjab Club—they needed another one right in their midst. So 25 years ago, they converted one of the houses in GOR to a ‘private’ club for themselves. How were they able to do this? What was the due process? None! No one was told! Who paid for the conversion and the maintenance? You guessed it! The taxpayer.
- (3) A house in the middle of this estate is supposed to be for the chief justice. Sadly no one wants to live there. Well, it is retained as a place for the judges to hold weddings of their children. Again at taxpayer expense.
- (4) The Chief Secretary, the senior-most civil servant in the Punjab, has a designated house in GOR. But of late, he is not content with one house; He has two.
- (5) The Punjab Chief Minister is his boss and cannot be left behind. He has two large offices in the housing colony. This is apart from 2 other offices in the city. How he divides himself into three is hard to understand. One must feel sorry for President Obama. He only has one office.

This flagrant abuse of public funds for private gain has gone unchecked by people and the media. Consequently, officialdom has got further emboldened to appropriate GOR for themselves alone!

Let us Appropriate It All: Walled Estate at Taxpayer Expense

Lahore is under attack by terrorists. The officials who are supposed to be administering Lahore are busy securing themselves through a violation of the law. They have built a wall around the GOR estate, claiming that it is private property. The huge wall fortifying GOR and utilizing a large number of scarce police force resources has made the housing estate in the middle of town even more private.

The wall was built stealthily and quickly without consulting any of the neighbors. My house adjoins GOR, and suddenly we found a wall in the middle of the road in front of our house. One entrance to our house is within the walled compound and the other one outside. We are imperially told that we were not even owed a consultation.

GOR had several well traveled roads running through it. Those roads have now been fully closed, some even converted to grassy parches. There was a school in the middle of GOR for the use of the poor population serving the wealthy masters of GOR. The school has now been closed.

For decades these officials have been fretting over the traffic flow increase through GOR as the estate is now in the heart of town. Instead of contemplating a move out of town center to make way for much needed commercial development, these officials want to develop country estates in the middle of town at taxpayer expense.

Now they claim that GOR and its roads are private property. How does that happen with the taxpayer paying the bill? Only in Pakistan!

The Taxpayer Subsidy to Officialdom

To put things in perspective, the country is getting 1.5 billion dollars a year from the Kerry-Lugar aid bill. While it is difficult to establish a market value, I will hazard a guess that if we can move away from this colonial system and stop paying our officials in terms of such wasteful

housing allowing privatization of GOR, over a billion dollars, could be raised from the immediate sale and development of the land which in turn would yield a tax flow for years to come.

Taxpayer Helpless to check Privilege and Authority

Pakistanis have got used to not question privilege and abuse of authority. In my view, this is one edge of the rule of law and fiscal responsibility.

- If we allow officials to use taxpayers' money for private purposes, we can never eradicate corruption, and rent-seeking leave alone have budgetary sanity.
- If we allow the government to arbitrarily appropriate public land for private use, we show them the path of corruption.
- If we acquiesce to the closing of roads and developing private parks out of housing estates, we can never have community and country.

Yes terrorism is a threat for all of us, and we need to fight it together. Officials should not have precedence in terms of security. And not through usurping public land and violating due process!

A Complicit Media

The free and chattering media has been told to go after Zardari and lay off officialdom. They will never develop a story on issues such as this.

5.4. A TALE OF TWO ECONOMIES

JAI HO!

Many of us watched the Oscars with a lump in our throats when the American movie establishment gave A. Rehman a standing ovation. Rehman, a Muslim from a country not considered by us to be friendly to Muslims being eulogized by Hollywood traditionally controlled by those of the Jewish persuasion. But Rehman's obvious talent overwhelmed them all. Jai ho!

There he stood, saying simple but powerful words, "I had a choice between love and hate. I chose love!" A simple Muslim of simple origins made us all proud of his talent. Jai ho!

What would he have been had he been in Pakistan? First, he was a convert from Hinduism to Islam in 1989. Here probably, he would have been in grave danger. Quite possibly, some zealot might even have snuffed out his talent. Yet in his Oscar win, at one point, he said, Allah o Akbar! Jai A. R. Rehman!

For many years we have comforted ourselves by saying that Muslims have no opportunities in India and that Pakistan was made to give Muslims opportunities. Indeed Pakistan has given a lot of opportunities to get rich. Stories of excess wealth are visible to us in the form of government dispensed licenses and plots, gains from misuse of power, and other forms of abuse of public office. Indeed wealth has been created, and a new class of the rich shows off its Porsches, Range Rovers, and other expensive toys. Their lifestyles could even dwarf some of the well-heeled rich, and famous in India and the west. While we laud wealth and power, talent has no place in Pakistan. Jai power!

The rest of us run around serving these princes of wealth and power. Talented musicians like A. R. Rehman play at their pleasure. They play at the expensive weddings of their children. They play, and the aristocracy hardly notices them. They do not even keep quiet. They do not even pay attention or give them the feeling of stardom. The stars are the aristocrats who managed to make their wealth through government manipulation. Jai power here!

In Pakistan, this would have been the fate of A. R. Rehman. He would have been a mere court musician. No Oscars! No recognition! Many a talented Pakistani musician has been forgotten. They leave behind some good music which we buy pirated versions of. None is honored! There are no Nur Jehan avenues or airports. No Nusrat Fateh Ali squares, universities, or buildings! No concert! No prizes! Certainly, no major movies that could get them to the Oscars! Kiya Hua?

We are all aware of how Bollywood is full of Indian Muslims. And they are widely respected in India. We have seen Salman Rushdie come out of India. Now we see Fareed Zakaria, another Indian Muslim large on the international stage. Darwin seems to be at work: Indian Muslims are flowering under competition and are beginning to show major talent. Jai ho!

Darwin is right here too. We in Pakistan face no competition. Our path to success is rapid gains through actions such as raiding the exchequer, friend of the powerful, influence peddling, or power-broking. Lives of privilege-- where the taxpayer picks up the tabs from Umrah to polo, from mujra to PIA travel, and from plot to stock—have led to generational deterioration. Hard work is looked down upon, and he who competes internationally is only a *kami kamin*!

Ministers, the well connected, and the powerful are not supposed to dirty their hands or even consort with *kami kaamins* such as A. R Rehman or N. Fateh Ali.

The answer is simple! Our leaders in Pakistan wanted to save themselves from the hard work of competition. They wanted and got easy rents—handouts from the government. The army, the bureaucracy, the landed, the licensed industrialist all got it easily. They took no risks! They worked at no innovations! They developed no products. They competed against no one for their ill-gotten gains! Nor was there any accountability! Kids now see that the path to success is rents and influence. Hard work and talent do not pay. After all, what did we do to Salam? So *Mehnat Kiyun?*

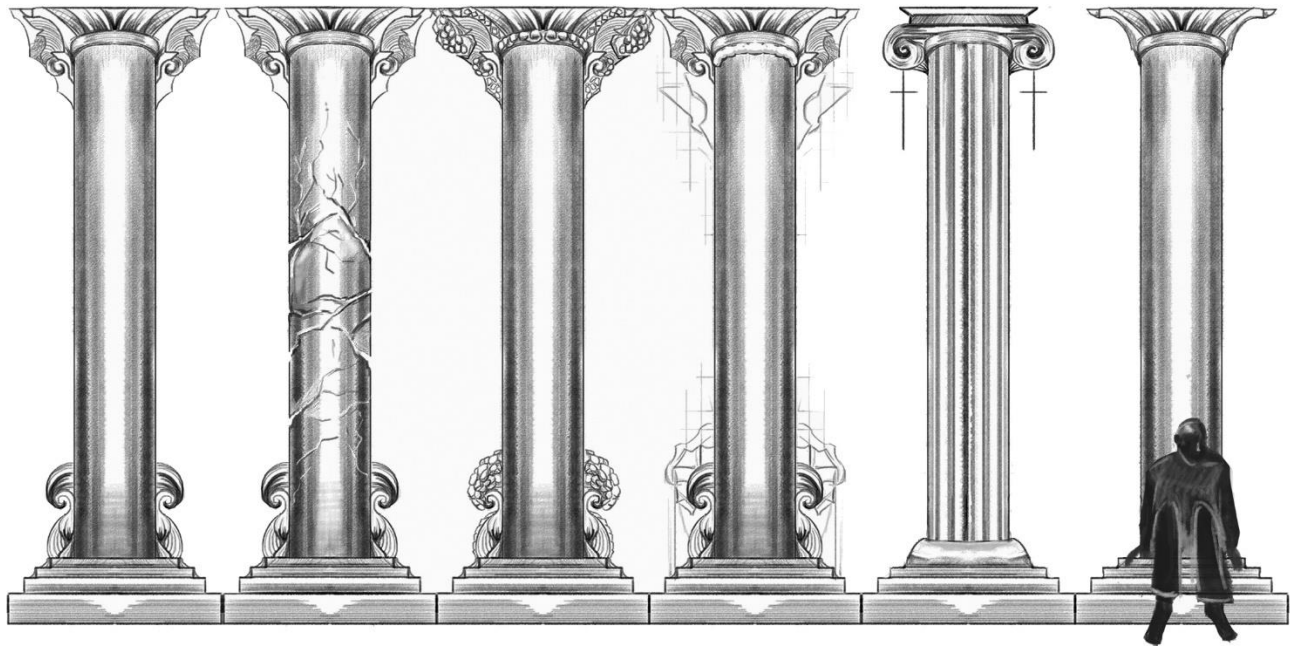
We did produce talent, for no country of 200 million can be devoid of talent. Hashim Khan and his family, Imran and his cousins, several cricketers and hockey players, the wrestler Bashir, and of course Abdus Salam. Now, a few younger people like Mohsin Hamid and Daniyal Moin are beginning to blaze some sort of trail. Our young musicians (e.g. Salman and Janoon) and the talented Pirzadas, will they have an opportunity for an Oscars? No! because our elite are too busy destroying all institutions, and talent cannot emerge without institutions.

These few talented people struggle against odds. They get little recognition at home and work against huge odds. But most of our younger generation is lost. The rich kids are given pleasure and privilege, and the poor turn to religion out of desperation.

All I can say is we should be grateful to the almighty that some Muslims remained in India and have learned to compete under odds. Those Muslims will be competing internationally and give us something to be proud of while our elite which shuns excellence and hard work, remains extravagant in its rent and privilege. So thank you, A. R. Rehman. And Jai A. R. Rehman and the Indian Muslim! Jai ho!

Chapter 6

Employment & Poverty Concerns



6.1. WHERE ARE THE OPPORTUNITIES FOR THE POOR?

Prime Minister Imran Khan has announced the Ehsas program for poverty alleviation — an admirable step. But more than government aid, the poor need to be included in cities of opportunity. Handouts and credit, and online opportunities are not a substitute for an opportunity.

Think about it: many of our poor have climbed into the middle-class thanks to the opportunity of migration which they grasped eagerly even at huge cost to themselves. Contrary to what Pakistani analysts put out, poverty is always caused by exclusion from opportunity. Give the poor a chance, and they will lift themselves out of poverty.

A starting point could be to look into the apartheid social regime we have created. Could the extreme degree of exclusion of the poor (basically the non-elite) be at the heart of our troubles? Ask yourself the following questions and see if you agree with the answers, and you will see for yourself how the poor are excluded.

1. Where Do the Poor Live?

The poor are totally excluded from elite space. They are seen only as servants and the only place allocated to them in the cities are servant quarters or slums.

Most of the population needs small—one- to two-room—flats. But where can they be put? Zoning laws in our cities do not allow this except on the outer reaches. Council houses in London exist side by side with expensive housing. Not so in Pakistan. The rich and the poor cannot mix. We cannot have high rises looking into the residences of the rich.

The rich want conveniently located polo grounds and golf courses, giant parks to jog in, and, of course, nice big lawns for their parties. They want sleek, low-rise cities where their cars can move easily from their estates to their leisure activities — golf and polo. The rich want zoning laws so that there is no high-rise construction or congestion in their park-like setting.

2. What Do the Poor Do?

The elite policymaker, who is often an industrialist, looks to industrial parks and subsidies for employment of the non-elite, no matter that factory employment lags way behind employment in the services sector.

With technological advancement, no longer giant factories are employing millions of workers. Large numbers are now employed in construction, shopping malls, hotels, and the leisure industry. But that is anathema to planners and zoners, who are from the elite civil service. All retail, warehousing, leisure and community enterprises, and the non-elite, are regarded as non-essential. These then expand informally on residential property. Limited development of these activities means less employment for the non-elite.

3. How Do the Poor Work Their Way Out of Poverty?

Traditionally education has been an equalizer. However, in the Pakistani apartheid system, this is not happening. The rich educate their kids overseas to leave the local education system in a permanent state of disrepair. Many years ago, a driver named Majeed declared quite openly his intention not to educate his son because Urdu-medium public schools do not offer children

upward mobility even after years of education. A few months ago, I talked to a 26-year-old driver in Dubai, who cursed his over twelve years of Urdu-medium education from Pakistan that only qualifies him for menial jobs — a waste.

4. So, What About Entrepreneurship by the Poor?

The poor have traditionally helped themselves by running street hawking businesses and khokhas (kiosks). They used to be around a few years ago. But administrations have become vigilant and do not allow these in rich areas. And, of course, there can be no zoning for them.

Where is the space for poor entrepreneurship? We need wide avenues for the Porsches and the BMWs! We also need large urban tracts for golf courses, polo grounds, and giant parks (lungs of the city). So, let these people go to shantytowns in the outskirts of our cities.

5. Does the State Not Help the Poor?

Every now and then, politicians set aside a large amount and give it a donor-inspired name like Income Support Fund or Social Protection. Much bureaucracy, Land Cruisers, consultants, and plush offices later, the poor get some minor rationing subsidy. Most often, it is some form of food coupons, cash transfers, a yellow cab scheme, or micro-credit. How strange: give them food and capital but no place for entrepreneurship.

Interestingly enough, the state subsidy to the industry is way more than the state has ever spent on the poor. And the subsidy to the industry goes directly into the pockets of the rich.

6. What about enlightened self-interest and noblesse oblige?

In history, enlightened self-interest has led the rich to invest in some social mobility. Philanthropy has set up universities and community infrastructure to level the playing field for the poor. Royalty always patronized intellect. Unfortunately, in Pakistan, philanthropy means building for the rich — country clubs, polo grounds, LUMS, and Aitchison College: places for elite use that, for the most part, do nothing for the excluded.

As a footnote, the rich do not even visit the poor campuses to mentor and interact with the underprivileged. They have no time for these trivialities.

7. What about leisure and community for the poor?

Leisure and community are only for the rich. City zoning provides fully subsidized space for the elite to play golf, tennis, and polo, even for affluent schools, but there is not an inch of space for community and leisure for the poor. No public libraries, no community centers, no publicly provided football fields or even a basketball court for the poor. Even competitive sport as a vehicle for social mobility is completely ruled out as a result.

8. Who offers the poor hope?

Certainly not the government! Certainly not the donors with their minor employees! The liberal elite made big promises and delivered nothing. The promise of globalization and liberalization has rightly lost its luster in the minds of the poor.

Theatre, cinema, or any form of intellectual activity that will offer an alternative vision has been zoned out. Where should the poor look for a vision; who offers them hope; who offers them community; who gives them some opportunity; who gives them the vision of a just society?

But there is hope for them! Think about it. It is the mosque and the maulvi. Mosques remain unregulated, need no zoning permission, and have been actively encouraged by the state. Not surprisingly, the mosque is the only community center for the excluded poor; the unregulated maulvi is the only visionary. This is the unintended consequence of the greedy, unenlightened behavior of our elite.

More than handouts, the poor need space in cities. Include them.

6.2. EXCLUDED FROM ELITE SPACE

The Prime Minister has announced an EHSAS program for poverty alleviation. It is quite an admirable step. However, handouts and credit, and online opportunities are not a substitute for the opportunity. Contrary to what Pakistani analysts put out, poverty is always caused by exclusion from opportunity. Give the poor a chance, and they will lift themselves out of poverty. A starting point could be to look into the apartheid social regime we have created. Could the extreme degree of exclusion of the poor (basically the non-elite) be at the heart of our troubles? The poor are seen only as servants, and the only place allocated to them in the cities are servant quarters. Zoning laws in our cities do not allow this except on the outer reaches. Council houses in London exist side by side with expensive housing. Not so in Pakistan.

The rich and the poor cannot mix. We cannot have high rises looking into the residences of the rich. The rich want conveniently located polo grounds and golf courses, giant parks to jog in, and, of course, nice big lawns for their parties. They want sleek, low-rise cities where their cars can move easily from their estates to their leisure activities — golf and polo. The rich want zoning laws so that there is no high-rise construction or congestion in their park-like setting.

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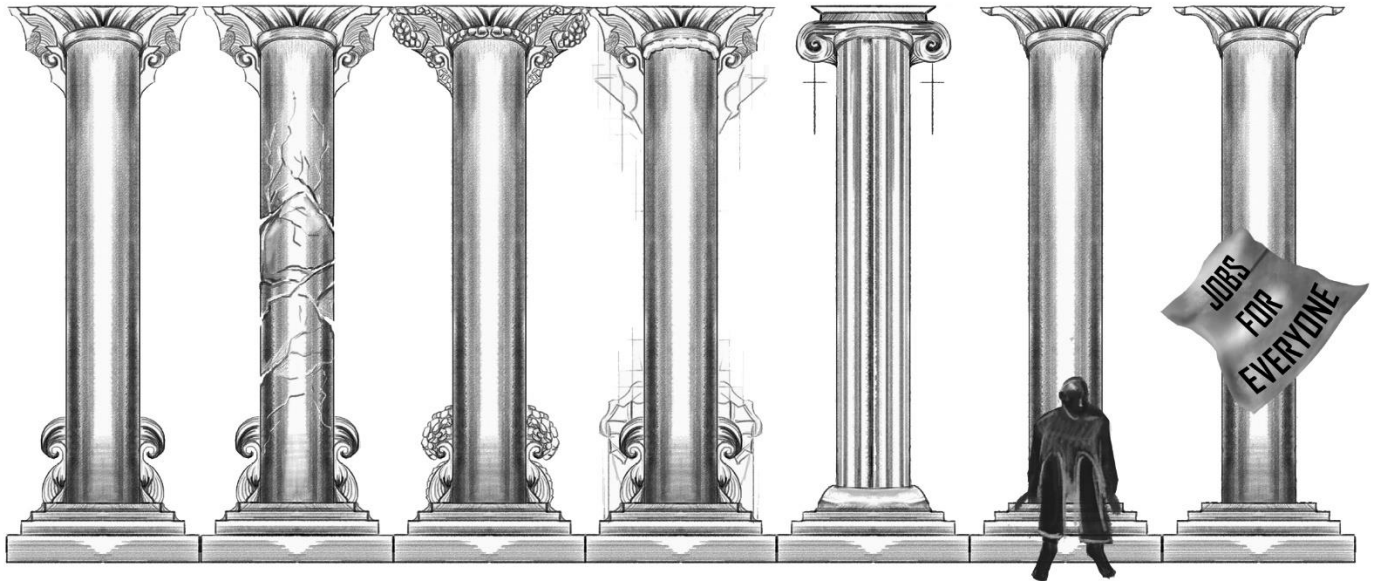
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Chapter 7

Reforms



7.1. REFORM! WHAT, WHY, AND FOR WHOM?

Pakistan was made with a commitment to democracy and development, but soon after, the founding generation succumbed to greed and political expediency to accommodate the Mullah and make religion central to politics. The following generation (Midnight's Children) led by the ignorant, self-centered and hedonistic cult of the types Zardari, Sharif and Fazlur Rahman, willfully destroyed all institutions and all semblance of dignity in pursuit of power and wealth.

A new generation of Pakistanis is inheriting this mess — ruins of institutions, values, discipline, trust, as well as limited incentives for thought and learning. Yet, it is heartening to see a renaissance of good writing, music and the arts rearing its head in Pakistan. There is hope emerging like an unsteady baby. Will they inherit the ego, thoughtlessness, willfulness as well as greed of their parent's generation? Only time will tell.

In a recent article in *The News*, Mosharaf Zaidi, a thought leader from the younger generation with an incisive pen and strong media presence, inquired about the lack of durable reform to conclude reform does not endure because it is “neither truly driven by a purpose nor is it rooted in the people.”

He points out that reform episodes such as the Musharraf Administration's 2001 Local Government Act and the 18th Amendment to the Constitution in 2010 were vitiated by the status quo. He correctly notes that ultimately reform will take hold when people see clear benefits in maintaining it. Distant reform with no clear benefits for the people does not endure. For this reason, the 2001 Local Government Act was killed off, while the 18th Amendment remains under attack.

Zaidi's analysis is correct. But we need to ask ourselves why, with centuries of global reform experience, we have failed for 70 years? Moreover, “is there a demand for reform and if so, what sort of demand?”

Imran Khan rode on the youth's back to develop a new Pakistan but seems to be stuck merely with a vendetta, perhaps because there is no demand for reform, nor is there a coherent debate outlining a vision for reform. (As an aside, most Pakistani thinking and debate remains focused on speculation on foreign policy and parroting aid prescriptions). All governments, whether democratic or not, have sought a mandate through infrastructure projects — roads, metro transit systems, and building things such as a stadium.

The Ayub development paradigm (based on the ideas of economist Mahbubul Haq) was one where progress was measured as projects involving expenditure and hardware persisted. Even talk of education and health is no more than one involving building more schools and universities that train more people to let them be a part of the brain drain.

The demand, in other words, is for more development expenditures and not actual reform. And development, in turn, is seen as tacking on hardware to our inherited colonial state.

This colonial state was designed for extraction has been kept alive to allow the “game of winner extract all!,” i.e., the winning political party can victimize the opponents to capture extraction gains for a guaranteed five years (despite the constitution saying five years is the outer limit, not a term).

Development expenditures add more to extraction, while reform would mean a dismantling of the extractive state to develop a deeper reform that development requires. In the 1980s, the world moved on from the 'development as hardware' paradigm. Experience showed that productivity, enterprise, and innovation are at the heart of the development endeavor.

It was further discovered that productivity, enterprise, and innovation happen in an enlightenment state, where checks and balances are in place, and there is a process of informed policymaking through learning and experimentation.

To develop such a state, reform would require a re-imagination of the state from developing and implementing policy to the legal and judicial system that manages rights and transactions. This is a huge and thoughtful agenda which requires building learning everywhere in public policy and avoiding the easy and certain agendas that the Pakistani power elites love to parrot.

The overarching 'purpose' has to be a clear modernization of the way the country functions and the way we live. Why? Because development requires it! Can such a change take place? Who will drive it? These are difficult questions to answer. And I will not pretend to answer them fully.

It is clear that the colonial extractive state has strong foundations. By design, its functionaries benefit from it while vested interests born of extraction are not likely to bite the hand that feeds it. In the post-colonial period, international development partners have arisen to push money to the status quo.

It is obvious that the colonial extractive state will not easily change and has no ability to reinvent itself. We have seen 70 years of demand on various aspects of the change required, such as reforms in the structure of the civil service, local government, police, education, health, public enterprises. But the colonial extractive state distorts or defeats these interventions to preserve extraction.

By design, the colonial extractive state seeks central control of cities and markets to inhibit entrepreneurship and private enterprise. Even the provision of education is limited to what serves its interest and no more. It will resist efforts to liberalize or decentralize.

Current development efforts based on projects and programs seek to initiate reforms while keeping the colonial extractive state intact, which only strengthens its extraction and centralization capabilities. Development, though measured by global indicators (e.g., growth rate, the proportion of educated people in a country, mortality, and other health measures), is an aggregation of local solutions to local problems through a variety of research and innovation initiatives at the city level, in markets and universities.

The colonial extractive state must, therefore, be dismantled to allow a learning and decentralized state to be developed. Only when public intellectuals begin to see the centrality of the modernization of the state (and the dismantling of the colonial extractive state) to development will the constituency for change develop.

That is when a detailed vision and plans will become available for a change leader to take advantage of. We have probably missed the opportunity presented by a well-intentioned leader like Imran Khan because no such discourse was available.

7.2. POLITICAL WILL OR BAD POLICY AND REFORM DESIGN

Reform remains an elusive and little understood concept in Pakistan. The word is seldom used on TV. It is used even less in the cabinet and official forums. Even academics shy away from the subject. Donors now and again will talk of it but with the throwaway remark that “we do not have to reinvent the wheel”, “we know what is to be done”, and “all we have to do is import best practice”!

So, they set it up in an action matrix which is a template from some other country. They want all developing countries to mimic advanced countries regardless of many local differences.

More often than not that such reform is never completely implemented. It kind of gets stuck in the gullet of the country, probably doing more harm than good. As a case in point, look at what happened to the electricity sector when we were merely following best practices mindlessly. When the donors designed independent power producers (IPPs) and the National Electric Power Regulatory Authority (NEPRA) for us. Since then, for 25 years, we have been paying the price of a badly designed and inconclusive reform. This has cost us billions of dollars, and no one has a solution.

Yet, no one really spends time trying to understand why Pakistan is such a laggard performer when it comes to reform. The donor contention is that we do not implement and that it is the lack of political will. Is that correct? Not if you examine what happened in many cases of donor policymaking. The example of the IPPs and NEPRA has been given above.

Consider the donor-led tax reform on which millions of dollars have been spent, and numerous consultants have come to Pakistan to give us a tax policy that neither collects revenues nor lets business function. It has brought our growth rate down to recessionary levels. Another example is the high-profile education reform and advocacy program, funded by the United Kingdom’s Department for International Development (DFID), the efficacy of which is being questioned by many quarters.

Let us set the record straight: we have implemented a lot of items that the donor wanted. We privatized, opened out the economy, got rid of licensing, conducted tax reform, and have numerous projects for building governance, access to justice, education, and many other development goals. We have built regulatory agencies like NEPRA, the Securities and Exchanges Commission of Pakistan (SECP), the Pakistan Electronic Media Regulatory Authority (PEMRA), the Competition Commission of Pakistan (CCP), and many more. We have played with the autonomy of the State Bank of Pakistan (SBP). Yet development has eluded us.

On the other hand, it is fairly visible to anyone visiting Pakistan that the people are turning away from modernity and productivity. Society seems to be taking a turn towards fundamentalism and cultural conservatism instead of modernity and creativity. It is also very obvious that productivity has seriously been on a declining trend for the last few decades. Despite many pronouncements, education continues to decline in quality, and research, especially in government and industry, is virtually non-existent. And academic research continues to be irrelevant at best.

Indeed this should be raising all kinds of flags, and we should all be coming together to improve our understanding of reform and why it is unsuccessful or halfhearted.

Donors and their consultants absolve themselves of responsibility by blaming poor policymaking and its shoddy results and the lack of reform of institutions and regulations on lack of implementation. Many commentators also take the plea that the system does not work, and the country suffers poor outcomes because of the lack of political will.

To my mind blaming unmeasurable political will for failure is simply intellectual laziness. Besides, it is convenient for those responsible for the bad design of reform and policy. It is time we blame bad policymaking and design for the failures that we have faced.

It is also time to seek out good policy and reform ideas and mainstream them in our debate rather than focus on merely aping the West and following the advice of Western advisers.

Good research on policy and reform ideas must be cherished by society, and such thinkers are given respect and a seat at the policy table. That is the only path to progress.

Aping is only for monkeys.

7.3. REFORMS WILL NOT WORK UNLESS CIVIL SERVICES ARE DECENTRALIZED

An interview with Dr. Nadeem Ul Haque, former Deputy Chairman, Planning Commission

Nadeem is no stranger to Pakistan's economy. A former IMF economist whose last full-time position in the government was as deputy chairman Planning Commission during 2010-13, where he launched the widely appreciated 'Framework for Economic Growth', a project left unimplemented by his political bosses. Earlier, in 2007, he had also held the position of vice-chancellor of the Pakistan Institute of Development Economics (PIDE).

Given Nadeem's penchant for bashing the existing civil service system, BR Research decided to pick his brains on how and what he would like changed now that the ruling party has decided to fix the cogs of governance in this country. This discussion is mostly on civil service reforms, but ancillary topics - such as who can bring the change or setting up a market place of ideas—also feature in the edited transcript below.

BR Research: You have been very vocal against the civil service system. What is your basic proposition?

Nadeem ul-Haque: We have a 19th-century system. We are a people who have preserved colonialism while the world has changed. We have become an independent country, and we moved into the 21st century, our technology has changed, the people's aspirations have changed, and so have their lifestyles. But we have retained a 19th-century government machinery—both civil service and the legal system - and the 19th-century governance mindset to carry us into the 21st century.

Perks is another legacy of the colonial era. This business of giving land to civil and military bureaucracy is the hallmark of a colonial-era when the white masters used to bestow their generosity on a display of loyalty by their civil servants who became the brown sahibs. That should have ended with independence. No respected nation in the world follows this model today; every country gives a straight cash salary with some on-job privileges such as health and communication. That salary should be good enough to attract top talent in the government.

BRR: Is there a problem with how civil servants are selected?

NH: The civil servants in Pakistan are obviously competent and go through competitive exams. But those exams were for a different purpose. In the colonial era, the state's obligations were to control the local land and population and extract maximum resources to take them out of the country. We are now in the 21st century, and we still have the same civil service that was meant for magisterial and extraction purpose.

A modern state has to meet the demands of public services delivery. The civil servants are now asked to manage health, education, urban design, a diverse set of SDGs, regulation, international obligations, and so forth for which they have very little competence. For example, managing a public transport system of a city is a very complex thing; it's not the same as managing a rural society; it requires specialists. The irony is that specialists of various fields cannot enter the existing system. If they get into the system, they are treated as second-class citizens or pariahs.

BRR: Is there a flaw in the structure as well, in terms of, say, organogram of the system?

NH: Yes! Many. For example, the district was a unit of control in the colonial era. That district was for a rural setting such as villages and tehsils, with little complex behavioral patterns. Today, we have several large cities. Our population is heavily urbanized where some scholars using satellite data say our urban population is about 70 percent. Lahore is larger than New York. Karachi is the 5th largest city in the world. Yet, we are trying to manage it like a rural district where we have a DC or a commissioner who has no idea how to professionally manage a large urban center and its requirements of housing, health, and education.

Another example of a flaw in the structure is a centralised civil service system in the middle of a decentralized government that came about after the 18th Amendment. This mistake was done by the Musharraf government when they experimented with local government, and the current government is repeating it. No reforms will ever work if we keep the civil service centralized in the form of the colonial era.

BRR: What solution do you propose?

NH: My first thesis is that everything has to be simple because if you complicate it, it becomes useless. We need absolute decentralization. All three governments—local, provincial, and federal—should be distinct and separate and not hierarchical as they are today. City governments of a large metropolis such as Lahore should not have to report to the provincial or federal government.

The governments of Lahore, Karachi, and other big cities have to be independent. If they want to hire the best treasure in the world, they should be able to do so without getting caught in the current web of civil services.

The way the jobs are distributed is that the federal government has all the grade 22 positions. The provincial government only has one grade 22 position. The local government has no position above grade 18. Because everyone has to report to the Commissioner or the DC, so all the technocrats are below grade 19, which is a disaster. We have to remove this centralization.

BRR: But Shahbaz Sharif tried to do the same thing under the corporation model.

NH: His fault was that he was winging it; he was not trying to reform the civil service. We have to have proper reforms, where our city governments are free from any pressure.

They can hire their own people. We can ensure that provincial and federal governments are responsible for policymaking, but most the service delivery should be done locally by very competent professionals. Provincial and federal governments have the role of monitoring local governments through independent monitoring and regulatory agencies. We need a system where everyone is independent yet properly monitored.

What Shahbaz was doing was keeping the DMG and PAS lobby very happy. Let's not create parallel bodies.

We need to front-load the reform. We need a 21st-century technocrat who is a skilled person capable of looking at energy and education and SDGs and what not. That person should not have a lifetime guarantee of employment; he or she can come and go. There should be a framework available to allow lateral entry. In the current system, your life is

determined at the age of 26. Any competent late thirties globally recognized professional educationalist will not be allowed to be hired in the education department because he or she did not sit for competitive exams.

BRR: What plan for reforms do you then propose?

NH: Reform is always basic; it should be an evolutionary process. If you try too hard and over plan, you will run aground. It will never be neat, and it will never be fully planned. My suggestion is to start and have champions of change everywhere and let those guys make the changes. Know that those guys will make a mess. Be prepared to correct the mess. There is a lot of research showing that even businesses are messy.

We have to learn that change and progress is messy business and can't happen without making mistakes. Everybody gets scared of reform that 'oh it must happen neatly, slowly, sequentially'. All this is pseudo-intellectualism that does not consider the mess we are already living in. Why are we trying to be safe? There is no mistake-proof way of doing reforms. You can't make an omelet without breaking an egg.

BRR: Is civil service the reason why policies don't work in Pakistan?

NH: There is no such thing as policy unless it is well thought out, well researched, well monitored, and well developed. A policy can only be made effective if the civil service is capable of research. A policy cannot be made by donors or multi-laterals or advisory committees.

Think about it, how you learned trigonometry and algebra. You had to do the sums yourselves. If you had your tutor do the sums for you, then you learn nothing. The same thing applies to policymaking. We can't have effective policies unless the civil service makes it, owns it, and understands it. Equally critical is that the policy goes through the cabinet, and the ministers also own and understand it.

Ministers give guidelines and objectives. Cabinet can then debate it and approve or disapprove it but it has to come from the civil servants because policymaking is a technical subject. One of the problems is that we are all easily impressed by success. But you can't replicate it. Success only happens when you innovate, not when you replicate. We have to improvise; East Asian countries did not replicate. They innovated and improvised. There has to be a continuous search for solutions that address the evolving nature of problems, for which civil service must be brought into the 21st century.

BRR: You have been critical of the EACs in every government and now also of the Council of Business Leaders. What would be your chosen mechanism to listen to the needs of businesses and the needs of the people?

NH: Councils are a bad idea because you bring in people with vested interests. These councils do not represent consumers, the poor segments, or anyone who is not a donor consultant. If I go to the council part-time, I don't have my 'skin in the game'. The government's job is to set up and promote the setting up of centers of research and thinking in public and private sector places. That's whom the government needs to listen to, because they can and should take a wholesome approach to the needs of the businesses, the producers, consumers and presents their concerns to the government.

These centers could be in universities or exist as think tanks. There should also be a research department in every part of the government. I would make sure that every ministry gives out an assessment or a sector report every quarter. I would make sure that the parliament engages in these reports every month. When the government sets up advisory councils, it implicitly tells you that they are not interested in research. I would start research everywhere, and I would begin by creating debate; it will be messy, but it will lead to new ideas and innovation.

BRR: Where do new or original ideas and local thoughts come from?

NH: A fundamental thing that we have come to grips with is that while free markets are very important, these cannot exist without the government. Development is a baby born of two parents: government and the markets. We have to have both a good government and functional markets.

A free market will not produce ideas on governance and regulations because the market has a profit-making purpose. Those ideas have to come from the institutions encouraged and supported by the governments. One of the reasons why England took over the world is that its society patronized research at a very early scale. We still do not patronize research. Our governments should spend 2 percent of PSDP in research funding. The Chinese have decided to spend 2.5 percent of GDP on research by 2025; they are already at 2.3 percent. This is a world of research, and we have no money for research.

BRR: To that end, how many businesses or industry clusters /associations have funded ideas or research for the market's sake?

NH: None! Because we have 65-year old infants (industries). We have not created competitive markets. The definition of the marketplace is that there has to be contestability, which happens through the fresh entry. The same thing is true for the civil service. We give this 23-year-old kid the right to become a Secretary forever. Why can't a competent person apply for that job? Because we have killed contestability. We don't think markets.

BRR: Who will bring the changes you are talking about; do the elite have any incentive to change the system on such a whole scale basis?

NH: That's a wrong question. The 'who' part comes later once we have understood and decided on the 'what' part. Our country is not resilient to change. We do respond to ideas, except that our intellectuals have failed to give ideas. Religious fundamentalism, when it comes from the people, even someone like Z.A. Bhutto, a confirmed liberal, succumbed to the dictates of the marketplace of those fundamentalist ideas.

This is also a failure of the media. The media is so worried by the reality of politics—the he-said-she-said stuff — and so concerned about who will do it, that we don't discuss what needs to be done.

7.4. ENOUGH BRICK AND MORTAR

The novel coronavirus has exposed the weakness of our development planning. We have plush roads for cars, but the health industry remains stagnant. We have 200 universities with a few accomplished professors to lead a research effort to overcome the virus. The PSDP is by design focused on ‘brick and mortar’, regardless of consequences. We build purposelessly. Convention centers, stadiums, and roads remain underutilized, giving no returns to the funds spent to build them. Public money has been spent with little visible return.

In the name of education, politicians want to build a university in every district regardless of the dearth of professors. All departments want a huge residential training center to run at 25 percent of its capacity. Meanwhile, our education indicators are declining, and the government has no capacity to make policy. It now regularly asks donors to do even routine work such as making plans, inventorying stocks, and monitoring schools.

The public imagines that money went into corruption. The fact is that, despite corruption, assets have been built. The question to ask is: were these the right assets to build? And, could the money have been better utilized to increase our growth and productivity? Projects are creating assets, but then they are managed for no return. But then we must also recognize that the pressure to build more ‘brick and mortar’ has led to a lot of waste.

No wonder our research shows that public investment does not increase growth and productivity over the long run. We must ask: why not? A new Pakistan Institute of Development Economics (PIDE) study, ‘Doing Development Better’, suggests that our current development approach is based on the model given by Dr. Mahbub ul Haq and the Harvard Advisory Group (Haq/HAG).

This was also suggested by the Planning Commission’s Framework for Economic Growth (FEG) of 2011, which was approved by the NEC. Both note that Pakistan has been following the Haq/HAG development model since the First Five-Year Plan. The key features of this model are: i) focus on building physical infrastructure through discrete projects in different sectors in the economy; ii) planning to develop a medium-term budget ; and iii) seeking foreign projects for meeting financing gap in the plan, given an expected shortfall in domestic savings.

At that time, we had no infrastructure. Haq/HAG, therefore, favored ‘brick and mortar’ development without consideration to usage or maintenance of assets. In other words, it merely created hardware. Times have changed. The modern policy suggests that growth happens because of the ‘software’ of society such as productivity, management, policy, innovation, and institutions.

The PIDE study also shows the importance of developing a coordinated and well-researched national development strategy for economic growth and development. This will require detailed inquiries into developing strategies for enhancing productivity, developing markets, and better asset creation and management.

Pakistan must grow at eight percent per annum for 30 years consistently if the growing youth population is to be employed. The PC Framework for Economic Growth of 2011 (FEG), which the NEC approved, suggested that this would only happen if policy moved from building

“brick and mortar” to focus on “software”—reform and deregulation. For this to happen, the PSDP approach must change. It is well known that the PSDP is overly politicized and wasteful. Politicians push through pet projects that are not well-considered or analyzed and waste taxpayer funds. In any case, the PSDP merely measures the money spent on building but never learns anything on returns from the building.

It is time that the Haq/HAG approach, which merely considered the money spent on projects with little regard for outcomes, be discarded. It has served its purpose. The FEG as well as the PIDE study recommend that we should frame our growth policy on maximizing returns and not only on measuring inputs (PSDP). In other words, assets should not be created without yielding a maximum return. Agencies and ministries would get a budget—both investment and current—to build assets and make policies for results to people.

Both studies say that the PC must oversee the Medium-Term Budget Framework (MTBF), not the Ministry of Finance. The MTBF must be soundly based on well-thought-out performance contracts that are also desired by the PM. The Planning Commission must then play a coordinating role, leading with research to develop well-thought-out reforms and deregulation initiatives.

Sustained growth will only happen with reform and deregulation to accelerate productivity, private investment, and entrepreneurship. The policy can then focus on building a sports industry rather than empty stadiums. Universities can stop making buildings and campuses and focus on R&D and using existing capacity. Training academies can share resources to capacity rather than each department seeking buildings.

Potential growth and productivity have been on the decline for the last four decades even as we rushed to develop large ‘brick and mortar’ assets—roads, buildings, metros etc. I urge policy to rethink the age-old Haq/HAG model. Time to stop and modernize our growth policy: develop a modern Results-Based Management system indigenously.

7.5. PAKISTAN'S REFORM MOMENT MISSED AGAIN

Pakistan is again in the news with the dismissal of the Prime Minister by the Supreme court. The international media is calling it a manipulation of the Pakistan army.

Yet experience shows that democratic governments reveal incompetence and corruption within a year of taking the oath. The polity starts bubbling with rumors of misgovernance and corruption. The opposition, which is always marginalized, finds street protests preferable to parliament. Why? Part of the answer lies in the fact that Pakistan hastily adopted the UK constitution, an unwritten set of norms and rules embedded in British history and culture. No serious attempts have been made to adapt it to the local environment and culture. For example, the election process and party system had never been adequately defined. Every election is considered to be rigged, and all parties are virtual personality cults with no internal process, management, policy development capacity, or clear membership.

Elections are a mere selection of dynasties and democracy mere bickering among the few who have regarded the country as a fiefdom. 2 families—Bhuttos and Sharifs—have led politics for the last 40 years while evidence (Ali Cheema et al.) has shown that about two-thirds of legislators have come from about 400 families to make policies in a country of 200 million people.

The state is captured by dynasties. Dynastic politicians don't even file a tax return, and those that do have a lifestyle way beyond the tax that they paid. Beyond taxes, power is egregiously abused every day. Recently a minister (member of an influential clan) ran over a policeman in broad daylight, and it remains to be seen if he faces any consequences. In the past, too often, they have not.

Parliament is dysfunctional. The Chairman of the senate repeatedly complains of the lack of attendance and the continued absence of ministers and the PM. Budget discussions are among the shortest in the world and pass without any opposition. But then, parliament made itself redundant by making it mandatory to vote along party lines (14th amendment).

Elected PMs operate through an 'inner cabinet' of favorites—family members, civil servants, and unelected friends. The policy is merely PM's whim. Policies and projects are put in place without due diligence; international agreements are signed without analysis, and loans are signed with no transparency. Public disclosure is severely limited.

The executive retains many control devices (inherited from the raj) to corrupt all and weaken democracy. Like a medieval king, the PM can, at his discretion, award favorites—judges, officials, and others-- government-owned mansions, cars, land grants, and post-retirement jobs.

The PM does not see himself as the first minister leading the change process through debate in the Parliament, cabinet and the public domain. We hear of Nawaz Sharif wanting better ties with India but on a personal level. Yet, no policy statement has been made by him, nor have we seen a cabinet or parliamentary process for making this happen. Perhaps Fareed Zakaria's book "Illiberal democracy" needs a follow-up to tell us how to fix this authoritarian, dynastic system.

If he did, surely, he would point to needed constitutional changes to build checks and balances to arbitrary power. At a minimum, the PM needs to be fully engaged with a working, independent parliament and an engaged consultative full cabinet. No more whimsical policymaking without due process.

Several options are available to end dynastic politics. Election systems independent of the executive and beyond rigging are a must. Term limits, even family limits, systems other than mere first-past-the-post, formalized party systems that allow more in-party democracy and much more can be considered.

Perhaps the most important crucible of democracy local government, which dynastic politics has blocked for decades, could be developed to bring democracy closer to the community. Government departments and agencies are an agency of restraint against the willful government. The excessive centralization of inherited colonial systems must be reformed to allow more room for independent regulatory and watchdog agencies to provide more monitoring and evaluation to voters.

Pakistan's polity needs reform. Talking conspiracies and personality politics will lose yet another reform moment.

7.6. BEYOND BEGGING AND TAXING!!

I am ashamed of our constant begging. How do you feel when you see the PM sitting in front of Gulf Sheikhs (with countries the size of Gulberg) begging supposedly on your behalf? Meanwhile, our analysts have only one refrain “tax more”. They can’t seem to think independently of donors who employ them as consultants on trifling contracts. I have in other writings that donor claims on taxation are misguided economics.

They point to our deficits arising from the government’s incompetence and self-aggrandizement as a reason to tax the people of Pakistan more. As a further reason for taxing us more, they point to the abysmal level of public service here. They fail to see that the government has no motivation to provide us public service as it is preoccupied with self-aggrandizement and useless mega projects for ‘unknown’ reasons.

We do have a national employment emergency. Our youth constitute over 50% of our labor force, need jobs, and the economy is not growing fast enough for them to find jobs. Our government should be doing all it can to create jobs.

‘Begging and taxing’ is not creating jobs instead, it is keeping the government distracted from the work that needs to be done to create more jobs. Let us get some answers by looking at ‘distressed companies’ with cash flow problems and slow growth. Such companies go through a ‘restructuring’ at all levels to come out of this situation. The ‘restructuring/reform’ plan does not involve “rob (tax) your customers more!” nor does it allow more mega-projects. In actual fact, grandiose plans are slashed.

‘Restructuring/reform’ involves three key areas of work:

- (1) Review and refine your product line for focus, efficiency, and increased margins.
- (2) Review costs to cut them.
- (3) Restructure assets and liabilities for increased income in the years ahead.

Of course, this requires some thought and expertise, which is missing in our government. An ‘economically distressed country such as ours sadly has no ‘restructuring/reform’ plan but many ill-advised mega-projects for which it is constantly seeking funding and debt.

Here I want to focus on asset restructuring for four reasons. First, to show the strident lobby for increased taxation that the government has huge investment, growth and income options in the restructuring of the many assets that the government is holding. Second, to show the ‘tax first’ lobby created by donors that if the economy is allowed breathing space through such restructuring and investment and growth takes place, it will lead to more employment, growth, and taxes. *Squeezing more taxes of a slow economy is what austerity is, and it destroys societies.* Third, government assets currently are ‘dead capital’ that is weighing on the economy, making us an ‘economically distressed country. Fourth, this dead capital amounts to a tax on the rest of us and must be included in our tax calculation when we are called a low-tax country. So dear donors, please stop abusing us!

If only our government took asset restructuring seriously, we could hold our head high and neither suffer donor abuse and poor policy nor have our PM be a supplicant to every tiny country. Here are a few examples of asset restructuring. City center government property could

be made available for , mixed-use development, ranging from hotels and shopping malls to apartment blocks. My estimate made at the PC is that such development in Islamabad alone could generate over 6 trillion of investment sales, generating about 6 million jobs.

Then there are large tracts occupied by government training institutions. NDC, Staff College, Naval War College, NIPA. Civil service academy in Lahore all come to mind. Why can they not be moved to Quetta or Kohat and this land freed once again for serious development? If converted into serious mixed-use development, this could easily allow sizeable commercial construction and much employment.

A large part of city center land is given to the elite for their entertainment at subsidized rates. This includes the polo ground, golf courses as well as clubs such as Sindh club and the Punjab Club. If the peasant's land can be acquired for DHA, why not take over these 'rich man' facilities for serious commercial development that relieves our debt burden. This could be a large bonanza yielding many jobs. We could even build libraries and community centers on this land.

Creative destruction could yield a huge bonanza. Take Gulberg Market, liberty in Lahore, Jinnah Super Market in Islamabad! If we merely find a way to turn these relics of another time into modern assets, dead capital can be converted into gold. For example, liberty is a vast area which could house a beautiful modern multi-level shopping mall as well as hotels, apartments, offices and parking. The use of this concept in other places could mean more output, revenue, and jobs.

Still more creative destruction! Our cities look dated and decrepit because our silly bureaucracy does not allow renewal. Housing stock normally has an average age of 20 to 30 years. Zoning also needs renewal each generation. Yesterday's suburb or housing could be today's commercial hub leading to large valuation gains. As I have been arguing for many years, our zoning laws are antiquated and anti-development. Allowing our housing stock to be renewed from low-slung *kothis* to high rise flats and commerce in all our cities from Karachi to Kohat could be a big bonanza. I think this could be huge, leading to an acceleration of growth of about 2 percent per annum for about 20 years.

There is more, but I am limited in space. With so much dead capital lying around, why do we beg with dishonor? My calculations suggest with these simple changes, GDP could double in about ten years or less through the growth of construction, hospitality, retail and ancillary industries. Moreover, none of this requires financing, only a rule change. More important, it will vitalize investment!

7.7. ECONOMICS IS MORE COMPLEX THAN “ROCKET SCIENCE!”

Here Everybody is an Economist!

Everyone carries their shopping list of what needs to be done. I often get long lectures from opinionated people who obviously use the same ideas at dinner parties and official meetings (why are they called to official meetings and allowed to hold forth?). In a loud voice and with full conviction, they argue, “it is not rocket science!” All we need is “Get the basics right!” As if these are arguments. But no matter the audience (especially arrogant officialdom) buys their line.

My question, “what are the basics?” is often drowned out! We all know what the basics are without actually talking about them. This is how economics is done in Pakistan. After much effort, I find out what the basics are in the minds of these philosophers. I learn that their basis is mere wishes for an increase in revenues, exports, and growth. It makes it easy! Does it not! We wish all the good things and call it economics.

For sixty years Plan after Plan as wished for these good things, increase production, increase growth, increase exports. It is just so sad that the economy will not listen to these economists and deliver all good things like production, growth and exports. And not to forget that all this must happen with low inflation.

Of course we must keep asking for more revenues and every discussion must note well-worn examples of the rich not paying taxes. Ok so let us have a new tax and collection must improve. There you go. Now see “It is not rocket science!” What is it about rocket science that these guys like? Every three minutes, someone mutters “it is not rocket science!” and all nod in agreement. Discussion killed! Time for next anecdote!

This is How We Do Our Thinking Here!

Is it worth telling these guys that economics is more complicated than rocket science? Rockets are inert and do as they are told. Charting their course is easy. They listen to signals follow. Self-willed humans on the other hand, do as they like. They resist and react to each other and to government policy. If policy is made without taking into account how self-willed individuals in their millions do, the results will be very different from those that were anticipated.

So next time someone tells you economics is easier than rocket science and their pocket list of wishes is all we need, remind them that rocket science is easy, economics is much much more difficult. Let me offer another list of “the basics” for good economic outcomes!

One important way of looking at the economy is that it is an aggregation of all transactions in the economy. Transactions are basically exchange of goods and services or contracts to exchange goods and services at points in time. It is important to understand that value is created at the point of exchange. Production happens for purposes of exchange. Successful economies like the US have configured their economies to maximize the number of transactions in the economy.

Most of us who have transacted in Pakistan know how difficult it is to transact in most markets. Buying land outside DHA can be a nightmare; contracts can easily be dishonored; shareholding in a company is no guarantee of a dividend it a share in returns; consumer goods

come w/o warranty or assurance of quality and so on. Basically we have an economy where transactions are difficult and often insecure.

Looking at it from a transaction viewpoint, I can come up with another list if “getting the basics right” this list would begin with I’m proving law and order and go on to securing property rights strengthening contracting, redesigning and reframing markets for efficiency and removing incentives for rentseeking and putting in place incentives for entrepreneurship

This was what government was supposed to do. This is the basics of governance! Sure it requires hard work and much thinking to make this happen. And yes it is even more complicated than rocket science.

If our friends would be more inquiring, they would find out that the development experience of the last sixty years has shown the primacy of these basics over their usual list of wishes. Without better governance, all those good things --growth of economy exports and revenues--that our “rocket scientists turned economists” want in all probability not happen. A little reflection will show that Plan after Plan wishing for increased growth exports and production with higher revenues have come to naught because of “poor governance!”

Perhaps, saying “it is not rocket science!” stops these people from thinking. All of us need to come out of our comfort zone and encourage discussion and debate on real reform which is better governments for better markets.

7.8. CIVIL SERVICE REFORM—SOME PRINCIPLES

Let us begin by recognizing that civil service comprises the bulk of the executive and affects all aspects of society. The configuration of the civil service for a new society in a new century should be of serious interest to all. Consequently, this reform should not be done in back rooms by the patient that needs healing—the bureaucracy. Nor should it be left to donors who have had an opportunity in the past and failed.

Reform should be developed through a **process such as an independent commission** comprised of (or backed up by) serious technical skills, intellectual firepower, and indeed some fresh faces. The commission must do open consultation with civil society and many segments of society. Donor input if any, should be subjected to local public scrutiny and not just implemented.

The Key principles of reform must be clearly understood and debated in Parliament and passed into law. CSR is too important to be left to administrative change in rules alone.

What Then are the Principles that Such a Reform Should Seek?

First, **civil service independence must be guaranteed by law.** This can only be done if all law ensures that all key decisions about the running of the service (recruitment, promotions, transfers, pay, and pensions) are protected from any interference. Of course, all these things happen under legal guidelines, but that is all. MNAs and ministers should not be able to control civil service appointments at any level.

Second, **UPS should be abolished.** Civil service should not be viewed as a monolith comprising of all government employees. Currently, Unified Pay Scales (UPS), which are a hangover of the socialist, planning days, seek to place all services on an artificial relative scale so that doctors and professors are considered inferior to administrators. This seriously impedes professional development and should be discontinued. Professions and government agencies (or professions) should be allowed to establish their own pay scales within their budgets!

Third, predetermined lifetime careers where promotions are guaranteed at known intervals have to be discontinued. **The current entitlement mentality of civil servants has to end.** Merit rather than entitlement should be initiated so that performance is rewarded.

Fourth, **all civil service jobs should not be protected from external competition.** The preferred scenario would be to open out recruitment to the external competition! If that is not acceptable, all senior appointments (Secretary and Additional Secretary) should be based on worldwide competition. Public sector senior appointments affect so much; the best people should be sought for them.

Fifth, **the current system of the federal government controlling provincial and local civil services is not conducive to good governance, federal development, and economic growth.** As in the rest of the world, each level of government must be independent. The provinces and cities should have their employees, and there is no reason that they should be paid less or regarded as inferior to the federal government. This is also the need for devolution.

In the current system, much is centralized at the secretary level with entire divisions and attached departments placed at the beck and call of a secretary, confusing responsibility and

extending the chain of command. The Rules of business make the Secretary of a division the Principal Accounting Officer of not only that division but of all attached departments. The result is an excessive centralization that impedes productivity.

Sixth, **transfers should be recognized as a control device and should be discontinued.** Frequent transfers are not helping productivity and should be questioned in Parliament. Like the rest of the world, appointments should be given tenure, with new appointments being obtained through a competitive, not a command process. Of course, mobility rules will be put in place not just within the civil service but also to facilitate a flow between the public and private sector for required cross-fertilization.

Seventh, **perks that are now so connected with power, corruption, and payment should be monetized.** The current payment method is dysfunctional, induces corruption, and adversely affects productivity. All perks should be monetized, taking the government out of the business of providing houses and cars and paying utility bills. Salaries should be all in cash based on market comparators and indexed. Benefits should include no more than indexed, fair valued pensions and health care.

Eighth, **the established practice of “public service should not be paid well” needs serious review.** Public service positions are too important to be shortchanged. Public servants should be paid well in keeping with the heavy responsibilities they carry. All serious reforming countries have done that. Market-based salaries should be given while appointments and promotions should be on merit and external competition.

Ninth, **processes and rules of business should be reviewed to** ensure that government becomes learning, investigating, and thinking government using technology, developing data, information, and analysis, and innovative in policy determination and public service delivery. Such a bureaucracy would continuously reform itself, adapting to a rapidly changing world.

Tenth **the training program of government should be reviewed** to facilitate a modern professional bureaucracy and move beyond the current approach to develop a generalist league of gentlemen. Without a process for reform-- a serious commission led by thought and intellect and public consultation—and the adoption of these principles, there will be no serious civil service reform!

7.9. PAKISTAN NEEDS IMAGINATION AND REFORM

Interview with Pakistan Today

We Need to Move to a New System that Promotes Competition and Merit

- You have long advocated better management of cities to lead growth. Why? And why did the government not heed your advice?

Answer: We must recognize that the government is seriously depleted of talent to make a development agenda. Such an agenda requires serious research, thinking, and debate. When we had such an agenda, there were people like Mahbub ul Haq, Burki, and Parvez Hasan charged with this responsibility, and they had the ear of the leadership. Today the system has no room for such people. And the leadership is distracted from development.

All our think tanks universities work for donors on their consulting agendas, which are always following some fads. Today it is trade with India where donors are spending millions of dollars, and everyone is focused on that issue. Planning Commission needs to put up some funding for research to allow a domestic policy agenda to emerge and liberate our intellectuals from being mere research assistants to donors.

On cities, my view is the real powerhouse of growth is the deregulation of cities. Powerful, well-organized cities naturally reach out to their supply lines even if they are across borders. But such cities create entrepreneurs, innovation, and creativity. They will lead to high inclusive growth and transform Pakistan.

- Why is it that military governments seem to achieve better production and growth than our more democratic setups?

Answer: Military dictatorships have been lucky that a neighborhood crisis sends money into their laps and, therefore, growth picks up. But let us also review their performance. The increased supply of aid gives them an opportunity which they waste on populist ideas like giving their MNAs development funds, building without clear thought, and pursuing agendas that are anti-development. Sadly our military has never had a vision for reform and restructuring society for development.

Both military and democratic governments suffer from a common problem: they lack the imagination and capacity to think through the needed reform. Both rely on an outmoded and a rent-seeking civil service. They pick up “hearsay” agendas and do not have the attention span to make seriously considered policies. Protocol, perks, and foreign trips take up all their time. This method of governance is such that there is no time of process for serious thought.

- Does heavy feudal representation in democratic parties eventually make for policies that are not working-class friendly?

Answer: It is surprising how many cabinet members, parliamentarians, and senior officials (both army and civilian) claim to have connections with agriculture and argue for higher support prices and subsidies. This is at odds with the situation where the majority of Pakistanis now lives in urban areas. The lack of a census and proper redistricting seems long overdue.

It is also surprising how many are beneficiaries of the perk/plot system. The incentive system at decision-making seems to perpetuate rural subsidies and the plot/perk culture. And this is a drag on development.

- Do we have a way out of repeated structural adjustment programs of the Fund?

Answer: Fund programs are not to blame. Our policy is. I certainly do not share the common perception that policy should worry only about tax/GDP ratio or only about exports. The policy is about getting the right mix of interventions towards a clear goal. We have a confused and outdated agenda. We are continually chasing aid and trying to please people with ill-thought-out populist schemes.

My view which I put in the Framework for Economic growth (FEG), (which was approved by The National Economic Council in 2011 and 12, was that we have to be clear that we are going to be growth driven and that growth is going to come from deep structural reform. We pointed to several areas where reform could be made to generate quick wins and achieve sustained economic growth. Urban reform and openness would boost our growth and investment very quickly by a few percentage points. If we develop a serious government through civil service reform, many of our governance problems will begin to be addressed. If we follow the FEG approach, we can unlock a virtuous cycle of growth investment and reform.

- You have been a champion of civil service reform. Can you explain why and what kind of reform you have in mind?

Answer: The human enterprise, from the pyramids to the modern day capitalism has always been maintained and developed by a bureaucracy. I argue for a civil service reform not to rid us of bureaucracy but to develop a strong and modern bureaucracy that we need.

Building a bureaucracy for the 21st century will require a continuous reengineering process. The principles, however, are clear. 1. More decentralization; 2. Increased competitive recruiting especially at senior levels; 3. Merit as opposed to seniority; 4. Monetization for transparent compensation and to end “enclave mentality” 5. Modern technology-based work processes.

As argued in the FEG we need to move to a results-based system of management rather than the current input-based system. The movement to that system will allow a much more open and decentralized system to emerge. Currently, the economy and all decision-making is being destroyed by the secretaries in Islamabad controlling everything from the power sector to railways to PIA through what is known as the Principal Accounting Officer. Their grip on government must be loosened. The current mess has been made by this over-centralized system. It creates large incentives for corruption rent-seeking, and maladministration.

- Why do you think your Framework for Economic Growth (FEG) has been discarded even though it had been appreciated in several circles?

Answer: Let us not fool ourselves into thinking that our government is based on sustained hard work or sound considered policymaking. We would not be in this mess if that were the case. Everything is now done on a whim. Work is considered to be ill-prepared meetings where hasty

decisions are taken by pointing to an impending crisis or the urgency to deliver to people. No one in Islamabad reads or has time to read a complex document like the FEG.

Ministries like to operate in silos and arbitrarily. No one wants the discipline of a plan. Collaboration and teamwork require effort and seriousness. It happens in an atmosphere of professionalism and not in a plot/perk/protocol culture.

We arranged many meetings, conferences, and other activities for the FEG. Sadly none of the ministers, MNAs, and secretaries had the time to come to them. Unfortunately they go to no learning events or seek knowledge. We have to rid ourselves of the arrogance of all knowledge residing in influential people. That is not a modern concept. It harks back to feudalism.

The aid supplied consultants have made the government lazy. The policy is handed to ministers like fast food to ministers in donor conferences where announcements are made and loans signed without adequate thought or ownership.

- Remembering the good times of the dictatorship era, people question the ability of democracy to arrest our economic slide?

Answer: I have already told you I am no fan of dictatorships, and I do not think they have performed better. They frittered away opportunity through arrogance, lack of knowledge, or sheer adventurism. I can make a case for better decision-making by democratic governments by pointing to financial sector reform, accepting openness, moving to decentralization, etc. But I do not want to make it a dictatorship v democracy debate.

Remember, both dictators and democrats have maintained colonial institutions without much updating. And those institutions have atrophied over time and are impeding development. Lots of international data—the cost of doing business, governance indicators—point to this. This is the major failing of our system. However, this is not to say that our democratic system cannot be improved through reform. We should be thinking and evolving ideas for framing better democracy. But unfortunately, all types of government, our bureaucracy, and our society have not thought along those lines. And we have starved the thinking sector so that they are incapable of giving us ideas. But as I said earlier, the thinking sector needs funds and support from the government to liberate it from being totally beholden to donors.

- Why are we still confused about the merits, or otherwise, of privatization? Can you please explain the economic rationale of hanging onto Public Sector Enterprises that hemorrhage hundreds of billions every year?

Answer: I think privatization is no longer opposed anywhere in Pakistan. People are suspicious of the process, expecting some form of cronyism. Without reform, the most common term I hear about the government is “trust deficit”. This is why I think we should make reform a central process of governance for many years to come. PSEs are very lucrative to those who control them. They are slush funds with no accountability. Board members, mostly civil servants and friends of incumbent governments, get large perks and payments. Those who have influence can get comfortable and lucrative lifetime jobs. All these people will fight tooth and nail to preserve this system. It is up to the rest of us to break this nexus. But for good privatization, we need good government and regulation.

- How can entrepreneurship be encouraged when the government is crowding out the private sector from credit?

Answer: FEG argued for entrepreneurship as one important engine of growth. But please remember that there is a difference between an entrepreneur, an investor, and a businessman. An entrepreneur is a passionate innovator with ideas and is willing to take risks without resorting to the subsidy or government support. They seldom use credit. Venture capital markets support them.

Governments cannot create entrepreneurs. They can only create a framework for entrepreneurs to flourish and then let things happen. FEG was based on developing such a framework. It consists of vibrant markets backed by an efficient regulatory and legal system and a strong state providing security of life and property. Entrepreneurship happens in dense people-centered cities. Such cities put commerce before the privilege of perks/plots and *kothis*. In short, such cities allow for density, high rise, mixed-use and walkability.

- Considering the trajectory of the last ten years, what is the most optimistic expectation for the decade down the road?

Answer: Without reform and a change of mindset, we will muddle along. We have a youthful population, large and rich diaspora, and there is a large informal economy beyond the pale of government. I think these things will keep us afloat. There will be no major crisis. However, we will not break out like India, China, and Korea. For that, reform has to accelerate. And that reform must build institutions of the 21st century.

The current SRO/perk/plot culture promotes rent-seeking and discourages entrepreneurship. We need to move to a new system that promotes competition and merit. I spelt it out in the FEG. That course will be followed. It takes time for complex ideas to be understood. I knew it would not be immediately implemented or understood. My desire was to change the narrative of growth. It will take time, but the seed has been planted, and the narrative will change. They can deny me a citation or credit for my ideas based on years of research, but they cannot rid themselves of the idea.

7.10. SHOULD WE THINK JUDICIAL REFORM

Justice Iftikhar Choudhry will have a place in Pakistan's history for giving us judicial independence. What we now have to achieve is a working judiciary. For that, we should start thinking seriously about judicial reform. We all have personal stories of a justice delayed, justice denied, and justice sold. Many of us hesitate to approach the judiciary settling out of court for a song.

Every person has many such stories of long-delayed justice. Cases have been pending in some cases for decades. Decisions are given without regard to economic consequences. Decisions on economic matters are given without being informed by economic analysis at a cost to the economy. Judicial reform has been restricted to increasing judges' perks, compensation and pension and that too for mainly the superior judiciary. Nothing tangible has been done to ensure timely and fair justice.

Perhaps it is time to initiate a discussion on how our strong independent judiciary can deliver speedy justice that cannot be bought, that never has to take more than one oath, which no dictator can easily manipulate. I can think of many such proposals. Why do cases remain in court for decades? Those of us who are in court find it so strange that hearings are scheduled after months, and then continuances are given on trivialities like a lawyer not showing up, or claiming not to be ready, or claiming to have a cold. In many advanced countries, a case once scheduled, continuances are not easily given, and it is heard to a conclusion at a good pace with limited intervals, if any. Why can this not be done here?

Judges can easily be incentivized to clear their calendars very easily! Instead of giving them hefty salaries and perks, let the system offer them bonuses for speedy and good justice. Let us say we give a high court judge about Rs. 0.5 million a month in salary with no perks. But put up a Prize of say Rs 20 million annually if he clears his calendar of cases that have been pending more than 3 years. The bonus could be adjusted downwards by the proportion of cases left over. Thus if only 30 % of such cases were left over, he gets only about Rs. 0.67 million. Penalties for older cases could also be built in. For example, if cases over five years remain pending, the bonus could be lessened by the percentage of the calendar containing such cases.

Should we worry about the quality of judgments with such a bonus scheme? This is a problem that can also be taken care of by setting up a watchdog body where a bunch of researchers is funded to review judgments ex-post for their quality. This would place pressure on judges to be careful in doling out justice.

Reforms in developing countries often forget human resource management. Any reform that does not prioritize talent attraction and management will be a failure. With cash payments, no perks, performance based-bonuses, rigorous training, and monitoring, a good system can be developed that would attract and challenge talent. The system could similarly be configured for lower courts. Funding for such a system could come from court fees and awards for damages and recovery of court expenses.

Rights of appeal should, and frivolous litigation should be severely penalized. With a good legal basis for punishing frivolous litigation, ample fines would accrue to fund justice. Or at least such laws would free up courts for taking up serious issues.

There is every reason to allow specialized courts to be developed. Our current era of specialization should reflect on our judiciary as well. Financial transactions could be handled by specialized courts as could property rights cases. Cases involving economic policy issues could be heard by some special courts where there could be serious economic analysts assisting judges or even serving as judges.

The right of appeal too needs to be seriously reviewed and must stop somewhere and not be merely used to delay justice. Most transaction law should stop in the high court, allowing the

Supreme Court to specialize in constitutional and fundamental right issues. Training and retreats should be held by the judicial academy selectively for all levels of the judiciary to reflect on the state of justice periodically. I see no reason why the Supreme Court should not annually hold a retreat to review judicial work, including theirs, over the year.

Economists have long recognized the importance of the legal and judicial framework for the economy. We have also seen the impact of judgments that have not been informed by economic analysis. Judicial reforms of the kind I am suggesting will have deep ramifications for our economic prospects. It is important that this should become the subject of discussion in our country. Possibly then, it will be taken seriously by the government and the judges.

7.11. FOR GROWTH, PLANNING AND REFORM COMMISSION MUST BE INDEPENDENT AND PROFESSIONAL

I congratulate Ahsan Iqbal for adding the reform component to the Planning Commission. I wanted to do that, but my good friend Hafeez Shaikh did not believe in reform. But Mr. Iqbal must not go forward and reform the PC. I would like to put forward my thoughts for discussion as I believe reform without broad discussion is useless.

If we want growth, we must develop a planning process along the same lines as the SBP. This would mean an independent Planning Commission enshrined in law with technocratic leadership. There should be no minister of Planning; the FM should only be in charge of the MOF. DCPC should be a tenured technocrat with a rank equivalent to a federal minister. DCPC must be a part of all high-level decision-making bodies to present the considerations of long-term growth and development. The PC should report directly to the PM. Subjects of the PC that are replicated in the MOF such as Poverty, reform, and PSRP should be either dissolved or merged in the PC.

Members to be professionals and handpicked by the members collectively with no review from the establishment division. PC HRM and salary scales should be decided on a market basis in line with the SBP. Like the SBP, there should be no secretary of the PC or right of establishment division to disrupt through unexpected transfers.

Plans should be studied, owned, and amended by the cabinet and all the line ministries through another consultation. All projects, policies, and programs, domestic and donor-delivered should be aligned with planning documents. The onus should be placed on all stakeholders to align themselves with Plans.

Any new growth plans should be made through a long and open consultation process in which agencies must wholeheartedly participate. This will happen if the government backs this discipline fully. All policies and reforms must be aligned with the Plan and should pass through the Planning process before submission to a higher forum.

Planning processes and coordination mechanisms—policy, plan, and program consultations-- must be respected by all agencies at all levels. Cabinet and ECC should not allow these to be bypassed. The cabinet must empower the PC to initiate work on the results-based management system that is the centerpiece of the FEG through periodic meetings to facilitate the process.

The PC must be empowered again through a cabinet process to lead the work on economic reform on behalf of the cabinet. This will involve consultation with concerned agencies, identification of reform initiatives through the results framework. Then through detailed collaboration with concerned agencies, reform initiatives must be broken into benchmarks and measures with timelines for achieving them. MOF Would be involved in working out the reform's financing requirements and the linkage between reform and disbursements.

Reports on these reforms, timelines and financing requirements in collaboration with MOF and other agencies to cabinets for approval of reform process. Monitoring the reform for cabinet and periodically reporting to cabinet on the reform. In this manner, PC will play the role of a “reform buddy” for the agency in need of reform and a ‘reform monitor’ for the cabinet.

For better donor coordination EAD must be merged with the PC. The current fragmented approach has impeded the emergence of domestic longer-term development agenda. We must have a coherent and unified approach, and for that, EAD must be a part of the planning process.

Eventually, budgetary processes should be changed to allow maintenance and smaller projects to move into regular budgets. Only very few large projects will be reviewed and monitored by special procedures that will be developed for handling and implementing them.

The dichotomy of division and commission, which is seriously impeding the work of managing growth, must be removed. Currently, all professional staff is in a division which is managed by a Secretary, Additional Secretary, and a Joint Secretary, none of which are appointed by the DCPC or with the input of any member. This leads to several problems making PC very inefficient.

The turnover in these controlling positions—Secretary, Additional Secretary, and a Joint Secretary—is very high. At each change, the work of the PC is thrown off balance as these appointees are from service groups that have little background in economic policy and reform thinking.

In addition, there is always a tension between the members and the Admin staff of the division—Secretary, Additional Secretary, and a Joint Secretary. The technical staff, too, is deeply frustrated because they are beholden to non-specialists and cannot even be considered on merit to occupy serious decision-making positions in the PC.

Because the secretary controls resources and because the work of economic policy and reform is slowed down. Through the control of the administration—Secretary, Additional Secretary, and a Joint Secretary—and the centralization of resources, the PSDP and the PC are subject to undue political influence. This seriously affects the way the PSDP is used. Public investment in the country is rendered seriously ineffective through this political influence.

PC must be run as a commission by its Deputy Chairman and its members. The Deputy Chairman must be a professional appointed on tenure the same as the SBP governor. He, in collaboration with his members through a search process, must find the best people on the country for members and they must all have tenured appointments. No agency should be allowed to appoint members over the heads of the PC. Members' portfolios must change with each new "Framework of Economic Growth". Currently, I suggest we must have members for the following areas, Public Service delivery, Regulation, Reform, Energy and Water, Production, Social development, Education, technology and research, Chief Economist and Economic Policy, Inter-Provincial Coordination, All provincial planning chiefs, four prominent academics or from NGOs as non-resident associate members, two prominent members of society.

7.12. ON POWER SECTOR REFORM

Foreword to the PC Circular Debt Report

Power sector inefficiencies have cost us well over 7% of GDP in direct budget costs in the last five years. In addition, growth has been slowed down by at least 2% per annum, i.e., over 10% foregone output in the last five years. Yet, the problem is far from behind us.

The restructuring and reform of the power sector has been held up for over two decades leading the costs to accelerate in recent years. The important question that needs wide debate is, “why are we incapable of addressing such a big problem?” I would like to put forward two major propositions relating to this issue:

- (1) The problem requires careful study and research, which can only happen if time and resources are devoted to the problem. Resources would include assembling independent expertise with adequate funding to develop perspectives on reform.
- (2) With enough independent expertise and research to develop a body of knowledge on the required reform, a reform process must be developed. The process followed thus far—repeated ministerial committees informed only by the ministry that needs reform—has only led to increasing difficulties, not furtherance of restructuring. Reform must not be left up to the ministry that needs reform, nor should it be the domain of any one individual, either a secretary or a minister.

Reform of the power sector involves the restructuring of all the involved entities, including the policymaking ministry and the regulatory body NEPRA. It will, of necessity, involve a change in administrative and functional relationships. It will involve setting up market mechanisms which can only happen with decentralization. The ministry that is in severe need of reform cannot be expected to make it on its own with no expertise or monitoring. Similarly, no ministerial committee can take charge of the reform unless backed fully by expertise and research. But then, on such a large issue, the cabinet should be the place where reform happens assisted by an agency that on behalf of the cabinet, is pushing the reform agenda on the ministry and the sector.

The Planning Commission (PC) is in charge of economic growth and was envisaged to be responsible for asking for reform to remove constraints for growth. The reform was picking up the pace when the PC was taking the lead and working with the ministry of water and power to make reform (August 2010).

The Framework for Economic Growth (FEG) that was based on extensive research and consultation was approved by the National Economic Commission in 2011, has emphasized that if we want to achieve high growth, the emphasis in the coming period must be on the “software” (economic reform, management, and productivity improvements) rather than the “hardware” (brick and mortar investments) of growth. The widely respected FEG argues for mainstreaming reform, especially that of public sector management, regulatory improvements, and more competitive markets for innovation and entrepreneurship.

FEG has argued for moving away from our *current input-based* (projects, brick, and mortar funding) to *new results-based economic management* (RBM) that will allow objectives and their

instruments—reform—to be monitored. This requires a deep reform of administration which should occupy cabinet and parliament for the coming years. It will involve:

- Entry of specific skills in ministries and a move away from the current generalist civil service system
- Better identification of objectives and reform instruments at an early stage and a commitment of ministries and public sector entities to efforts toward them.
- The role of the PC as the manager of the RBM system for economic growth and reform. PC would then develop studies such as this continually and report to the cabinet and parliament. It would then be responsible for containing this loss at an early stage and pushing the concerned ministry to undertake reform.

This report which USAID has prepared in collaboration with the PC is an attempt to inform reform with some research. In my view, such research is an urgent requirement and should be widely discussed to make reform an urgent priority. The report informs us in several important areas.

- Building a decentralized system of governance is at the heart of the problem. Efficient power sector reform cannot happen if a centralized system continues to be run by a ministry.
- Decentralized and independent entities must be run on corporate lines with corporate management without government or ministerial interference.
- Technology is part of the solution as it allows for improved monitoring, measurement and payments.
- The decentralized system needs an able, competent, independent, and empowered regulator responsible and accountable for the system's efficiency and not just tariffs.
- The tariff system must be reviewed continuously to ensure that due costs must be passed on to consumers eliminating cross-subsidies, untimely fuel price adjustments, and artificial and exaggerated loss provisions.
- The question of regional differentiated tariffs has to be developed through careful planning and research.
- Subsidy should be targeted to the poor only and not as currently available to all.

With these improvements, the system can be made solvent over a period of time. Then investments will start flowing in not only for increase of capacity but also for more efficiency, including a better fuel mix.

We have again tried to identify the problem and find steps to its resolution. I compliment our teams at USAID and the Planning Commission on a worthy study that does indeed delineate a road map to tackle the circular debt issue. But this is only one beginning. Unless this report is taken seriously and a reform process built, we will continue to see this problem stretched out at a considerable cost to the country.

7.13. RESTORE THE PLANNING PROCESS!

Restoring the Planning Process

- (1) The Planning commission is the apex body for making visions and plans for the future of the country as well as for coordinating the medium-term Macroeconomic framework. The vision and plans for the future gave all departments in all levels of government guidance and direction for policymaking and planning in all aspects of the economy. The medium-term macro framework defines the longer-term resource base as well as guidelines for fiscal discipline and planning.
- (2) The planning process instills a certain discipline in government economic policymaking. Both these activities are based on a widespread consultation at all levels and hence the development of coherence and coordination in government. In conducting these activities, the planning process collectively identifies the opportunities and constraints for the coming period.
- (3) Sadly we lost the planning process and focused only on projects. In the early days, when the country was young with limited infrastructure and in a post-war environment where aid was a newly developed phenomenon, and socialism was in the air, our planning relied heavily on borrowing and developing infrastructure projects. There was a strict project appraisal and implementation process. Over time, various government departments felt that the discipline of planning which placed pressure on coordinating, research, sequencing, coherence to be too cumbersome. it was far easier to work in silos.
- (4) It was easier to push a policy on an ad-hoc basis. Besides every ministry looked good presenting a policy. Today we have a huge proliferation of policies often contradicting each other and confusing the regulatory structures while feeding legal suits. Most of the policies also tend to be transactional and giveaways and hence against the spirit of policymaking.
- (5) As planning processes weakened so did the project appraisal and implementation process. No longer did the departments want to concede to project appraisal and implementation norms. Without the planning process they felt gut feeling was enough! In addition politics was allowed to enter the planning process in the 70s providing further impetus to denuding the project appraisal and implementation processes. The result is
 - Projects are approved without due diligence.
 - Projects are seldom completed on time
 - Projects frequently have large cost overruns.
 - Projects focus on brick and mortar
 - Completion on time is not a focus
 - Project quality is poor
 - Seldom is there a provision for maintenance after the completion of the projects.
 - Often current budgets do not even provide for the running of a completed project

- Completed projects especially of a social and educational nature are severely underutilized.
 - There is an inordinately high pressure to build roads contrary to appraisal norms.
 - Gas and electricity grids are stretched way beyond efficiency evens at huge cost to the economy.
 - Consequently, the realized gain from projects is far less than that which was originally envisaged.
- (6) The weaknesses in project appraisal and implementation mechanisms have weakened the impact of development spending. PIDE study shows that development spending has little or no impact on long run growth. A PC study shows that development spending has a short run impact of .07% on growth when development spending increases by 1%; *in the long run there is no impact of increased development expenditures on growth*. Moreover, it is suggested by data that *further* investment in roads has no positive impact on growth.
 - (7) Meanwhile, as argued in the Framework for Economic Growth (FEG) international evidence has shown conclusively that growth and development happens with good planning and development processes focused on developing quality public sector management, vibrant markets, creative cities with an emphasis in youth and community. The FEG laid out a comprehensive reform agenda that directed toward this development and estimated that this would lead to an increase in our annual growth rate to 7-8% from average of 3% for the last 5 years and this increase would be sustainable. Sadly, despite this evidence the push for projects continues and our leadership continues to labor under the impression that projects will lead to growth. While the FEG was approved by the NEC, at no time was it ever presented to the cabinet, the PM or the president while project meetings were frequently held.
 - (8) Ministry of Finance (MOF), in particular, found the discipline of the medium term too difficult to live with. When the budget was in difficulty it relied on either or both a) Cutting development and/or social sector spending and b) Introducing arbitrary and distortionary tax or tariff measures. In the short term to please various special interests, MOF developed the SRO regime which impeded market competition and openness and hence impacted growth. All three of these MOF initiatives- cutting development expenditures, distortionary taxation, and the SRO regimes--challenge the planning process while also severely impeding growth and development efforts.
 - (9) Consequently, since 1973, MOF has continuously struggled to take over the PC. PC was envisioned to be a technocratic ministry under the PM. The Chairman of the PC was the PM. Most FMs since 1973 have fought to become Planning Ministers a position that should not exist.
 - (10) Almost continuous IMF Programs since 1988 have contributed to eroding the planning process further. As is well known IMF programs are not designed for growth. In the case of Pakistan the programs remained focused on increasing revenues and holding the rein on expenditures often either through a cut in development expenditures or through arbitrary cuts on overall expenditures. As the programs went off track when difficult

revenue measures were not achieved, further arbitrary cuts were imposed often at the cost of maintenance or efficiency. In all case growth suffered further. With the PC and the planning process weakened there was no challenge to the programming approach of the IMF and the MOF. Growth and development suffered severely in this period.

- (11) MOF expanded as part of Fund programs to take over functions of the PC as well as other divisions. While the medium term, reform and development functions were the PCs, MOF through donor support managed to develop projects develop sections for economic reform, poverty management and making the Poverty Reduction Strategy Paper, a substitute for a Plan.
- (12) Donor agendas are facilitated in a weakened planning system but lead to a fragmented development effort. Without a planning process to coordinate disparate agendas individual donors find it easier to deal with ministries that are not coordinated to accept studies, programs, policies, capacity building, PMUs and even new agencies. For example, we have several heavily funded projects running for years that no one has reviewed, e.g. PIFRA, TARP, PMDC etc. EAD wants to coordinate donors without the discipline of the Planning process even though the role of EAD is to purely manage donor relations without getting into economic policy. It should be noted EAD has no economic, technical or planning skills.
- (13) Without the Planning process, fundamental reform is slowed down. The PSE problems arise because no one is pushing for, facilitating or coordinating reform. Despite many Fund programs,
 - The tariff structure is riddled with SROs against the open economy that Pakistan has committed to.
 - Commodity operations continue to choke domestic credit and impose a claim on the budget.
 - Generalized subsidies continue unabated despite a well conceived social safety net.
 - The pricing structure still has too many administered prices e.g. gas, electricity, wheat etc.
 - Overall regulatory structure remains unfriendly to investment and promotes anticompetitive practices.
 - The gains from productivity increases as outlined in the PC FEG remain unexploited while all the government's time remains committed to projects that are riddled with inefficiency.
- (14) The Architecture of economic policy making must be balanced to include growth and development as an equal player to fiscal and inflation management. In the current architecture MOF places everything under the control of short term fiscal constraints. SBP and the banking system are forced to finance the deficit while long term growth is sacrificed unthinkingly through expenditure cuts and distortions as described above. While the IMF is arguing for SBP independence and there have been laws to that effect. Surprisingly in a poor country like Pakistan, little attention is paid to PC independence so that needs of growth and jobs are not forgotten.

- (15) Our failure to make reform happen should alert us to a poor reform process. Yet the way forward for many years is to mainstream and fast track reform. Our outmoded system of governance and public sector management, our regulatory, our public service delivery, our work processes and several other areas are in urgent need of modernization. It should be clear by now that
- Few in government understand the reform process
 - Reform mostly happens at the behest of the donor
 - There is little domestic research or thinking on reform
 - Donor reports drive reform and are often full of mistakes eg TARP, Access to Justice, Civil Service reform.
 - Too often reform is command driven
 - Reform is left to civil service officials who have limited experience in change management.
 - Change management which is a major part of reform must be driven, monitored and incentivized externally
 - There is little reform communication
 - Cabinet must mainstream change-management and reform through its agent the PC
 - To achieve growth and productivity, we must fast track reform. Without a reform process, we will continue to muddle along. The PC through its mandate of long term growth and development must be the cabinet's change agent.
- (16) I would like to propose that for improving our governance, the planning process should be restored and along the same lines as the SBP. This would mean the following:
- Independence of the Planning Commission to be restored through the following steps
 - There should be no minister of Planning; the FM should only be in charge of the MOF.
 - DCPC should be a tenured technocrat with a rank equivalent to a federal minister. DCPC must be a part of all high level decision-making bodies to present the considerations of long term growth and development.
 - The PC should report directly to the PM
 - Subjects of the PC that are replicated in the MOF such as Poverty, reform and PSRP should be either dissolved or merged in the PC.
 - Members to be professionals and handpicked by the members collectively with no review from establishment division.
 - PC HRM and salary scales should be decided on a market basis in line with the SBP.
 - Like the SBP there should be no secretary of the PC or right of establishment division to disrupt through unexpected transfers.
 - The FEG should be clearly studied owned and amended by the cabinet and all the line ministries through another consultation

- All projects, policies and programs, domestic and donor-delivered should be aligned with the FEG and subsequent planning documents. The onus should be placed on all stakeholders to align themselves with the FEG or any other planning document that is developed.
 - Any new FEG that has to be made should be a long and open consultation process in which agencies must wholeheartedly participate. This will happen if the government backs this discipline fully.
 - All policies and reforms must be aligned with the FEG and should pass through the Planning process before submission to a higher forum.
 - Planning processes and coordination mechanisms—policy, plan and program consultations-- must be respected by all agencies at all levels. Cabinet and ECC should not allow these to be bypassed.
 - Cabinet must empower the PC to initiate work on the results based management system that is the centerpiece of the FEG through periodic meetings to facilitate the process.
 - The PC must be empowered again through a cabinet process to lead the work on economic reform on behalf of cabinet. This will involve
 - In consultation with concerned agencies, identification of reform initiatives through the results framework.
 - In consultation with concerned agencies, developing benchmarks and measures of reform with time lines for achieving them.
 - In consultation with the concerned ministries and the MOF working out the financing requirements of the reform and the linkage between reform and disbursements.
 - Reports on these reforms, timelines and financing requirements in collaboration with MOF and other agencies to cabinets for approval of reform process.
 - Monitoring the reform for cabinet and periodically reporting to cabinet on the reform.
 - In this manner PC will play the role of a “reform buddy” for the agency in need of reform and a ‘reform monitor’ for cabinet.
 - For better donor coordination EAD must be merged with the PC. The current fragmented approach has impeded the emergence of domestic longer term development agenda. We must have a coherent and unified approach and for that EAD must be a part of the planning process.
 - Eventually budgetary processes should be changed to allow maintenance and smaller projects to move into regular budgets. Only very few large projects will be reviewed and monitored by special procedures that will be developed for handling and implementing them.
- (17) The dichotomy of division and commission which is seriously impeding the work of managing growth must be removed. Currently all professional staff is in a division which is managed by a Secretary, Additional Secretary and a Joint Secretary, none of

which are appointed by the DCPC or with input of any member. This leads to several problems making PC very inefficient.

- The turnover in these controlling positions—Secretary, Additional Secretary and a Joint Secretary—is very high. At each change, the work of the PC is thrown off balance as these appointees are from service groups that have little background in economic policy and reform thinking.
- In addition, there is always a tension between the members and the Admin staff of the division—Secretary, Additional Secretary and a Joint Secretary.
- The technical staff too is deeply frustrated because they are beholden to non-specialists and cannot even be considered on merit to occupy serious decision-making positions in the PC.
- Because the secretary controls resources and because the work of economic policy and reform is slowed down.
- Through the control of the administration—Secretary, Additional Secretary and a Joint Secretary—and the centralization of resources, the PSDP and the PC are subject to undue political influence. This seriously affects the way the PSDP is used. Public investment in the country is rendered seriously ineffective through this political influence.

- (18) PC must be run as a commission by its Deputy Chairman and its members. The Deputy Chairman must be a professional appointed on tenure the same as the SBP governor. He in collaboration with his members through a search process must find the best people on the country for members and they must all have tenured appointments. No agency should be allowed to appoint members over the heads of the PC. The portfolios of members must change with each new “Framework of Economic Growth”. Currently, I suggest we must have members for the following areas:

- Public Service delivery
- Regulation
- Reform
- Energy
- Water
- Production
- Social development
- Education, technology and research
- Chief Economist on Economic Policy
- Inter Provincial Coordination
- All provincial planning chiefs
- 4 prominent academics or from NGOs as associate non-resident members
- Two prominent members of society

- (19) The erroneous distinction between PC and Planning division which makes all resources including all professional staff hostage to non-specialist DMGs should be discontinued.

7.14. CONSTITUTIONAL REFORMS FOR BETTER DEMOCRACY

In Pakistan, with or without elections, the status quo of the rent-seeking elite through degenerated colonial institutions continues. Soon after any change, whether elected or through a coup, our leaders begin power plays, VIP pleasures, and of course, amassing personal fortunes. It seems to me that democracy needs to be strengthened. And this can be done through a better design of a constitution.

Democracy is obtained through a system that balances and distributes power so that the community at every level controls lawmaking and the administration, execution, and adjudication of laws.

Surprisingly dysfunctional governance has not produced an informed body of knowledge on constitutional reforms. By default, the army and the politicians are left to think up constitutional amendments. Both are neither equipped to think nor are their incentives aligned with increased democracy. And we have seen the mess they have made of the constitution.

Perhaps, it is time for civil society to carefully look at the design of democracy. Currently, our system seems to be producing anything but democratic governance: a fragmented, individualized political parties lacking ideas and expertise; incumbent governments running roughshod over parliament, provincial governments, and even the financial system; legislators with neither the skills nor the inclination for legislation merely rubber-stamping executive proposals. Often even a quorum in parliament is not achieved! The judiciary has been compromised more often than politicians and dictators have read a book. Meanwhile, corruption has been increasing and law and order (security of life and property) declining. It seems that new rules are required that allow capable people to come forward and induce them to behave in a manner consistent with their mandate.

I am sure our learned political scientists and other thinkers can come up with alternative proposals for strengthening or institutions. Here I outline some obvious ideas for constitutional reform to generate some interest in this neglected area.

One starting point could be limiting government patronage possibilities. One initiative could be limiting the size of the cabinet would also limit political deal-making. Governments use to cabinet positions to purchase legislators. Creating a ministerial position should require parliamentary review as it requires expenditure of resources.

In the same vein, the idea of the Prime Minister keeping key positions such as Finance or Defense for himself or herself would also be outlawed. That is just too much concentration of power.

Independent and autonomous institutions are an important check to the power of the executive. Legislature, regulatory bodies, watchdog institutions, and the judiciary must be independent of the executive. This independence must be jealously guarded and maintained by independent boards to prevent capture by the executive. The Prime Minister or the president must not be the sole appointing authority for all key positions of responsibility in such autonomous agencies. By the same token, bureaucrats should not serve ex officio on boards of independent agencies.

Why should all judicial and senior civilian appointments (secretaries, IGs DIGs, etc.) not be reviewed by the senate or open committee to ensure the fitness of a candidate for the position? A review process examines competency and the moral character of candidates. It also puts all on notice that they are not merely beholden to the executive.

The term political party could be better defined to prevent ego-cults. Parties should have a known policy program, large national membership, and well-defined internal governance structures (such as periodic internal party elections and open party conventions). Perhaps minimum voter support by some registration process could be required. Parties could also be required to pledge rather than a large deposit before an election. This deposit would be forfeit if a minimum number of its candidates are not successful.

This brings us to campaign finance, where we have no guidelines in Pakistan. It is commonly known that some candidates bought their way into parliament. Why not limit campaign finance or tax visible campaign funding. All candidates and all parties could be required to maintain open accounts for life. Their tax returns and any direct and indirect financial interests should at all times be public information.

Candidates, especially the successful ones, must show an acceptable distance from any business interests that they might have. It has always amazed me why, when making ministerial appointments, why we do not look at potential conflicts of interest. For example, why are industrialists appointed as commerce and industries ministers?

Much of the antagonism in our politics arises from the monopoly on power and patronage by the party in power. Ways can be found for the two parties to cooperate. For example, key appointments regulatory bodies and judiciary could be made by bipartisan committees. A glaring example could be PEMRA, the workings of which would be enormously improved if it were run by a bipartisan committee. Of course, the information ministry should go.

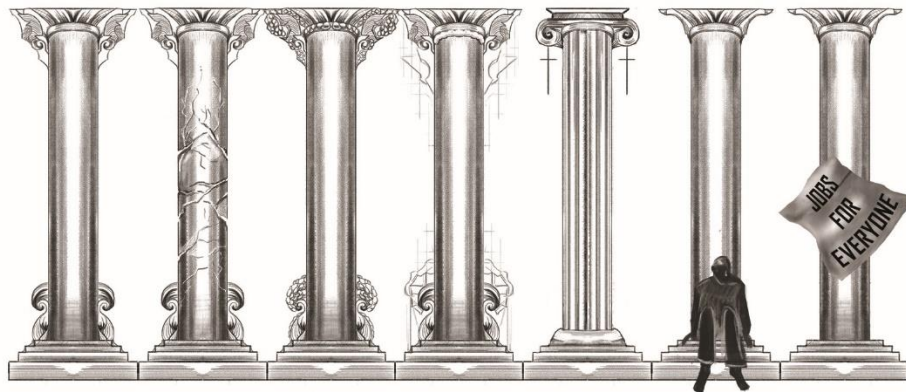
Many countries have experimented with mandating term limits (for all offices, including tenures of MNAs and MPAs) to allow new people and new ideas entry into the system. In Pakistan, where the electorate is beholden through feudal and other relations, term limits could be useful to ensure that turnover among politicians. Or, for that matter, why should there be a 5-year term and both federal and provincial elections held together. A shorter-term (say three years) and staggered elections (provincial elections midway into the term of the national government) would be more of a check on the executive.

We have not even begun considering alternative election design mechanisms (say proportional representation). We could also consider greater use of referendums directly to the population on critical issues. And, of course, NRB decentralization initiative needs to be strengthened.

Ideas such as these need to be seriously considered to design a constitution for inducing good leadership. Unless we develop a vigorous debate on constitutional reform, the subject will be left to the self-serving machinations of bureaucrats, politicians, and generals.

Chapter 8

Cities



8.1. HOW TO FIX THE PAKISTANI ECONOMY

For the Pakistani economy to triumph, we must develop our cities

Pakistan's economic strategy started with the Harvard Advisory Group and Dr. Mahboob ul Haq. However, we never changed it, nor did it evolve. We are still stuck there. That was a very simple strategy. We were a new country. The international development world had just started. They wanted to mend and look after us like parents look after babies. They created a model of which Dr. Mahboobul Haq was a part. The model included development through establishing infrastructure on borrowed money. They wanted to give us money as we were a low savings country. Sadly enough, the world has changed, and we are still pursuing the old model.

But while we are a resource-constrained economy dependent on foreign aid, we borrow to postpone reform. We are also in love with vanity projects. Successive governments in Pakistan prefer external borrowing to finance ill-planned and unnecessarily expensive projects like Metro buses, Orange Line trains, Islamabad airport, and an excessive expansion of universities.

Everywhere, cost-benefit analysis is carefully done and considered before projects are undertaken. In the past, this was done. Now politicians and civil servants realize projects are a gravy train and refuse to do any real cost-benefit analysis. Without a serious cost-benefit analysis, the Planning Commission is rendered useless. Projects now follow political expediencies. And that too on borrowed money. No wonder we repeatedly experience a balance of payments crisis and need the IMF.

It is not surprising that research, both inside the Planning Commission and academia, has found that the returns on the PSDP are low and perhaps even negative. Economics has moved on. Planning is not considered useful or doable. Developing industry at any cost or merely looking for dollars is considered old-style "mercantilism."

These old policy ideas have now been replaced with new thinking where growth is no longer considered to be arising merely from projects and industry. Instead, the economy grows when entrepreneurial and innovative activity thrives. Note an entrepreneur is not a man with money who got some license and cheap land and credit to set up an industry. An entrepreneur is a person who sets up a new business, taking on all financial risks without any help from the government. Do you ever see Bill Gates or Steve Jobs asking for government help?

The government should also stop acting like a father and tell people what to do. Entrepreneurs, thinkers, and innovators should be allowed to express themselves in a society. In the Mahboobul Haq period, the role of the government was of a socialist, which prompted the government to undertake excessive planning and control the markets strictly. But that model had failed even in the Ayub period. The role of the government is not to decide how to control the market: what should be bought and what should be sold, but to define the limits of the economy very clearly, formulating rules and policies that maintain a clean marketplace for the buyer and seller to interact.

Moreover, if the government knows where to invest, it can make money doing so. We have seen the government unable to run a business. Why then do we think that the government knows where to invest? The government should not provide direction and incentives without having the relevant knowledge. Without such knowledge, the government cannot decide which

businesses should be run and which are supported. If an industry is unable to stand on its feet, it is okay to let it die. Around the world, industries die! Bankruptcy is not such a bad thing. Why are we stuck with the 70-year-old industries that we keep alive through subsidies?

What then should the government do? The government should monitor the economy through research and analysis. Let the local businessmen devise a strategy according to the economic conditions prevailing. If allowed to operate freely, the forces of supply and demand will eventually bring everything to equilibrium, whether it is import demand or export supply. Businesses must manage exports and imports to maximize their profits. It is not the government's job to export or give them subsidies to do their work.

The government must stand ready to resolve disputes in a timely manner as they arise in business. A competent legal framework to facilitate economic transactions and coupled with an effective and efficient judicial system, will foster innovation and entrepreneurship to let the economy thrive and people to prosper.

We estimated in the Planning Commission Framework for Economic Growth that Pakistan's youth bulge requires a growth rate of over 8% if the growing labor force is to be absorbed. In recent years because of a lack of reform, our long-run growth rate and productivity are both declining. Our growth rate now oscillates between 3 and 5%, which is far below potential. I am surprised that finance ministers are claiming victory with growth rates at about 5%. Let us be clear that for Pakistan, a growth rate of less than 4% is a recession. While anything less than 7% should be regarded as a failure of policy. We should not accept any growth rate of less than 7% as satisfactory performance. Hold your finance ministers to a higher standard! They must give us a growth rate of 7% or accept their failure.

An important hub of growth that we overlook, is cities. Our cities have been overregulated to choke out investment. And so is the construction industry, which stimulates growth and revitalizes many other industries. Expensive land in the cities is being underutilized. Prime land is occupied by big houses instead of high-rise buildings, which have more economic value. When cities are dense and properly developed, entrepreneurship comes there inevitably.

If developed properly, like in the western economies, cities can add almost 4% of growth to the economy. Unfortunately, government bureaucracy is vested in keeping the unproductive and slow-growth urban sprawl alive. Cities are spreading at the cost of the environment and economic growth. Yet, there is no debate or thinking on this subject.

I have been asking for the last 20 years why there are no tower cranes in Pakistan. Every country that is growing at a rapid rate has thousands of tower cranes in their cities. Is it not odd that in our cities which are some of the largest in the world, there are no tower cranes? This means that unlike the rest of the world, we are not allowing the tall building to be made. Why is it that we are so different from the world? Or is it that we are more stupid?

Analysts looking for rapid export expansion and point to the export performance of East Asia must also note that East Asian development happened not only with the rapid increase in exports but also with rapid urbanization and high-rise development. Maybe the two—exports and high-rise development — are related in ways we have not studied yet.

Whichever way you look at it, we need to deregulate our cities to allow more construction and high-rise development. To my mind, this is a must for accelerating growth. All this needs to

be reinforced with civil service reform. As Max Weber pointed out, the civil service is the keeper of the rules, the maker and implementer of policy and regulation, and the monitor and evaluator of policy and programs in all countries. It is the name given to many bodies of diverse skills many organizations, numerous work and reporting processes as well as a multiple checks and balances.

In Pakistan, it has become concentrated and monopolized by a group of generalists. It lacks skills and checks and balances and has no work processes or policymaking skills.

In most of the governments, we have even lost the understanding of what a policy is. The policy is now at the whims of politicians. Frequent policy changes are bad for business. Policies such as tax policy should be very clear and defined for the long term, with no room for arbitrary changes. Moreover, no policy or legislation should be passed which the government is incapable of financing. Policies should be based on research, and there should be monitoring reports on how the policy is working. That is essentially the work of the bureaucracy.

We have been facing a crisis repeatedly for the last 40 years. The crisis in Pakistan's economy is essentially because of excessive dependence on unnecessary loans for wasteful expenditures. Without reform for productivity, we can keep on this treadmill of a crisis. If we make a more thoughtful government, deregulate our cities and markets, stop trying to prop up tired old industries, develop new laws and justice systems, we will clear the room for entrepreneurship and innovation. If we let our cities have the imagination to create all kinds of activities. The cities will create these activities themselves, without the government's support, if they have the space to do it.

If we develop a modern civil service capable of modifying a 21st-century market and city, we will generate significant investment flows to generate the required 8% growth. If we deregulate the marketplace for the 'survival of the fittest' and not coddling the aged vested interest, we will grow exports and industry needed to absorb our youth bulge.

8.2. WHY ARE WE SUBSIDIZING CAR USE?

When I write about going high, everyone responds, “what about parking?” My response, “we don’t need parking!” is met with shock.

We are making cities for cars. There was a time people walked or biked in most of our cities. Since then, an obsession with cars has widened roads to huge urban highways that are impossible to cross, an abundance of flyovers and underpasses for signal-free corridors has made biking and walking impossible. Not to mention that all sidewalks are eliminated, and there are no bike lanes. Even worse, bikers and walkers are required to walk or bike three floors up to cross a road. In one mile in Lahore, I had to go up three of those overhead road crossings. It was quite an exercise which would make it impossible for all but the fittest to use this city for walking or biking.

Yet our quest in Pakistan remains signal-free corridors, wider and wider roads, flyovers, and underpasses to facilitate faster and faster cars. Bear in mind that in a city like Lahore with over 10 million, there are about 300,000 cars. And all this effort is for them.

Even the public transport that is being built is on platforms to provide more room for cars. Pedestrians have to walk up three floors after dodging cars in very wide signal-free corridors. The ugly high-rise public transport that impedes walking and biking while destroying the city skyline is the preferred alternative for our leaders.

For decades, I have been writing that we need to follow the rest of the world and rethink cars in cities. What we need in cities is mobility without traffic congestion that wastes time and pollutes the environment.

Mobility is also for all and not just cars. When cities grow in size and people and their activities crowd into dense neighborhoods, cars hinder mobility rather than enhance it. Space for cars in the form of roads and parking is never enough as density increases.

Large cities have struggled with the growth of people and cars and have concluded that the answer cannot be continually making more space for vehicles. Congestion seems to increase even as roads are expanded, and underpasses and overpasses are developed. Efforts to improve traffic flow often come to naught after a while despite large expenditures of car infrastructure.

Pakistan has some of the largest cities in the world and all of them are struggling to cope with cars even as a huge housing shortage persists. The largest item in the development budget of all levels of government is road-building.

Most large cities have now accepted the idea that for equity in mobility as well as faster mobility within a city, cars have to be limited. The thinking goes something like this. In the city, the cheapest and healthiest forms of transport are walking and bicycling. The next cheapest form of transport is the elevator as people move in the neighborhood of high-rise buildings.

Linking walking, biking, and elevators to transit systems that connect dense centers of flats, commerce, work, education, and entertainment is now the approach to a healthy and nurturing city life.

But then what about cars? Cars are a luxury and not a necessity, as our planners seem to think. They take up a huge amount of space that otherwise could be used for human activity. It is estimated that one car takes the space of about 100 pedestrians when you consider the space that

must be kept free in front back. In that space, 15–20 bicycles can be operated. A bus with about 80–100 passengers takes about the length of 3 cars. Most major cities have begun to price the use of cars to curtail their use. This is done as follows: Meaningful metered parking charges for use of appropriately designated parking spaces.

Fast track lanes: In dedicated lanes, they can go faster but at a price. They can even be charged for every mile they use dedicated fast lanes. Congestion charges to enter and operate in a city center—the denser more commercial parts of the city. Technology allows such charges to be collected very cheaply through mobile phones. Well-planned use of charges rationalizes car use while encouraging other forms of transport. Space on roads will easily be freed up for: Paths for pedestrians and cyclists. Provide more dedicated bus routes without building elevated tracks. Provide space for street commerce with kiosks for poor entrepreneurship.

With this little tweak in policy we could have better cities and provide cheaper more people-friendly metro buses; give the people more choices of transport such as walking and bicycling—no need for ugly elevated tracks and flyovers—expensive city dividers. If done right, this will be a significant source of revenue for the city.

8.3. LAHORES URBAN DILEMMA AND THE LACK OF PLANNING

By Dr. Nadeem Ul Haque and Raja Rafi Ullah

Providing low-cost and affordable housing options for lower-income groups in the country is one of the promises that were made by Prime Minister Imran Khan and his party during their election campaign. Implementation plans for this have been set in motion with the establishment of the Naya Pakistan Housing Scheme. For a city like Lahore, the prime minister's vision is to provide half a million housing units in the next three years, emphasizing high-rise development.

The construction activity aims to provide housing options, generate jobs, and encourage investment leading to economic growth. More recently, the PM's incentive package for the construction industry was announced — despite the tax break, amnesty and subsidies, the construction package may not achieve its goals due to complex laws and conflicting regulations faced by the construction industry.

In a city like Lahore, the glut of regulations is compounded by the fact that Lahore Development Authority (LDA) only controls 20 pc of the city. Numerous other agencies like TMA, LMC, PHATA & DHA control different jurisdictions, having their own independent regulations and approval procedures. Moreover, these different agencies are often seen pitted against each other in a play of regulatory competition. On the approval front, it often takes too long for builders to get permissions, and the process is expensive as well. All this seriously impedes construction activity.

Construction of high-rise buildings is severely constrained in Lahore due to height restrictions and the Floor Area Ratio (FAR), also referred to as the covered area of the building. These limits are too strict and do not favor high-rise development that the PM and the Cabinet has envisioned.

The FAR & height restrictions along with other regulations, have resulted in low-height, single-housing units, and 4-floor commercial units. This has become the norm in Lahore, like many other cities of Pakistan, leaving the city with box-like structures. Height restriction has caused a shortage of much-needed city space. Given space scarcity, the land for public and recreational use has begun to evaporate.

To fulfill the plans of providing pro-poor housing options and generating employment through investment in the construction sector, the advice that one can give to the authorities is; relax building laws and deregulate. A good starting point is to double the Floor Area Ratio (FAR) with complete removal of height restrictions to encourage high-rise development—the FAR limit itself takes care of the height limit. This simplicity can then be complemented with sky exposure guidelines to check environmentally irresponsible high-rise development.

The fear that relaxing height restrictions would lead to unabated high-rise development is unfounded. Constructing a high-rise is an expensive process. Builders will go for it only when the benefits outweigh the cost. This can only happen when there are minimal regulations. One area where the government can intervene is to increase the capacity of organizations such as TEPA, WASA, Sui Gas, and LESCO to ensure the availability of civic infrastructure for high-rise buildings. An integrated approach and inter-departmental coordination are required.

Another persistent issue that is also reflected in the approach taken by the Naya Pakistan Housing Scheme is the misplaced emphasis on housing schemes. This approach is detrimental when incentivizing small builders who often construct for self-use. On top of that, restrictions on high-rise buildings on smaller plot sizes mean that small land-holders are institutionally discriminated against. This, both at a philosophical and practical level, is contradictory to the pro-poor housing approach that the government claims to adopt. High-rise mix-use, both commercial & residential, buildings should be a right of all, not just the big private builders and institutions.

Relaxing regulations and alignment of regulatory agencies can bring about a positive change to the city's landscape in Lahore. This, however, would mean not repeating the same mistakes of the past and not facilitating, above all, the rent-seeking behavior of regulatory agencies through complex laws.

Besides the complex regulations that impede the growth of the construction industry, the lack of strategic urban planning is apparent. Lahore's urban sprawl, for instance, has grown significantly over the past few decades because of height restrictions on buildings and an over-emphasis on tailoring city infrastructure to suit car-based mobility. There has been an exponential increase in car and motorcycle ownership resulting in congestion in the city, environmental loss, and decreasing standards of public transport. This legacy of car-centric urban development is even visible on either side of the Lahore Metro, which arguably is the most talked-about public transport story.

Lahore, the city of Iqbal, known historically for its gardens and vibrant street bazaars, is now a victim of congestion and poor urban planning. Such poor planning has occurred thanks to institutions that were designed to protect the city. The need perhaps is to relax the laws and give the market a chance to play out its course. In doing so, we can also encourage construction at all levels, cover low-income housing shortages, create employment and invigorate the city and country's economy.

8.4. MOBILITY FOR ALL

Pakistan is obsessed with cars and big lovely roads for these cars. For decades, the biggest item in the PSDP has been roads. We have built many highways. Most big cities in Pakistan are connected by a highway. Checking on Google maps, I found that travel time between cities in Pakistan is almost the same as similar distances in the US. People with cars are very happy and love to talk about how fast they travel between cities. It is easier to spend your time in metropolitan centers playing golf and occasionally visit your farm to collect your rents.

The presumed benefit of all this connectivity to GDP growth and welfare continues to elude the economy. Pakistan continues to grow between 3 and 5 percent far less than the 8+ percent required by our demographic trends. Yet, the policymaker seems to think that roads will lead to economic growth.

Within cities, especially the favorites, there is a continued effort to reduce the travel time for cars. Roads are continuously widened, flyovers and underpasses added, and signal-free corridors added to facilitate fast cars. Once again, the rich are happy, but there has been no visible productivity improvement such as increased output, more commercial and entrepreneurial activity. Inadequate GDP growth reveals that this investment too is not paying off.

I remember senior policymakers were surprised after all this flyover-building and road-widening for cars that poor were driven out of the city mobility. Horse-drawn carts, bicycles, pedestrians were left with no room. The extensive car infrastructure is anti-poor. Bear in mind in a city like Lahore, with a population of over 10 million, there are about 300,000 cars.

Now our leaders have woken up to building public transport. Who can disagree with that? We are building huge lines across Lahore, Islamabad, Karachi, Multan, and I suppose more will come.

Roughly speaking—in Lahore, we have spent 2.5 billion on two lines—three more are proposed. Extrapolating from the existing costs, these will cost another 3 billion. The reason for the high cost is that the metro had to be elevated to preserve roads for cars. There is also an annual operating subsidy which will grow over time.

So, we are subsidizing cars with wide roads and flyovers and subsidizing those that are lucky enough to live by metros. We are told there are 170,000 people using it daily the Greenline that is operating now. Extrapolating again, we can assume that there may be about 1.5 million people when this metros system is completed.

This whimsical policy will at best cater to less than 15% of Lahore's population by the time it is completed (assuming trend growth in population).

Is there a better alternative? Indeed, there is. Let us talk about it.

Enrique Penelosa, the famous mayor of Bogota came to Pakistan and talked about it. But did anyone listen? Unfortunately, not! Such occasions turn into events for protocol, and key people miss the message. Penelosa famously pointed out that cities need to balance the right to mobility with the right to city public space. Prioritizing cars and giving them wide roads while building metros on platforms to provide more space to cars at the cost of 5 billion USD has many implications:

- (1) Cars have most of the city mobility space;

- (2) Most city funding, even that for building the elevated metro, has been used for preserving the status and speed of cars;
- (3) All this expenditure for cars means there is little money for other important activities such as health care, education, and community development.

Penelosa points to mobility as a right for all and for a city to provide some equity in mobility. It is well known that the mobility for the poor is mostly walking and bicycling. Even in our cities, studies show that the poor mainly walk or cycle. Yet our whimsical policies favoring cars have seen to it that there is no space for the poor. To make it convenient for cars, the metro is elevated, and there is no pedestrian or bicycle access to the metro. Poor pedestrians must dodge cars and then climb three floors to catch the metro.

What is needed is a change of focus from cars to mobility for all. One car takes the space of about 100 pedestrians when you consider the space that must be kept free in front back. In that space, 15-20 bicycles can be operated. A bus with about 80-100 passengers takes about the length of 3 cars. Why then should cars be subsidized and not priced? Most big cities smaller than Lahore and Karachi are pricing the use of the car to discourage car travel and encourage other forms of travel. Not only does this meet the Penelosa principle of equity in mobility, it also saves city resources for the many other more important uses.

How Should Cars Be Priced?

- Congestion charges to enter and operate in a city center-- the denser more commercial parts of the city.
- In dedicated lanes, they can go faster but at a price. They can even be charged for every mile they use a dedicated fast lane.
- Meaningful metered parking charges for the use of appropriately designated parking spaces.

Technology allows such charges to be collected very cheaply through mobile phones. Such charges allow car users to rationally consider the use of their cars and plan trips to minimize the cost to them. Charging cars in this manner frees up road space which can then be used to

- Develop paths for pedestrians and cyclists.
- Provide more dedicated bus routes without building elevated tracks.
- Provide space for street commerce with kiosks for poor entrepreneurship.

With this little tweak in policy, we could have better cities and provide cheaper, more people-friendly metros buses. People would also be provided people with more choices of transport such as walking and bicycling. We could also do away with the elevated tracks and flyovers that increasingly are viewed as ugly and expensive city dividers.

It has the added advantage of saving large sums that are now being spent on roads and elevated metros while also giving the city an additional source of revenue (tolls and congestion charges) to provide better city services.

8.5. THE URBAN SPRAWL

By Dr. Nadeem Ul Haque and Waqas Younas

Cities are often a reflection of their zoning codes. Unfortunately, in Pakistan, citizens never express ideas that how their cities and towns should be designed. The width of our streets, the height of our homes, the size of building lots, the amount of space reserved for pedestrians, even the reason we cannot operate a donut store in our garage are dictated by zoning regulations.

Bad zoning codes result in sprawl—and sprawl makes societies worse off. According to urbanist Charles Montgomery, sprawls result in bad health, a little trust, and low social capital. Moreover, people living in sprawls are less likely to volunteer, vote, and even join political parties. Therefore bad zoning codes result in miserable communities, affecting our cities too. But how do our zoning codes and misuse of land result in sprawl?

First of all, our zoning codes discourage mixed-use and high-rise development. There are no apartment buildings with shops and offices near even within such buildings. Most well-designed cities that we appreciate are based on mixed-use.

Our zoning codes also mandate that developers buy land in hundreds of acres for new housing projects. This results in sprawl primarily because hundreds of acres are usually unavailable within a city. It also encourages big investors who can afford that much land, thus reducing competition. An aside, it reduces the availability of fertile agricultural land.

The fact that the government owns large chunks of prime urban land reduces the supply of available land within cities, which in turn also leads to sprawl. There is a huge opportunity cost of the inner city land that government holds to provide its officials with plush housing and unnecessary offices. A Planning Commission study showed that investment could increase by 50 percent of GDP over ten years—if this land were made available for mixed-use, high-rise development.

Our traffic management focuses on building roads and corridors for cars. The use of cars has been facilitated at the expense of other forms of transport such as bicycles, walking, taxis, and even buses. With cars so subsidized, it is not hard to see why the sprawl is spreading.

In most cities, the planning process often lacks zoning for the poor. Apartment buildings are seriously discouraged through planning permissions and high fees for commercialization. For some reason, our planners think of apartments as commercialization, and so poor housing is taxed heavily.

Rich housing—single-family homes with highways leading to them—are encouraged. Planners even forget to cost the infrastructure required by such housing. Pipes, electricity roads, etc.—eventually all this expense is borne by the poor of the city.

Excessive focus on form over function has incentivised inefficient use of land to attract customers, and inefficient use of land leads to sprawl. As consumers, we have to pay more attention to form than aesthetically appealing architectures because empirical evidence shows that though we place more weight on physical features, eventually, we might be less happy in physically appealing buildings. A study at Harvard by Elizabeth Dunn had students select their houses for their subsequent school years; there was a forecast among students that they would be happier in beautiful houses than less appealing ones.

However, after students settled in these houses, their happiness was determined more by social features and the quality of relationships they developed in those houses. Students ended up being happier in architecturally miserable houses because they had better social features. Dunn noted: “Participants overestimated how happy they would be in desirable houses and how miserable they would be in undesirable houses. Our results suggest that forecasters may have erred by focusing on physical features such as location while virtually ignoring the quality of social life in the houses.”

We can fix our land use and zoning laws to discourage sprawl and thereby construct more equitable, vibrant, and productive cities. We need to tweak our zoning codes to build high-rise and mixed-use property to create more spaces for people in a more concentrated area. We need to think more about building vertically rather than horizontally.

Zoning laws should encourage competition and also mandate socially-responsible housing. Large investors who buy the hundreds of kanals mandated are keen to maximize their profits, so their plans price out low-income households. This results in illegal housing and housing schemes deprived of the basic necessities of life. Zoning codes in some developed countries mandate social housing that accommodates people from a low-income background. This helps mitigate sprawl and fosters tolerance, trust, equality, and care.

Our zoning codes should encourage urban development with high FARs (Floor Area Ratio). According to a study on urban land and housing markets in Punjab by David Dowall and Peter Ellis, restrictive FARs constrain urban density in Punjab. The study also notes that low FARs result in high land prices, a reduction in agglomeration benefits, lengthier commutes, limits formal housing (thus pricing out poor), and affects low-income most.

Zoning codes shouldn’t incentivize parking. Currently, developers are mandated by law to provide parking spaces—no matter the type of building. Incentivising parking means we are encouraging developers to create commercial and housing projects farther away from urban centers and encouraging people to shop farther away from home.

Both of these lead to sprawl. In addition, according to economist Donald Shoup, “minimum parking requirements subsidize cars, increase traffic congestion and carbon emissions, pollute the air and water, raise housing costs, exclude poor people, degrade urban design, reduce walkability and damage the economy.” More land for parking also means less land for housing, shops, libraries, schools, and hospitals.

It is important to understand where we are headed. All major cities like Karachi and Lahore have master plans. Though inhabitants should have the largest say in shaping cities, their input is never incorporated in these master plans. Our zoning codes should address senior citizens, persons with disabilities, as well as matters of public bike-sharing, low-income households, and the fact that real-estate developers should be mandated to give back to society in the schools, libraries, and hospitals.

Whenever we move into a particular housing society, there is only one zoning law available; there have to be alternatives that prevent or repair sprawl. We need to correct our zoning codes by looking at other poorly-designed modern cities are and not repeating their mistakes.

8.6. BIKES, DENSITY, AND CARS

In a famous statement, Lord Keynes said that “Practical men who believe themselves to be quite exempt from any intellectual influence are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back.”

It is not surprising to know that nowhere is this statement more true than in Pakistan. We are a sucker for this so-called “best practice” never even questioning the possibility that new thinking may have overtaken such “best practice.”

Now we are designing the most expensive public transport system of metro-buses stretching 20+ miles across the city without thinking of options and without even a discussion on proper feasibility. In a rush to build these, we have generously committed public funds in a plethora of contracts that represent future guarantees and commitments of the exchequer. Could there have been other approaches? This was never considered.

Before metro buses, our leaders were enamored of underpasses and flyovers to facilitate cars to move across the suburban sprawl that we are developing. Once again, you can see that these are ideas that were in vogue in the US and other advanced countries in the 60s. We did this 30 years later, still listening to old ideas.

The urban sprawl and the vast road network of wide avenues, flyovers, and underpasses through the generous use of public funds is a subsidy to cars and a tax on the poor. To see how, note that before the policy started favoring sprawl and cars, the poor used bikes and walked. Now they cannot.

Enrique Penelosa, the famous mayor of Bogota, has shown that mobility is an important right for all in a city and public transport is an important part of it. Our leaders have started to appreciate this lesson. But again, not the whole lesson.

Increasingly cities are learning that mobility is more than cars and metro buses. Walking and bicycling are also mobility choices. But this will happen if a) cities are allowed to densify and b) the current policy of subsidizing cars and taxing bicycling and walking is discontinued.

Densifying will begin with discontinuation of the current sprawl model where single-family homes spread into the countryside, destroying agriculture and the environment. It means allowing for mixed-use, commercial development of offices and shopping malls and flat-based living. It also means a liberal building code that does not disfavor high rise and commercial development. It also means a city development administration friendly to construction.

The current model favors the car as a mode of transport in our cities. The expense of the new metro-bus routes has been raised because of the need to provide space for cars. Otherwise, it was easy to simply ban cars from Ferozepur Road in Lahore and use it only for buses. No big pillars or construction.

With densification, many people can choose walking and bicycles as a mode of transport. But not if we keep the current car-favoring model in place. The city administration’s 50-year romance with the car has to give.

We need a complete paradigm shift in our approach to city management. Along with densification, we need a car policy. Such policy would be based on pricing the use of the car to

discourage use, especially in denser, more congested parts of the city. The following principles would be used in making this car policy.

- Congestion fee over the densest mixed-use area which should be attracting the most traffic.
- The elimination of free or cheap parking in a big city like Lahore. Instead, a graduated (distance from the center) metered electronic parking system should be developed.
- Traffic flow should be studied for one-way system to reduce congestion and also to find space for sidewalks and bicycle lanes.
- Sidewalks and bicycle lanes should be given priority everywhere to induce people to take these healthy alternatives. Motorists crossing over into those areas would be heavily penalized.
- With densification, zoning laws should allow more neighborhood commerce for increased use of walking and bikes to be used.
- Technology should be used for a fee and fine collection and through cameras for enforcement. This could be a reasonable source of revenue for the city.

Somehow the powers that be cannot leapfrog into the modern era taxing us and our cities. The sprawl from Kasur to Sialkot is wasteful in every way. The Lahore smog has robbed us of our lovely winter sun and jammed our airports and our streets. Jobs and output are lost, as is agricultural land, while we build in the most energy-intensive manner. Yet, the old mindset remains fixated on cars and their space, leaving little room for people and community.,

Changing the paradigm as suggested here, the urban renewal will start. The construction industry will get a huge boost, and we may even begin to see that symbol of development—the tower crane-- in our cities. It will also lead to more inclusive growth as the poor will find space in our cities in flats. And they will be able to walk and use bicycles as cars are priced right.

More than likely new services—such as delivery, carpooling, even taxis—will develop, providing much-needed employment to that worrisome youth bulge. The Chief Minister Punjab agreed with the vision but could not persuade his officials to implement it. Can the media?

8.7. CITIES 1: CITIES ARE AT THE HEART OF DEVELOPMENT

Recent research shows many reasons city development is at the heart of progress, growth, and development.

- *History and civilization evolved in cities.* All major scientific, social, political, economic, and technological innovations have happened in human agglomerations known as cities. Great cultures and empires have been developed around cities. It is no accident that the dominant empire of any time had the most important, creative, and productive city of the time.
- *The most advanced cities have been places of learning and idea development.* Cities such as London, Edinburgh, Paris, Los Angeles, and New York have been the birthplace of invention, creativity, and most important of all, enlightenment and reformation. Historically these cities have been for commerce and merchants and have evolved as mixed-use commercial cities.
- *The bulk of the output in any country is produced in the cities.* Markets are based in cities, and in bigger, denser cities, these markets can be highly specialized clusters of information exchange. Innovation and entrepreneurship often are incubated in such cities. Economic activity, innovation, and entrepreneurship tend to cluster and feed off each other, favoring density.
- *The difference between the poor and the rich countries often lies in the productivity of their cities.*
- *Cities allow space for everyone and all activities.* All classes live in cities. The poor and middle class often live in cities while the wealthy move to open suburban environments. Cities offer community and networking infrastructure— libraries, community centers, sporting, and conference facilities, and theatres—to all, especially the poor and the middle classes.
- *Creative cities enhance individual productivity.* In the post-industrial information age, creativity creates value. Creative cities are multi-ethnic, open to immigration, culturally rich, dense, full of learning and innovation, allow for eccentricity, and offer diverse learning experiences. In well-organized societies, productivity increases, and energies converge to produce innovation and fresh ideas.
- *City centers are mixed-use and densely populated, where private space and private transportation are at a premium.* Increasingly, cities are using congestion taxes for cars and emphasizing public transport to make cities more people-friendly. The young, the poor, and the middle classes along with their creative activities, co-exist and interact with businesses in busy 24-hour downtowns. These city centers are the heart of a city and define a city. All development around a city is then relative to this city Centre. City centers are a magnet for ideas and migration. In fact, globalization is the network of ideas generated in city centers.
- *Sprawls that put cars first are less productive, more energy-intensive, and wasteful.*
- *City Regulations allow change and development.* Cities are dense human settlements, and it is no wonder that they accentuate all conflicts. Successful countries and city

administrations develop institutions for managing these conflicts bearing in mind the needs of development and growth. Where conflicts are not properly managed, decline sets in.

- *Building regulations must allow for creative destruction and renewal. One important tension that needs to be managed is between preservation of legacies and histories and accommodating the new and modern. Preservation is costly but necessary. However, without creative destruction, city development may be arrested. Preservation must be cleverly executed, preserving the spirit of the past and not seeking to keep obsolescent culture and functions alive.*
- *Incumbents have the first-mover advantage in any city occupying the best land and the use of the main amenities of cities like clubs and parks. Unless city management is looking toward development, these incumbents will use the preservation argument to preserve more than is necessary, and most of the preservation will be self-serving.*
- *Real estate prices go up where height restrictions are excessive, and the building process is discouraging construction.*
- *Rezoning helps the development and increase of supply to keep prices in check. Mayor Koch of New York talked of the NIMBY (“not in my backyard”) mentality. Most of us would like a nice spacious mansion set in the middle of nice green meadows with all urban amenities within easy reach. Yet no one wants a busy highway or a shopping mall close to their backyard. But as a city grows, space has to be made for urban conveniences such as highways, hotels, offices, and shopping malls. Often estates and even palaces have to give way to the development of the city. City management must be able to deal with the NIMBY mantra. Palaces, estates, hunting grounds, and leisure parks of the rich have given ground to the needs of the city. There are examples of the supremely entitled, namely kings and dukes and barons who have seen the importance of yielding such private spaces to the development of more productive cities.*

8.8. CITIES 2: THE STATE OF PAKISTANI CITIES

While this is the emerging global consensus on city development being at the heart of the growth process, Pakistan policy and research remains largely oblivious to it given the highly donor-dependent policy process, which eschews domestic thought and debate. The result is that Pakistani cities are the opposite of conventional policy advice. Their key characteristics are:

- (1) *Sprawl is actively encouraged by the policy.* All Pakistani cities appear to have no downtowns or city centers—dense areas of mixed-use concentrating residential, office, commercial and entertainment within an almost walkable district. Many cities are becoming urban sprawls at the expense of valuable agricultural land for which, at various times, expensive irrigation has been put in place.
- (2) *Sprawl development favors roads and housing estates for the rich over other activities.* There is an excess demand for most forms of city activities—education, entertainment, office, retail, warehousing, and even low-income and middle-class housing. All these activities lack purpose-oriented space and are forced to be conducted in the only kind of city space that planners have been allowing for the last few years—single-family homes.
- (3) *High rise even for flats is severely discouraged and penalized.* The result is that housing for low-income groups, the young starting a family, and the middle class is in extreme short supply. In addition, there is no cohesive, mindful construction activity in any of the cities even though this sector could sharply expand employment and growth.
- (4) *City zoning has been very unfriendly to commercial construction, public spaces, and commercial and community activity.* Zoning, heavily manipulated by influential groups with vested interests, favors single-family housing leaving little space for other activities. Commercialization—anything other than single-family homes-- is arbitrary, cumbersome, ill-planned, and expensive. As a result, zoning and real estate development appear to be a rent-seeking game.
- (5) *Government rather than commerce dominates city functioning.* There is a large presence of government, especially the army, in all cities. Most prime land is government-owned, making the availability of prime land for commercial and mixed-use development very difficult. For example, the Mall Road, Lahore, the main thoroughfare, is completely owned by the government almost all the way from the Provincial Assembly chambers to the Airport.

8.9. CITIES 3: WHY ARE CITIES SO OVER-REGULATED?

The answer lies in the architecture of their governance. Cities have become a major vehicle of rent-seeking and privilege preservation. Zoning and the arbitrary use of public land have become a major vehicle for rent distribution. Laws and institutions—based on open, transparent processes and clear property rights—have not been created to deal with this problem. In Pakistan, centralized administration, opaque processes, and inadequate city administrations have heightened rent-seeking activity stifling city economic growth while accelerating speculation. Some of these are:

- (1) *City management is an almost part-time activity of the centralized civil service.* Professional and autonomous city management cannot be structured and implemented without a civil service reform. The current structure does not allow community participation and catastrophically places cities in the hands of junior civil servants who are temporarily in position transitioning to a higher position in a monolithic federal bureaucracy. Spurred by donors, city management is viewed as providing physical infrastructures, such as sanitation and roads. Social, cultural, and learning activities are an important part of a city. Pakistani cities offer little in the way of entertainment, community, or leisure space. There are practically no libraries, community centers, theatres, or sporting facilities (except for the élite).
- (2) *Most cities are not administratively cohesive.* Cantonments, federal and provincial government, and other administrative structures often operate to undermine city functions and even take over city space to the detriment of city development. Federal and provincial governments own vast amounts of inner-city land which is arbitrarily developed without consultation with the City. Examples abound -- arbitrary offices, leisure clubs, and training academies -- that the Punjab government and various federal agencies have built up in Lahore without consultation.
- (3) *The public service pay and pension system, which relies on perks based on urban land, seriously impedes city development.* City centers are dominated by housing for civil servants, judges, and army officials. Land that should be available for mixed-use, high-rise development is blocked because of this. Reform that would monetize this perk and make this land available for mixed-use, high-rise construction has an investment potential of 50% of GDP over ten years (Planning Commission/ CDA estimate). This suggests that the opportunity cost of the perk system is huge.
- (4) *Unlike other countries, real estate development has become a public sector enterprise and not a commercial activity because of the perk system.* Officials are rewarded for government service by a gift of land and hence like to keep land development as a public sector activity (CDA, DHA).
- (5) *The unintended consequence of this form of city development is the serious lack of public, community, entertainment, and commercial spaces.* This lack accentuates exclusion, especially of the youth and the poor, not only from the city but also from globalization and modernity. The only form of public space that the zoning has favored or is unable to curtail is that devoted to religion.

8.10. CITIES 4: REBUILDING CITIES FOR GROWTH AND DEVELOPMENT

Way Out: Reforms of the FEG

Following earlier research done at the Pakistan Institute of Development Economics (PIDE), Planning Commission Framework for Economic Growth (FEG) highlighted urban reform as central to any strategy for sustainable reform in Pakistan. Cities become engines of growth and development when they are allowed to function as decentralized, coherent administrative units for the advancement of commerce. To achieve this:

- (1) Policy, research, and thinking need to move away from a spaceless approach to development by integrating the role of cities as engines of growth.
- (2) Fiscal federalism needs to be urgently adopted for city growth and to allow cities adequate ownership of their land and resources. This must mean an adequate definition of city limits with exclusive city ownership of its resources. Federal, provincial governments and defense agencies should not affect city administration.
- (3) The zoning paradigm needs to move away from its current emphasis on upper-class housing to one that recognizes the diversity of the functions of a city. It must favor density, high rise mixed-use, and walkability, especially in downtown areas. In addition, it must favor public and community space while allowing for commerce, culture and education, and other needed city activities. Zoning needs to be based on clear transparent processes based on open citizen consultations.
- (4) Building regulations must be loosened to allow complex high-rise construction.
- (5) City centers need to be developed for dense mixed-use. Government ownership of city-centre land needs to be reduced if it is retarding downtown development. Commerce is to be given priority in city centers.
- (6) *City management should be professional, consultative, and accountable.* Cities must be able to hire out of their budgets without federal hiring restrictions such as the Unified/National Pay Scales and mandatory positions for the federal civil service. Moreover, decision-making must be based on open consultative processes.

Central to this reform process will be a much-needed civil service reform without which cities cannot attain the autonomy, professionalism and control over their land to be able to develop. Unless the perks and civil service control of cities and their land development is shaken, serious commercial and construction activity will not start. And without this, there will be no serious effort to start unraveling the current system of exclusion of the poor. In turn, enlightened space and culture to counter the prevailing fundamentalist narrative will not emerge.

FEG and its predecessors at the PIDE have initiated the thinking on a simple reform agenda that will reduce the current high level of rent-seeking in Pakistan's cities and lay the basis of commerce and creativity, which will fuel sustainable growth. Is anyone listening?

8.11. EMINENT DOMAIN

“Eminent domain” is a legal term referring to the ‘power governments have to confiscate, or take, private property.’ Over the years, civilization has come to agree that such ‘taking’ of property happens only for legitimate “public use” and property owners receive “just compensation.”

Much case law, legal thinking, and commentary are available on this subject. It is perhaps a cornerstone concept defining state/citizen relationships and the limits of state power. Kings and rulers have always attempted to usurp all resources for personal use, and the citizenry has had to fight to establish checks on this greed. One cornerstone of the famous Magna Carta was to check the King’s ability to take over private property.

Over the years, the concept has evolved and remains a subject of considerable debate. Unfortunately, in Pakistan, it receives no attention. We have the famous Land Acquisition Act used to build housing colonies, public sector projects, leisure clubs, and any purpose that the government of the time deems fit. Is that appropriate?

To begin with, let us clarify concepts

- All property is considered to be owned by the public, not the public sector or the government or the state. The government is merely the manager of public property.
- An evolving society needs public goods such as roads, railways, utilities, etc. In many cases, the state may have to step in to provide these for the public good.
- “Eminent domain” is exercised to take over private property for any project that is **clearly demonstrable to be for the good of the public.**
- Compensation must be transparently on market terms (it should be financial compensation only).

An excellent legal mind could keep us awake for nights reflecting on the many difficult interpretations of the four concepts outlined above. For example:

- Who determines what “public good” is. Most civilized places have evolved a consultation and court involvement process before eminent domain can be exercised.
- Can Eminent Domain (Land Acquisition act) be used for providing land to a housing cooperative such as DHA? Legal commentators would balk at this abuse of eminent domain. Housing is always a private good and must remain in the private sector. The state has nothing to do with it.
- How should we view “building and zoning regulations” which restrict the use of a property and hence determine its value? Commentators have argued that this too is in the domain of eminent domain and must be carefully analyzed. Indeed zoning and building regulations are required for the public good—environment, health, etc.—but they can and have been frequently abused and impose a huge tax on the public. For example, buildings that look into the Coup Commander’s house or the Governor’s House are not permitted. This is clearly a tax on the owners but also on society as it prevents development. Clearly, building and zoning laws need to be carefully evaluated to ensure that the public good component is operating at a limited tax on property.

- Can the state change the character of public usage without going through consultation? The conversion of the Naval War College on Mall Road, Lahore –recently the subject of an attack--was converted to a residential property with no due process. Can the state convert civil service academy to State Guest House without clearly showing public purpose and due process? Can the state even take over an abandoned property (FreeMason Hall) and use it as it wishes? Can a state build an office (CM office) wherever it likes? The answer in all these cases is a clear “no”!

Eminent domain is perhaps the most abused law in most countries, and Pakistan is no exception. Prominent developers, influential people, and government officials often conspire to use this powerful law quietly to confer benefits on each other. This is especially easy to do with evolving zoning laws and building regulations. An extremely vigilant (indeed competent and *continuously well trained*) court system, legal community, and civil society including a powerful and keenly sensitized media, are necessary to prevent abuse of eminent domain.

Even in the US, a Reason Foundation study found that “An estimated 10,000 cases between 1998 and 2002 involved projects where private parties benefit substantially from government seizures of property under the banner of economic development or urban redevelopment.” I leave you to think of the myriads of cases where eminent domain is being misused every day in Pakistan.

In Pakistan, what amazes me is that eminent domain abuse is received with quiet calm, often even with applause. Walling off GOR, for example, and closing off frequented streets is a clear abuse of eminent domain in recent days. Yet, it has caused no more than a gentle raising of eyebrows. Security for VIPs is not causing enough for the exercise of eminent domain. Security is supposed to secure everyone, not just a segment of government employees.

History can be viewed as a process of freedom from oppression from poor governance for the mass of humanity. Reining in and controlling Eminent Domain may be a large part of that history.

We in Pakistan are lagging in that process of history. State abuse of Eminent Domain is rampant. The media and intellectual debate must keep “Eminent Domain” under constant purview and not take state abuse and encroachment as acceptable. Free people do not accept state encroachment in any form. The state is only for their good and not creep into their space.

8.12. COMMERCIAL PROPERTY DEVELOPMENT NOT ALLOWED

Ever wonder why our cities in Pakistan do not have an abundance of commercial, retail, office, and dense residential use (flats)? The answer, as always, lies in poor uninformed governance.

For too long now, our planning paradigm has favored the kothis. Even now, the planner thinks only of elite housing---single family stand-alone construction—one floor plus one. While all over the world—even the old Lahore townhouses have 4 stories---in Pakistan the norm is one plus one. Elsewhere—even in old Lahore, density is allowed for in the shape of adjoined row houses—here we continue to plan for stand-alone houses with setbacks.

Should you wish to build anything different from 1+1 kothi, you need to get your plot “commercialized”? Even if you want to build a block of flats, you still need to commercialize your plot. What is this commercialization?

The most important fact that I have been able to learn about commercialization is that it is totally arbitrary, varying from locality to locality. It can be especially difficult in cantonment areas which now are a substantial proportion of our cities.

Commercialization happens on a plot-by-plot basis. Your neighborhood may be entirely commercial, yet your plot has to be commercialized for you to build on it. And there is no guarantee that your plot will be commercialized even though your neighbor’s plot is commercial.

The process can be lengthy. On the way, there is a lot of room for the extraction of rents and bribes. There is no one window operation here. In cantonments, it can involve the GHQ, corps commanders, etc.

Commercialization fees are heavy and arbitrary, varying all over the country. I have found them to be as much as Rs 3-4 million per Marla. In some cases, they are higher than the value of the land. The reason that is given for such high fees is that the city will build infrastructure for the increased density that is proposed in the new commercialized project.

There are two flaws in that argument. First, the money is never used for developing infrastructure; instead, it is used for the purposes of the existing bureaucracy. Second, the city does not understand the costs of slow growth; the punitive nature of the large fee slows down commercial development and hence the city’s future revenues.

The process of commercialization also gives your neighbor the right of veto, thereby slowing the process further. Why the neighbor should have a right on your property is neither debated nor understood.

When one puts one’s mind to it, the implications of this anti-commercialization policy are large.

The result of this strange unthinking policy is that our cities have remained stunted and feudal. There is no good commercial space available anywhere. There is a huge excess demand for space for nonresidential space such as office, education, community, school, leisure, entertainment, and retail.

Most importantly, mixed-use space where office, flats, retail, and community mix is not available at all. Even our old cities had large amounts of mixed-use space. It is in this space that the middle and the poorer classes thrive. Without a change in this policy, these classes will be excluded from our cities.

Without apartment blocks, we will never have manageable and modern cities. Even if we could house everybody in the current Kothi paradigm, urban sprawl would kill much of Punjab's agriculture. We simply do not have the land or the management capacity to allow that to happen.

The look of our cities and the mindset they generate, remains feudal and rural. We continue to conduct all our ceremonies –weddings, functions, and entertainment-- in a very rural and feudal manner because our cities have not yet developed an urban culture. How can you have an urban culture without an urban mix and density?

8.13. FOUNTAINS OF PARADISE—IS THEIR INVESTMENT SPACE?

The following was a keynote address presented at the annual meetings of the Planter's Association in Sri Lanka—one of the oldest trade associations in Sri Lanka. To talk to them, I had to learn about and visit the plantations of Sri Lanka. I think there is a worthwhile point to be made on economic policy and our attitudes to entrepreneurship. That is why I share this with you.

Plantations fascinate me because they are the product of visions of daring adventurers. I cannot help but imagine the boldness, initiative, and organizational capacity that it took to cut down the dense forest, ward off wild animals, build roads, plant coffee, and when that failed to switch to an alternative - tea. It is mindboggling to drive through the hills on those narrow winding lanes, which in themselves are engineering marvels even today.

They cleared the forest, planted their first coffee, waited 6-7 years to harvest it. After a few successful years, the disease killed their coffee plantations. They did not run to the government for help. Instead, they imported tea from China and started its cultivation to wait another 5-7 years for a harvest. Around this new crop, they developed a whole series of innovations that still dot the Sri Lankan landscape in the form of lovely tea factories, plantations, and bungalows. A whole tea culture that still pervades Sri Lanka still lives on in the country.

The Early Planters

Hats off to those early planters from Scotland who incurred all this hardship and permanently changed the Sri Lankan landscape, economy, and society. I will not bore you with historical details, for I am sure you know more than I do about the history of this wonderful episode in your history. Let me tell you what I, as an economist, admire them deeply for;

- (1) Their *boldness of vision*. It was not doing the usual. They were not handicapped by conventional wisdom. They did it their way.
- (2) They were very *Darwinian in their outlook*. It was survival of the fittest, for only the fit could take this enormously challenging task. These pioneers took risks and did not seek government help even when the coffee plant was devastated. They invested their own money and waited for 8-9 years before they saw their first returns.
- (3) They were true entrepreneurs who took risks but also were ready to change their plans and strategies. I remember one writer paying tribute to these men: “The first generation of planters in Ceylon were adaptable men who were not resentful of change.”
- (4) They *did not wait for consultants or advisors* to tell them what to do. The functional, intuitively simple, and yet ingenious design of the old tea factories that rely on natural forces to help in the maturation of tea speaks of the self-sufficiency and quiet confidence of the pioneer planter.
- (5) The plantation was a *great training ground for modern industry*. It was perhaps the first effort at integrated industrial form of organization in Sri Lanka. Not only is the planting systematic, but it is also plucked in a well-worked out rotational manner too so that the bush does not grow beyond a certain height. It is graded and processed to a certain

taster's perfection. At all levels, organization and professionalism are required. Timing and management are important. This meant a higher order of discipline and training than would have been found in more traditional agricultural activities.

The more I learn of plantations, the more I begin to wonder: "Would such a visionary adventure be possible today in Sri Lanka?" Please do give me your answer whenever you like.

The Fountains of Paradise

Let me ask a few questions to sharpen the original thought. Let us say you discovered, as Sir Arthur Clarke fictionalized in *the fountains of Paradise*, that there could be an elevator from Sri Lanka to a satellite in space from which interstellar transportation would take place. Except, let us say that you could build not one but several such elevators. This venture would require a lot of land, energy, and other inputs. Imagine all of us are at a meeting to plan this great new venture. I have prepared my list of basic questions that any investor would ask. Let me run it by you!

- Question 1:* To open this whole new sector, would you be able to obtain the land that is necessary for such a venture?
- Question 2:* What sort of permissions would be needed to build?
- Question 3:* Would the government and various external agencies have to first conduct a sector analysis and spend years planning and preparing a project for such an effort?
- Question 4:* Would you then get all manner of credit and advice to set it up, which will also shackle you to a bureaucracy that is unproductive?
- Question 5:* How much of your time would you spend on your project and how much in meetings and paperwork to please the government?
- Question 6:* How much freedom will you be given to experiment with your own approach to the problem rather than externally driven ideas?
- Question 7:* Would you have the human capital to manage such a technological enterprise? Like the plantation sector of the 19th century, would you be able to import human capital? Or put it differently, would you allow the John Taylor of this sector to strike roots here and do the pioneering work?
- Question 8:* Finally, how long would it be before you were able to hoist one of these elevators? How long would it be before you were able to develop this sector?
- Question 9:* Would other countries, like Singapore and Mauritius, beat you to it?
- Question 10:* Would you rather make an elevator here or in one of those countries?

This may sound strange and funny. But truly, economic growth occurs as bizarre ideas like plantations (and it could be space elevators in the future!) come to fruition through the efforts of pioneers like Taylor.

Imagine yourself in the latter part of the nineteenth century. If someone had told you that some crazy fellow called Edison was developing a light bulb and a movie projector and that we would live with perpetual light as well as watch movies, what would you have said? Furthermore, what if there was a government regulator telling him what lighting should look like

and what sort of movies could be made? The world would be very different from what we know today if that had truly happened.

The Need for Investment Space

Yes! Growing societies need to give the individual entrepreneurial spirit a lot of room. There must be space—both physical and regulatory space—for making all manner of investments. Investment cannot be made on command. No one but the driven, like Bill Gates, knows what and how he or she will deliver in the market. New goods like cell phones and new ideas like FedEx and Starbucks generate growth. Do you believe that they happen mainly in the US because the US has some genetic advantage? Or is it because in the US, there is space for such ideas to develop? I must answer this first question in the negative when I see Jeronis De Soysa as one of the pioneer planters with no foreign help. He started in 1835 and all his staff was Sri Lankan.

We must review our notion of private sector development and economics. But as my joke on South Asian policymaking goes; “how many economists in poor countries does it take to make economic policy?” The answer is “none, they have all migrated overseas, or rigid bureaucracies will not allow them into policymaking!”

We continue to retain a very patronizing attitude towards the private sector in poor countries, where private sector development programs continue to rely on credit provision, some education of the private sector, as well as a considerable buildup of legislation and regulation for the private sector. We target investment through incentives and other fiscal inducements. The sector-picking mentality, where policymakers have in mind the industries that are to be developed, remains virtually intact. We justify our rather narrow approach to private sector development through poorly conceived ideas of stages of growth where a poor country must first produce agricultural goods, then move on to garments, graduating to leather and light machinery, and finally climbing up the technology ladder to cars and machinery. It is this kind of reasoning that led all countries to attempt a car industry to a point where there is now a global excess supply.

It is this same reasoning that has so enslaved even the entrepreneur in poor countries that they now display herd behavior and operate under an expectation of a paternal government who will use poor taxpayers’ largesse in their favor. Garment and hotel trade is developed as a result of incentives offered by the government. Few produce branded, quality products that are more than mere commodities. Few have differentiated product like Aman-resorts. As a result, I would conclude that these ventures are exposed to excessive risk, but they continue to be hopeful of government support. Not really a good way to run a business!

Nowadays, I am amused to hear everyone tell me that IT is the hope for poor countries where there is limited modern education! But those who argue for it want the government to take the lead.

Unfortunately, decades of Keynesianism, socialism and generally poor thinking have resulted in the three communities - business, thinking, and government - developing a pathological co-dependency. This co-dependency must be exorcised if there is to be investment space and growth. The knee-jerk reaction that government must lead in every area and cover all risks has led to a situation that has stifled true entrepreneurship.

Government Must be Better Defined!

Economics is a much-maligned profession. Even my old aunt thinks she knows all about development and lectures me on policy. *Murphy's law of economic policy* states; "Economists have the least influence on policy where they know the most and are most agreed; they have the most influence on policy where they know the least and disagree most vehemently." To this, I would add *development economists*, who prescribe policy that is not based on modern economics. But then a development economist is one who wants the government to flush the toilet after he has created a mess.

Serious economists will not give you pat solutions based on government-led growth. Growth is a multifaceted, messy business not amenable to fine-tuning and control of bureaucracies. No planner, no policymaker, no economist can tell you where the next investment opportunity lies. This is not to say there is not a role for government. There is! And it is not defining and directing investment and entrepreneurship!

I repeat, **"Growth is a multifaceted, messy business not amenable to fine-tuning and control of bureaucracies."** Growth is fresh ideas! Growth is Taylor planting tea, Edison with his research lab and GE, Disney making cartoons, Graham Bell making a telephone and then AT&T dreaming of an across Atlantic cable, and then setting up National Geographic and so on and so forth.

This is what I find most fascinating about your plantations. Their history shows us how the self-willed men driven not only by the profit motive but the ambiance and the adventure of plantations that delivered to us this industry that is now so critical to your economy. It is the pursuit of such dreams and visions that delivers to us economic growth. The modern state needs to recede to allow such initiatives to be taken. It must provide the investment space that self-willed men like Bird, Taylor, and Lipton need. And you and I, independent analysts and stakeholders in the economy, must argue for that space for investment.

8.14. BEGGING TO PRESERVE “DEAD CAPITAL”?

Budget time is approaching! The usual demands of the government will hit newspapers!

It surprises me that after 64 years of poor economic management, failed policies of bankers and bureaucrats, and failed budgets, we continue to expect wonders from our budget.

I say forget the budget! It is only a speech full of promises forgotten the day after the speech has been delivered. No budget has been adhered to for more than a few weeks in our history. The budget document has no sanctity.

But the economy is in a deep recession—percapita income is by all estimates going to decline. Poverty is on the rise. When per capita incomes go down poverty will increase! There is going to be pain among the dispossessed.

What should we do? Well, the policymakers—bankers and bureaucrats—will do what they do best—beg some more and follow the master’s (donor) advice.

But for the rest of us, we should think some more and raise our voices for change. Those who have the privilege (not the skill) of making policy keep intact the system of rent-seeking, privilege and corruption.

The rest of us who are ashamed of our continual begging must look to alternatives. Surely a nation of 200 million with a nuclear bomb can have a little more self-respect and be turned off by our policymakers panting for aid in every corner of the world. They even beg from tiny UAE and Qatar!

History and economics (skills considered useless in government) show that we can use our ‘dead capital’ to generate growth, revenues, and jobs at home. “Dead capital” can be defined as potentially valuable assets that are currently not being used productively. Some examples:

- Governor houses (I can count about ten around the country) now occupy city center spacetax-free and at huge budgetary cost. We can convert the governor’s mansions to high-end hotels and make some money while using their extensive grounds for commercial development. I can envisage at least 1 billion dollars if we were to allow better utilization of these properties and 3000 jobs.
- City center government property should be immediately privatized and made available for - mixed-use development, including hotels and shopping malls to apartment blocks. Areas such as Mayo gardens and the 3 GORs in Lahore (government housing), parts of F 6/3, and the whole sector above the Marriott in Islamabad could be developed into expensive revenue yielding high-class commercial developments. To this should be added the land that army VIPs are enjoying, such as their various houses and messes in the middle of the city. Many of the provincial cities too have considerable land the government is occupying for non-commercial purposes, such as housing bureaucrats, both civilian and military. My crude estimate is that sales of these properties could fetch upwards of 4 billion dollars and 8000 jobs.
- Then, there are large tracts occupied by government training institutions. NDC, Staff College, Naval War college, NIPA. Civil service academy in Lahore all come to mind. Why can they not be moved to Quetta or Kohat and this land freed once again for serious development? I can easily see about half a billion dollars from this and 2000 jobs.

- Then, of course, there are the stadiums which occupy huge tracts and are not used for entertainment. Instead, their walls are being used for shops. Neither a stadium nor a shopping mall, this is a most egregious waste of resources. If we were to merely demolish the Fortress stadium in Lahore and make a multipurpose facility to include hotels, shopping malls and a convention center, the exchequer could gain by few hundred million dollars and 3000 jobs could be created. Better utilization of our other stadiums, as well as the convention center in Islamabad, could generate revenues of about 50 million dollars annually and 2000 jobs.
- A large part of city center land is given over to the elite for their entertainment at subsidized rates. This includes the polo ground, golf courses as well as clubs such as Sindh club and the Punjab Club. If the peasant's land can be acquired for DHA, why not take over these rich man facilities for serious commercial development that relieves our debt burden. This could be a large bonanza yielding many jobs. We could even build libraries and community centers on this land.
- Creative destruction could yield a huge bonanza too. Take Gulberg Market, liberty in Lahore, Jinnah super market in Islamabad! If we merely find a way to turn these relics of another time into modern assets, dead capital can be converted in to gold. For example, liberty is a huge area which could house a beautiful modern multi level shopping mall as well as hotels, apartments, offices and parking. I can easily see about a hundred million dollars increase in our GDP over 2 to 3 years plus and 5000 jobs from this project alone. Use of this concept in other places could mean more output, revenue and jobs.
- Strangely enough we still have anachronisms like the CSD on the Mall road of Lahore in an age when we have hypermarkets coming into town.
- Still more creative destruction! Our cities look dated and decrepit because our silly bureaucracy does not allow renewal. Housing stock has normally an average age of 20 to 30 years. Zoning also needs renewal each generation. Yesterday's suburb or housing could be today's commercial hub leading to large valuation gains. As I have been arguing for many years, our zoning laws are antiquated and anti development. Allowing our housing stock to be renewed from low slung kothis to high rise flats and commerce in all our cities from Karachi to Kohat could be a big bonanza. I think this could be huge leading to an acceleration of growth of about 2 percent per annum for about 20 years.

There is more but I am limited in space. With so much dead capital lying around, why do we beg with dishonor? My calculations suggest with these simple changes GDP could double in about 15 years or less! Not to mention the growth of construction, hospitality, retail and ancillary industries. Of course our rich and famous would be a little uncomfortable!

Let us be clear to keep the party going for our rich and famous including our policy makers –bankers and bureaucrats—we are forgoing billions of dollars and hundreds of thousands of jobs. Poverty persists because of their failed policies which do not address dead capital.

Indeed not only are we forgoing earnings we are shamelessly begging for more debt! Will someone educate our policymakers –bankers and bureaucrats? Or could it be that we do need some learning and research in policymaking?

The media could give this demand for reform the headline instead of announcements of the alms that we get!

8.15. MR. CM, TEAR DOWN THAT WALL!

Tear down this wall!” was the famous challenge from United States President Ronald Reagan to Soviet leader Gorbachev to destroy the Berlin Wall on June 12, 1987. This challenge will be remembered through history as a cry for freedom. The wall was built by the totalitarian Soviet Union to prevent East Germans from moving freely to the west. We all remember the many wall crossings and defections that characterized the wall and its prevention of freedom.

Instead of heeding the cry of freedom, the Punjab Government has walled itself off from the people. Government Officers Residences (GOR) which sits in the heart of Lahore—occupying about a square mile of the city center—is a colonial legacy that is badly in need of abolition. The Empire needed to give residences and perks to bring Englishmen to rule the country. They had built palaces for themselves on the outskirts of Lahore. The city has grown, and now GOR is bang in its middle. You would have thought that Independent Pakistan would have quickly dismantled this colonial legacy.

Calls for monetization of all perks have been resisted for years. Instead, GOR keeps getting fresh investments—an officers club, new houses, lavishes additions to old houses, and even a wedding hall for the officers. All these investments take place at government expense though you will find it hard to see any of them mentioned in the accounting documents.

The latest such expense is that GOR has been walled off, and security checkpoints will be manned by about 500 policemen to protect the civil servants. Are we an independent country? Are they our masters? Even the British Empire did not feel that insecure.

GOR being walled off will disrupt the life of Lahore add to traffic jams. Many people used the alternative route of GOR to avoid the rush of Lahore. It will further distance the government from the people. The policy will get more deeply entrenched into an enclave mentality.

Yes, terrorism plagues Pakistan. All citizens are insecure. Schools have been affected. In a recent blast, I met kids from St Anthony’s high school (my former school) who were traumatized, and some had even sustained minor injuries. Why do the government functionaries need to be sheltered more than schools?

It could be open season now. Walls will go up everywhere with all the rich and famous seeking segmentation. Is that desirable?

Throughout history, walls have been made to keep out barbarian hordes or foreign invaders. But these walls have protected the entire population, not just the rulers. The great wall of China and Hadrian’s wall were made to protect their people. Walls have been used to defend cities from attackers all the way from the famous Trojan war days. Most rulers of cities built walls to protect their citizens from marauders and enemies.

Tyrants used walls to protect themselves from their populations who hated them. Often these walls were torn down to the regrets of the tyrants. The most famous of these is the storming of the Bastille and the French palaces.

In recent times with democracy and improved governance, very few governments have found the need to build a wall around them! As much as possible, they rely on the people and their goodwill to protect them.

Democratic governments are embedded in their people. If their people are not safe, they do not think of only making themselves safe. Churchill, in the famous Battle of Britain, did not ever think of protecting himself. He stayed in London at 10 Downing Street and was visible to his people all the time. No walls for him!

The IRA bombed London, but Downing Street or the houses of parliament were not walled off. White House still has an iron “see-through” fence with hordes hanging on to it to view the old mansion.

We had expected democracy to tear down the remaining walls. We had expected that our democratic governments would do away with perks, not strengthen them and waste more budgetary resources on them.

Strangely enough, there has been little outrage in Pakistan on this issue. But then we in Pakistan have become desensitized. We are not outraged at anything. We were not outraged by rape and abuse. We were not outraged by torture and corruption. We were not outraged when our democratically elected governments were thrown out by tyrants. We were not outraged when BB got killed. The list is long.

Countries and civil societies get made when government excess does lead to outrage. We have a long way to go. Our leaders know that! Will civil society demand freedom with a cry of “Mr. Sharif, Tear down that wall! You can only be safe when we are.”

I implore the Supreme Court justice to take note of this egregious use of executive power. Indeed this is an abuse of eminent domain?

Chapter 9

Financial Aid, Foreign Actors



9.1. PAKISTAN'S IMF PROBLEM

In exchange for bailouts over the past three decades, Pakistani governments have repeatedly agreed to draconian spending cuts and arbitrary taxes in pursuit of fiscal targets. As a result, the country's economy is as weak as ever, and its state capacity has been hollowed out.

Pakistan, after all, is an IMF addict. The country has already spent 22 of the past 30 years in a dozen different IMF bailout programs. As the former IMF advisers Ehtisham Ahmad and Azizali Mohammed explained in a 2012 [paper](#) for the Asia Research Center, no American, IMF, or Pakistani official has any incentive to reform Pakistan's structural economic problems, and so the cycle of bailouts continues.

Unfortunately, few in Pakistan have ever read Ahmad and Mohammed's paper or debated its significance. If they had, they would know that the IMF's approach to the country has been a failure. For decades, IMF programs have been undercutting Pakistan's productivity and growth potential by eroding governance and state capacity and creating conditions for ever more rent-seeking and corruption.

Successive IMF programs have required that Pakistan adopt more withholding taxes (never to be refunded), surcharges, and levies on essential goods such as oil and electricity, even though these measures hurt employment and investment growth. And when the government misses its fiscal targets, the Fund and Pakistan's finance ministry agree on quarterly mini-budgets, which often include new taxes on school fees, bank transactions, Internet access, and so forth.

It should go without saying that if businesses do not even know what tax measures will be included in the next quarterly mini-budget, they will be unable to plan and invest. This is Economics 101.

Moreover, alongside distortionary tax policies, the IMF has forced the finance ministry into unplanned spending cuts without any real reforms, despite the obvious negative effect this has on growth. When such reductions were made under an IMF program in the 1990s, Pakistan's national bus service ended up on the chopping block, and vehicles were allowed to deteriorate. Since then, funding for public services—including railways, police, health, and education—has been cut to the bone. Hastily designed spending cuts have undermined growth and thus the government's fiscal position, forcing it to kill off public services and infrastructure projects. The result has been a severe erosion of state capacity.

To be sure, Khan's new government and the IMF will talk of reform; but such talk is never followed up with action. Reforms to overcome Pakistan's constant power shortages have been discussed for the last decade, and yet the losses continue to mount. With the costs of mismanagement passed on in the form of price increases, the debt held by private power producers and the government stands at over one trillion rupees (\$8.2 billion).

New IMF funding will no doubt lead Khan's government to repeat past mistakes. It will cling to artificial exchange rates while avoiding reforms that could plug leakages in state-owned enterprises. When the Fund was preparing its 2013-2016 program for Pakistan, I warned the deputy director overseeing the plan that it would be used to overvalue the exchange rate. She insisted that it would not. It was.

The pattern is always the same. With the Fund's blessing, the government goes on a shopping spree, taking out costly loans for expensive projects, thus building up even more debt and adding new inefficiencies. After a few years, another crisis ensues, and it is met by another IMF program.

The short-term focus of these programs ensures that reforms will be postponed and that obsolete industries will not be allowed to die. Meanwhile, education goes underfunded, energy and water shortages grow more frequently and severely, economic imbalances worsen, and the government's policymaking capacity continues to erode. Rapidly achieving stable macroeconomic indicators is all that matters, even if doing so accelerates social and political decay.

It is precisely the rush to meet IMF-dictated fiscal numbers that leads to bad policies. In the absence of due process—such as parliamentary or cabinet scrutiny, ministerial and expert review, and domestic consultation—the finance ministry accrues more power, and governance declines. That is what happened under the previous government—which used an IMF program to push through vanity projects—and Pakistanis are now paying the price.

Sound macroeconomic policymaking cannot be conducted through arbitrary mini-budgets. The way to address economic imbalances is to spur growth in the real economy, which will allow for the accommodation of deficits and debts. As I show in my book *Looking Back: How Pakistan Became an Asian Tiger in 2050*, economic growth and development require sound governance and ample state capacity. Those criteria can be met only through extensive, well-considered reforms over the long term. The question is whether the IMF will encourage that or have Pakistan keep doing the same thing while expecting different results.

9.2. TAKE POLICY BACK FROM ECONOMIC HITMAN

Many Pakistani TV commentators and columnists have been referring to “Economic Hit-men” but mainly in the context of debt. However, Hit-men have evolved beyond the book and operate much more subtly now. Now they control policy through a monopoly on thought and research. They also have huge advocacy funds where they can buy local intellectuals and media space. Through such activities, they define poor societies, including the country’s citizenry.

Inundated with this advocacy, local talking heads and groups repeat advocacy mantras. NGOs are set up to run campaigns and project the visions and characterizations of poor countries that they want. One such important advocacy campaign is run by Adam Smith International, a firm that is under scrutiny by UK parliament. It is a campaign to tell us that we are all tax cheats and that there is a need to tax us more. You can see donors and their consultants united in an analysis suggesting that the only way forward is more taxes regardless of bad policy or poor expenditure management. Meanwhile, poor Pakistan suffers probably the most messed up tax policy anywhere in the world. Instead of fixing the policy, consultants give the government a new list of arbitrary taxes to add to the mess every few months.

Almost all are paying income tax through withholding taxes on mobile calls, electricity, and many other services. Strangely enough, our leaders, bureaucrats and intelligentsia never challenge this disparaging of our people; instead, they feed it. Advocacy funds have been charged to tell us that we are bad and we do not pay our taxes. This is something that rules out all sensible debate on this issue. They never respond to “what should I pay more for?” or “are government expenditures being used wisely?” Why give more to a government that spends on whimsical projects and doesn’t use its assets (railways, city real estate, PIA, etc.) wisely? Bad policy pushed by advocacy is overburdening our economy, which is also something they don’t want us to see.

Government can also tax people through several methods other than taxation. For example, banning activities operates as a tax. Private sector media activity was not allowed for decades. Several high-paying occupations (e.g. journalists, actors, commentators, producers, and directors) have opened now. It is easy to see that the ban imposed a huge tax burden on society. Even today, policy continues to restrain activities such as large construction, development of inner-city commercial and leisure activities. One can only wonder at the cost to society. Consider also how government-owned companies through the use of taxpayer funds. A glaring example is the construction sector, where government companies are often favored with non-competitive awards. Airline, airport, gas development distribution and agricultural procurement are other areas where the government either monopolizes or heavily distorts competition.

The policy also gives protection to cars and engineering goods. It also gives exemptions to chosen activities or industries (e.g., electrical goods). In both cases prices, in domestic markets exceed international market prices. People are forced to buy goods of lesser quality than available internationally. This is a tax for consumers which beneficiary industries (not the government) collect in the form of profits. The cost of these policies to the government is about 3 to 4 % of GDP. The important point to note is that consumers have paid this tax. Change these policies and increase revenue by 3 to 4% of GDP and stop calling people cheats. Government

perks and privileges also add to the tax burden. Take, for example the large amount of tax-free compensation that government servants receive in the form of perks (houses, cars, servants, utility bills, plots).

Monetization could increase revenue collection. Prime real estate to provide housing and leisure activities to officials could be released for development. A Planning Commission for such a reform limited only Islamabad could increase investment potential by trillions of rupees. Capital thus created would expand the tax base. The perks culture has also held real estate development hostage for decades as officials seek to reward themselves through plots. Government-sponsored developers such as the DHA and Coop societies dominate the real estate market, creating a plot culture and holding private real estate development hostage.

Merely changing government policies in these few areas would allow the economy to grow as well as increase the tax/GDP ratio way more than donor-advocated policies of taxing milk school fees and mobile phone calls. We need to take back our policy from the 'hit-men' and their advocacy funds. "Donor-advocacy" suggests that good policy is to leave expenditures and the structure of the economy alone and rely on imposing arbitrary taxes on milk, SMSs, and the internet is good policy. It is not! Besides, why would you want to give wasteful setup more money without reforming it? Advocacy is mindlessly taxing an already overburdened economy, laboring under the yoke of inefficient regulation, excessive and poor quality PSE intervention, an incentive structure of officials that precludes economic activity

9.3. WHERE DO DEVELOPING COUNTRIES GET THEIR POLICY IDEAS?

David Mepham makes a strong case that institutions of the international community, including the G-8 and European Union, need to show greater commitment to Africa's development and prosperity. The way to do this is by overcoming the "accountability deficits" that hamper the continent:

"a lack of domestic accountability, with inadequate structures for holding Africa's governments accountable to Africa's people; and a lack of external accountability, an absence of mechanisms for holding rich countries to account for the impact of their policies on Africa." The debate in the rich world, says Mepham, has neglected the second deficit. The result is "policy incoherence" that measurably damages Africa's people in four areas: aid and conditionality, trade, arms transfers, and corruption and conflict financing.

David Mepham's argument is persuasive within its own limits. But these very limits also make it interesting, for the essence of his case is offering policy advice about Africa to the governments of rich countries (in particular Mepham's own, the United Kingdom) from the perspective of a leading London think-tank. The question it leaves open, and which I would like to address in this response, is to what extent Africans themselves (and by extension citizens of all poor or developing countries) have the capacity to put their own ideas on the international political agenda. Where are their think-tanks and civil-society institutions, what are their preferences and choices?

A Triple Deficit

The aftermath of the great Asian tsunami of December 2004 is only the most vivid recent illustration of one of the most notable features of international media discussion, namely that leading figures in the development world—from donor states to "bleeding-heart" liberals wishing for improvement in poor countries—are given far more space to express their views than voices from these countries themselves.

This general trend of exclusion sharply impacts the many people in poor countries who are in principle available and willing to participate in global policy dialogue. They are disempowered, their voices unheard or at best marginalized. Quite possibly, they are even crowded out by the very people who want to help them.

But the exclusion also has deep institutional roots. Domestic policy "idea-generation" through think-tanks and professional associations has played a critical role in the economic development of the United States and Europe. Such institutions create a network of idea exchange, competitive funding, and peer review, which comes to underpin innovative research work. Moreover, they deepen communication between idea-generators and policymakers, helping in the process to educate both civil society and the political classes. The conclusion of these efforts is an appropriate reform strategy that is domestically owned.

By contrast, in low-income countries, think-tanks and professional associations remain largely undeveloped, and research foundations barely exist. In their place are aid-giving institutions administered from faraway capital cities that pay little heed to local circumstances. Any public policy debate that does take place is confined to relatively closed groups comprising

mainly people from these aid institutions, their partners, and consultants. The only other marginal participant tends to be the government—“marginal” because it routinely has neither the capacity nor the political time to concern itself with the longer-term implications of public policy.

In some poor countries, donors and governments have attempted to collaborate to develop think-tanks. The inefficiencies and corruption that shackle their bureaucracies and political systems too often thwart these efforts. Despite substantial funding, all that is achieved is another government department and no domestic capacity for policy research and investigation.

The lack of organized capacity for strategic research and debate means that low-income countries remain dependent on expatriate advice for their reform ideas. This has three deleterious effects:

- **Aa knowledge deficit:** the expatriate expert who has limited familiarity with the society he or she is working in, and limited time to acquire it, often creates plans and designs that are inappropriate to its needs. Without organized forums such as research universities, professional associations, and think-tanks, the fragmented ideas that do circulate in occasional newspapers and periodicals are likely to be inaccessible to the expatriate.
- **An ownership deficit:** the ideas which do develop in poor countries—neither born of domestic experience nor argued through domestic debate—are seldom “owned” by the domestic population. All too often, this means a lack of enthusiasm, poor implementation and ultimate failure in any reform process itself.
- **An opportunity deficit:** the reliance on expatriate advice “crowds out” domestic thinking and policy-development capacity—the latter is like a child that has little room for growth in the presence of an oppressive parent.

The Talent Drain

There is no reason in principle why this situation should persist. The experience of institution-building in the west—from successful universities like Oxford, Cambridge, Harvard, and Chicago, to think-tanks such as Brookings, Carnegie, and Rand—offers many lessons that could be applied to the developing world. I found it very surprising to learn that, in only a few years, the combination of a generous grant from a non-interfering philanthropist (John D Rockefeller) and a talented visionary (William Rainey Harper) created a major force in the academic world, the University of Chicago. Indeed that university’s often-controversial contributions to public policy include its reputed influence on economic reforms in Chile and the United States.

Such innovative institutions have prospered by nurturing and retaining core groupings of talent—even when, as in the Institute of Advanced Studies in Princeton, the talent is imported. The lessons for poor countries are clear. Expatriates may provide training or knowledge where these are needed, but ownership of the thinking process requires dedicated and talented people who are very largely free of bureaucratic impediments or commercial demands and are able to create domestic learning and research centers that can influence policy development. Additionally, competition among these institutions facilitates open policy debates and peer-review processes that help guide their work and aid objective evaluation.

The current approach to developing such institutions in low-income countries is too dependent on the assumption of the superior knowledge of the donor-government nexus. This leaves no room for the leadership of dynamic individuals that can take charge of an institution and innovate. Any such leadership will be hidebound by externally-imposed plans, bureaucratic regulations, and strict reporting requirements.

At the same time, current mechanisms encourage talented professionals to migrate to western institutions. Both donor and government incentive schemes regard domestic talent as inferior to foreign and award the former lower salaries and prestige. Indeed, the United Nations' two-tier organizational structures and salary scales in poor countries clearly privilege expatriate knowledge. No surprise that in response to this discrimination, competent professionals in poor countries move abroad or into other activities or seek to join locally-based international agency staff. As a result, domestic institutions are stripped of talent.

The institutional barriers to social and economic progress in low-income countries thus go far beyond the questions of "accountability" that David Mephram rightly draws attention to. The absence in these countries of thinking networks that can help create relevant, appropriate, and achievable reform models is also a crucial impediment.

9.4. THE INSANITY OF OUR ECONOMIC POLICY

“Insanity is doing the same thing over and over again and expecting different results.”
Einstein

Pakistan is an IMF addict: we have had 12-13 IMF programs in the last 30 years and have spent more than 22 years in a program (more if you count program monitoring). So, what will change with another program? Will both Pakistan and IMF repeat the past and prove insanity as in Einstein’s maxim.

IMF gave us a clean bill of health about two years ago, yet we are in another BOP crisis. You can see the exchange rate collapsing. Will the doctor repeat the old medicine?

People are largely better off despite the shenanigans of the trio (MOF, IMF, and pundits). People have worked hard to build a life for themselves, whether through migration or some trading and even informal work at home. But then the trio (IMF, MOF, and our economists) call the hard work of people the informal economy, and they want to shut down what is working in the economy.

What economists should say (and never say) is that the Ministry of Finance (MOF) SBP and economic policymaking is always in a crisis even if the country is prospering. MOFs bereft of policy skills are always run by a megalomaniac Finance Minister (who boasts of running ten divisions from Planning to Statistics, why?) and a controlling Finance secretary from the DMG. It always remains close to a BOP and a fiscal crisis.

Let us call it like it is. MOF and SBP, as well as economic policy needs an overhaul. Currently, the government is not structured to do policy in the 21st century. Any DMG cannot come and make policy in Planning, Finance, Commerce, FBR, and Industries for six months before retirement.

And the minister of finance is just one minister and should not try to be deputy prime minister and bully SBP, Planning Statistics, Economic Affairs, and many other ministries. She should only be minister for finance. The pundits/IMF talk of the economy as if the megalomaniac, skill-less MOF can wave a magic wand to make the economy turn on a dime. Despite many pronouncements and repeated donor policy advice and financing, growth remains below potential, fiscal and BOP deficits remain out of control, savings and investment remain low. So, what have all these programs and donor interventions achieved?

Yet the cavalry in the form of the IMF will be here in September. They will provide temporary relief as always. Sadly, they are incapable of changing the fundamental weakness in the economy—the poor policymaking in the country.

IMF will repeat the same medicine, increase revenues through mini-budgets and random taxes. Reduce expenditures without analysis. In short, IMF keeps giving us the “austerity” treatment, that Europe has reviled. But austerity has not fixed our problem for four decades. Instead, it makes it worse as haphazard taxation, and expenditure cuts erode the capacity of the state and society’s trust in it.

IMF fixes for structural problems were easily gamed by MOF. The government has never reduced in size. PSEs bleed profusely (Farrukh Saleem gives good figures). Government expenditures and borrowings remain out of control, and the IMF has no analysis of why. SROs,

despite many efforts, remain intact to the detriment of taxes and business competition. Corruption and governance problems continue to grow.

Programs and groupie economists always focus on tax GDP ratio as the centerpiece of the IMF program. Tax reform makes a bigger mess. We have a punitive tax system belying all principles. There are 60+ withholding income taxes on various services that the poor pay to never get a refund. 70% of our revenue is now collected on withholding agents like mobile phones, banks, and schools. And FBR is getting bonuses thanks to DFID funded research. This tax policy is a drag on the economy, hurting our exports and businesses, but IMF will give us more.

In the 90s, I did a paper on Sustainable deficits (with Peter Montiel) to show that Pakistan could sustain a deficit of about 5% of GDP. The IMF mission objected and maintained a deficit target of 3% in the 90s. Now with hindsight, we can see that despite IMF efforts, Pakistan never even reached 4% of GDP. Now the IMF has moved the target for the fiscal deficit over 4% but without a clear strategy on how to achieve it.

So be prepared for minibudgets, arbitrary taxes, and more borrowing. Three years later, MOF will declare victory, and IMF and World Bank will praise MOF. But by the next election, look for another crisis and a return to the IMF.

The cycle will continue until we change the MOF, SBP, and how we make economic policy. And IMF has no way of doing that!

Or, as Einstein said, keep repeating the insanity of repeating past mistakes.

9.5. FINANCE AND A DONOR DISTRACTED SBP

In 2008 financial overzealousness led the global economy over a precipice, but it did not kill the romance of finance. In particular, donors love finance and love to offer financial inclusion as a panacea for all societal ills.

DFID and the IFC have made the State Bank of Pakistan (SBP) run programs for financial inclusion in exchange for loans for more than a decade. SBP's mission expanded into development, and it opened up departments on housing, small and medium business, and microfinance. Meanwhile, the IMF was pushing for independence for SBP with a sharp focus on monetary policy.

The country's development body, The Planning Commission has been rendered a mere project office because donors have complete freedom to do policy everywhere. SBP engaged in mission creep could not even design its own financial inclusion program; it needed Oxford Policy Management, a UK-based consulting firm, to do the design.

Many million dollars later, SBP is pushing financial programs for these SMEs, housing, and microfinance with some form of subsidy or guarantee. Received wisdom in this area is that the supervisor of the banking system should not be involved in any way in either directing credit or offering subsidies or guarantees. Monetary-Policy making can be conflicted if the SBP gets involved in development policy.

Has the SBP done a sterling job in its primary mission—managing inflation and the exchange rate? I think the consensus would be “NO!” SBP presided at least two crises in recent memory and managed them poorly. In 1998, they had let the foreign exchange deposits grow to about 10 times reserves and could only exit with a default.

In the early 2000s, they had held on to a policy of exchange rate over-valuation for about seven years with widening inflation differentials. Eventually, the bubble burst with an exchange rate crisis when the rate depreciated by about 40% in a matter of weeks. In other words, the policy created room for an ‘exchange rate attack.’

Perhaps focused on development, SBP has always been wrong on exchange rate. SBP has always erred on the side of keeping the exchange rate overvalued, i.e., the dollar is cheaper than it should be.

Much research and evidence show that a developing country must keep the exchange rate undervalued, i.e., make the dollar more expensive than the fundamentals would suggest. The most glaring example of that recently has been China.

(But before people think, I am advocating a devaluation. No! it is a question of managing a policy that will allow the correct exchange rate to emerge like the temperature and the RPM of a finely balanced machine. Fixing the rate is not a good policy. This requires skill and research.)

Quite possibly, SBP focused on its primary task might have managed exchange rate and monetary policy better. But now, more than half the bank is doing development policy in probably a turf battle with the Planning commission. Remember, this has happened through the candy of money offered by donors.

But now, our distracted SBP has once again over-valued our exchange rate to decimate our export sector.

Many studies (World Bank Doing business) have shown that investment is largely constrained by factors such as weak property rights and contract enforcement and poor governance (registration processes, taxation, and corruption), and knowledge and space constraints. A course in elementary finance suggests the pricing of such risks will preclude most investment possibilities. Still expends real resources trying to solve the problem through improving loan terms. Offering cheaper and better loans to propositions that have huge structural hurdles is unlikely to make them grow and achieve solvency.

How does this make sense, and has this helped or hurt SMEs? Could DFID and IFC evaluate their little experiment and tell us how the costs of a distracted SBP square off against the non-existent benefits of this decade-long activity. Are the 100 million + USD spent here justified? Could we not have dedicated that money better to importing a few professors for our professor-less universities?

Could they also tell us if all real problems can be solved merely with clever finance? Is there no need to fix domestic institutions and governance first?

Surprisingly this project was initiated at the time of the global crisis. It seems neither the donors nor SBP learned anything from the global crisis.

And let us not ask whether EAD knows anything of this. Should they have?

9.6. YOU CAN'T FINANCE AWAY BAD POLICY AND THINKING

Reagan's deregulation created a romance with finance. My generation of educated Pakistanis benefited from it greatly—even gave us a Prime Minister. The romance with finance still plays strongly in Pakistani political/administrative and intellectual class. We look to finance our way out of things. It is the easy way out, and we love shortcuts.

Every government runs after money. Bureaucrats are trained to look for aid and financing above all other issues. We sing siren songs to foreign investors, luring them into our quagmire, unaware that they like Ulysses might come prepared.

We love clever financing schemes: diaspora bonds as if immigrants can be conned into 'cheaper than the market' lending. Policy circles continuously chatter about securitizing remittances, floating convertible bonds, or issuing more Sakooks expecting financial magic to deliver effortless development.

Why do we think that we can con the world with financial instruments? Do we now know that financial firms are 1000s of times better at it than our policymakers? Would our politicians and bureaucrats be able to con the conmen who conned the world in 2008?

Did IPPs not come back to haunt us? Did we not learn from the Rek o Diq fiasco that the foreign investor is no friend but a shark who will take his pound of flesh?

The romance with finance is also fed by donors after all, they have to push money. We are always told how much we need their money for infrastructure, schooling, food security, sanitation, water, environment, and much more. They do have an army of analysts who have nothing better to do than write reports and blogs and preach "you need money" to our governments.

All officials know that their post-retirement jobs depend on donors and their children's careers lie with donors. So, they are captured audience to the donor mantra of "you need more finance."

Can finance solve all problems? Let us look the use of simple economics to study the example of housing.

Donors have pitched for long that the housing shortage is because of the lack of mortgages, and SBP keenly engaged in mission creep for the last ten years to develop a mortgage market. Yet, the housing stock expands through the DHAs, the bureaucratic plot development (DMG), or cooperative housing societies. The first 2 are schemes for self-dealing 101, and the last is Pakistan's contribution to the scam literature given the number of uninvestigated scams in coops.

So, the housing stock expands in expensive sprawl-based single-family homes. Cheap flats in dense spaces where the middle class can live are severely limited because the self-dealing paradigm of land development (inherent in the DHA/DMG model) seeks to restrict density and flats.

By now, our demographic situation is well known. Our labor force is increasing about 2-3 million a year, and our housing needs will also grow by about 0.5- million a year. Yet, the stock seems to grow in the 1000s given the myriad planning issues. Given the huge shortage, prices are escalating rapidly.

In most cities, the cheapest house runs over 100,000 USD forcing most people to seek informal housing or join up in some form of informal extended family arrangement. Neither of the informal arrangements is bankable given unclear property rights and contractual arrangements.

Let us examine the proposition of getting a mortgage on a house of a 100,000 USD which is about the minimum for a house in Pakistan. Even though interest rates have come down, mortgages will still be priced at 12-15%. At 12%, the payment will be about 12000 USD a year. Add a little for insurance and maintenance, and not including principle, we will be looking at a minimum of a 15000 USD a year, all included.

Generally, it is regarded that housing should be no more than 30% of your income. This means that the income of the family buying such a house should be about 45000 USD a year.

Just review the state of salaries. 45000 USD or 4.8 million rupees (about 400,000 rupees a month) is a seriously high salary in Pakistan even if both spouses are working.

So even if we develop a mortgage market, are we doing it only for the rich? Why then is SBP expending so much effort, and why are donors funding this effort so huge? Just bad analysis?

Another approach could be to adopt reform and increase the supply of flats as dwelling units, not just single-family homes. This would mean breaking the DHA/DMG hold on the housing market to allow more density through high-rise flat construction. Supply, if it goes up sharply, will bring the price of dwelling units down.

A virtuous cycle would happen as more real estate construction invigorates the economy as well as the labor market. More jobs and more bankable properties will lead to a mortgage market.

So, donors and SBP have it the wrong way around. Instead of increasing supply, they are pushing expensive mortgages on a poor population.

Moral of the story: countries and societies grow with good policy analysis rather than fanciful finance and begging for money.

9.7. ADVOCACY—THE NEW MISSIONARIES

Inept leadership, perpetually looking for shortcuts, has been begging for aid for most of our history. The result: problems and debt pile up while donors do all manner of experiment here and leave a mess behind.

Our leaders run to Saudi Arabia on a quarterly basis, begging for oil and aid, seldom getting any. Meanwhile, Saudi funds have free rein to ‘advocate’ radical Islam in Pakistan.

Other donors have also learned to experiment with policy in a country where leadership is asleep and ready to sign anything for a few million dollars. Photographs appear in papers on a daily basis of our leaders sitting in some ceremony with junior aid officials. In a subtle manner, the donor establishment says that our officialdom, including ministers, is at par with junior employees of donors. What do we expect when begging is our only policy?

Used to be a time when money was given for building a Mangla or a Tarbela. Now donors have learned that their money can buy much more when governments and societies have been dumbed down and aid addiction has set in. They have policies! They have ideas! More importantly, they have now developed bureaucracies with mind and a career motive. Why should these bureaucracies not run countries?

Armed with oodles of money and stature and faced by inept government machinery, these donor bureaucrats, petty officials with no real prospects of alternative employment, are now excitedly running Pakistan. They can experiment with no regret. All mistakes belong to Pakistan, while all credit goes to them. For example, IPP policy was initiated by such donor officials who even privately profited from it. Pakistan continues to pay the price to date while the World Bank is never questioned for poor policy design.

Similarly, World Bank is not held responsible for the public sector reform program that sent DMG officials on a sojourn in Boston at a huge cost to Pakistan. Nor are they held accountable for the Tax Administration reform program that wasted ten years and about 150 million dollars. DFID, too does not take any responsibility as it throws in money to back the TARP of the World Bank.

DFID has funded the SBP to get into development issues such as housing and Small and medium enterprise development even as IMF counsels an independent SBP focused on inflation. But who will question them?

USAID’s arrogance knows no bounds. Their officials visit Pakistan on ‘tours’ of 6 months to a year and refuse to come out of their bulletproof posh houses. Even their water and toilet paper is imported from USA. But they also do nothing. They give huge contracts—100s of million dollars-- to so-called contractors firms of friends and retired aid officials. A graveyard of these projects exists somewhere, yet several ex EAD secretaries do not even know the names of these firms.

With so much failure around them, donors are quick to reinvent their narrative. Of course, the blame is all on the locals who are seen as corrupt, inept, and stupid.

Now the donors have prescriptions in their back pockets and have no need to understand society or local conditions. They merely need to ‘advocate’ (just like the Wahabis) their policies in newspapers, television, and events to convince us that they have the truth.

Advocacy! Does that remind you of something? History repeats itself! 19th century, the missionaries were here to convert us to Christianity because the natives needed enlightenment. So with missionary zeal, they advocated conversion. The early missionaries, more dedicated, did educate us in the bargain.

Gone are those days of dedicated missionaries. We live in the age of private sector and outsourcing. So instead of missionaries, we have consulting firms, and contractors made up of cronies of aid establishment—friends and old colleagues. At a considerable cost, they run these programs. Here is a sampling of a few of these.

Awaz 35 million pounds Managed by DAI—consulting group out of Washington.

Voice and Accountability Fund 5 million pounds Managed by DAI—consulting group out of Washington.

Transforming Education in Pakistan 20 million pounds Managed by DAI—consulting group out of Washington.

Research and Advocacy Fund 18 million pounds Managed by British Council

Poverty and Growth—5 million pounds Adam Smith International consulting firm out of UK.

There are a lot more of these missionary programs. No one at any economic ministry has any idea of how many there are and how they are run, or why they are there. Yet millions of dollars are being wasted here while our universities, schools, and hospitals starve for funds. There is money for advocacy but not for fixing them.

The advocacy movement run purely by donors, faces no pushback from anyone in the country as all thinkers researchers are employed by donors or have the potential to be employed by them.

On the face of it, these advocacy programs seem innocuous, often addressing ‘motherhood and apple pie’ topics. So why complain? Well, for two reasons. First such top-down approaches based on the altruism of donors and their consultants are flawed in their conception. Second, our immediate problem is that the state machinery has eroded to a point it is failing to deliver on all fronts. The priority now is to rebuild the state, not advocate to the broken, assuming that it is not broken.

Advocacy merely assumes that nothing is wrong with the state and preaching alone will make good things happen.

9.8. THE PROBLEM WITH AID

The aid establishment has grown based on two assumptions

- (1) That there is a capital shortage in developing countries
- (2) That these countries lack the ability to make policy either because of knowledge or information shortfalls.

The world has changed, and these two assumptions are now untenable. Capital markets are flush with cash, and they are eager to push it on to poor countries. The internet and globalization have made knowledge easily accessible to all. Most countries now have all manner of expertise. They are all exporting experts to the west.

Despite these developments, aid continues to grow. Financial flows are small. Now aid establishment is retailing policy advice, capacity building, and technical assistance.

While reports and consultants are surrounding poor country policymakers, making them feel good, talent from those countries is being released to do outstanding work in the west. Yet, their governments would rather have aid than bring back talent. And aid seems to be set to facilitate the flight of human capital.

The aid establishment is now huge. Bilaterals and multilateral included we are talking of about 30 offices in Islamabad. All of them have officials who need to justify their presence. For that, they have to show an agenda and work. They are playing to their bosses out there and have only a limited interest in the welfare of Pakistan. They have large sums at their disposal and agendas.

Meanwhile, our government's human resource policies are such that no competent, well-educated Pakistani can find gainful, responsible, and respectable employment at home. The only option for such talented people is to leave the country. Those who, for personal reasons, are compelled to stay in the country, have to be employed by the aid establishment, reporting to junior aid officials and following their agendas.

We all agree that governance is one of our biggest problems in Pakistan. Yet this system of aid perpetuates poor governance. Ministers are treated like royalty by the aid establishment. They are addressed as "Excellency" and given a lot of courtly ceremonies. They are wined and dined on international trips that can hardly stand the test of scrutiny. They are invited as chief guests to conferences/ceremonies. They are given the pulpit at various events to make empty and repetitive speeches. In short, ministers are distracted from their actual work and rewarded for keeping the status quo.

The many donor bureaucracies now dwarf country administrations. The latter in any case have been stripped off their human capital and live with outmoded systems and technology, thanks to continued postponement of reform. Consequently, ministries cannot develop policy and other initiatives or react to the various demands that face them. This suits donors who have agendas that need to be served. The less the opposition the better!

The various aid offices and consultants ply ministers with more reports and proposals than the ministry has the capability to understand. It serves both parties well, but it does postpone reform and hence keeps our administration on a perpetual decline in terms of their capacity. It is not surprising to see all our governance systems are deteriorating.

The continuous supply of consultants, technical assistance, training, and conferences puts donors fully in charge of the agenda. When they say we need to measure poverty, everyone turns to it. They spend millions of dollars measuring poverty and arranging conferences to discuss poverty. They pivot to Trade with India, the whole country starts discussing that.

Quite unintendedly, the aid enterprise operates as if it were “dumping” on our intellectual enterprise. Donor advice to cut the deficit while demanding increases in several heads from the environment to social safety nets, the government has no money for research in any area. Only donors have liberal funds for research, which they use for their agenda. In this environment, the entire intellectual effort of the country works for the donors.

No money is available for local problem-solving. For example, in Pakistan, there is a consensus that civil service reform is critical for improving governance. Yet because the donors opposed this, the subject has never had any funding for research or conferences, or ministerial presentation. The entrenched civil service resists discussion on this reform, and donors wittingly or unwittingly oppose the reform.

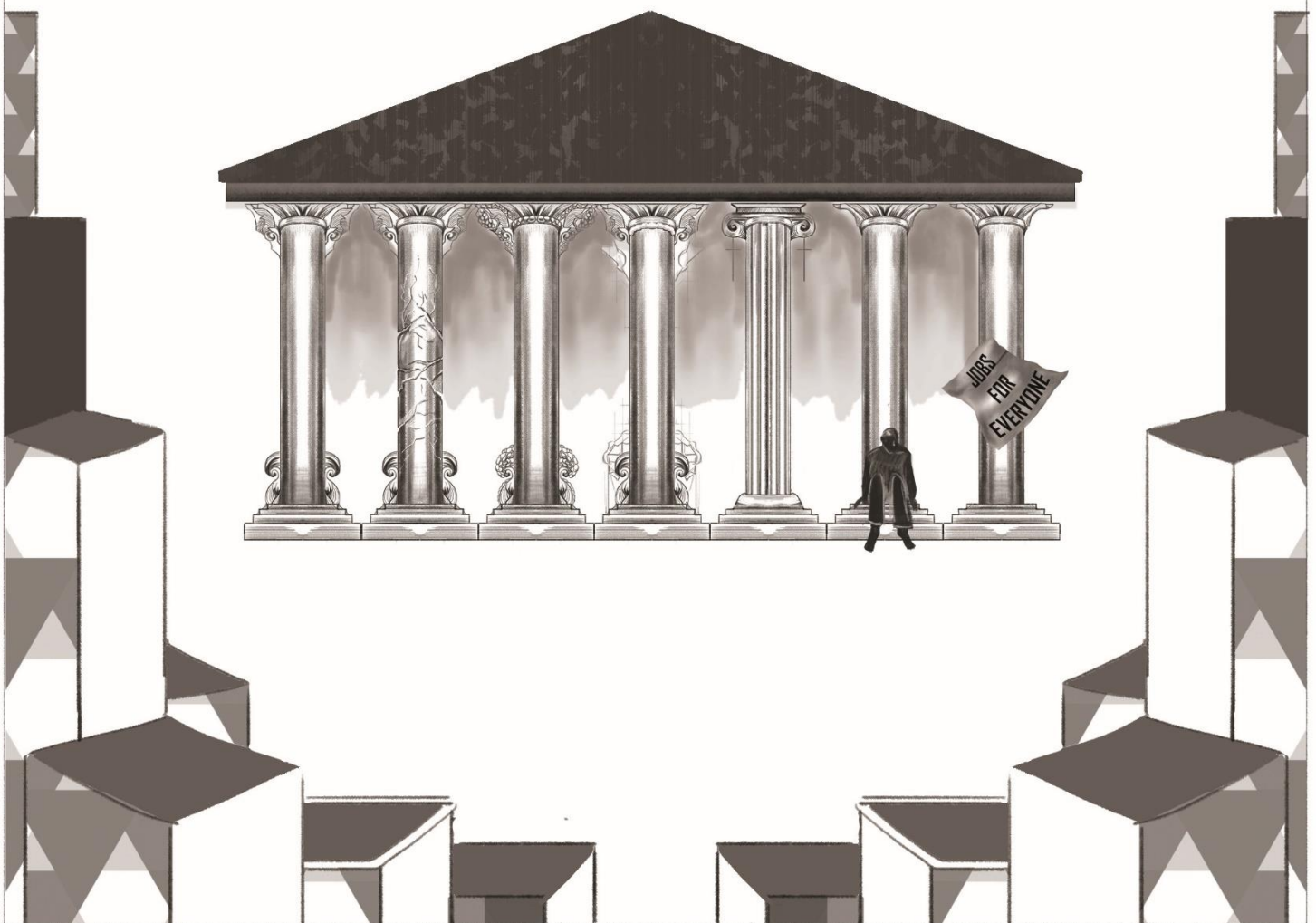
Our think tanks and universities are depleted of serious research and public intellectuals as the aid enterprise only funds low quality agenda based consulting. Such consulting also is stratified where the meaty contracts go to firms overseas that have symbiotic (often questionable) relationship with aid. Local intellectuals and firms are virtually hired as research assistants by the contracting firms sitting in distant capitals collecting huge overheads and fees.

Perhaps the most significant unintended consequence of the aid enterprise is that the current arrangements are killing the intellectual enterprise in all countries. In this regime, chances of developing a Brookings or a McKinseys in a poor country are minimal. The best option for talent is to migrate.

Angus Deaton has rightly noted that state capacity, which is so critical to development suffers the most with aid. Add to that the rapid deterioration in intellect and problem-solving capacity of the country and continuing failure to develop becomes somewhat clearer.

Chapter 10

Education, Research & Academia



10.1. DEALING WITH OUR INTELLECTUAL CRISIS

Naveed Iftikhar, a young Pakistani scholar who is emerging as a thought leader, has forcefully lamented our intellectual crisis, i.e., the lack of a serious, informed debate on key challenges in Pakistan.

This is a persistent problem, and earlier generations of intellectuals lamented it as well. Ejaz Haider convened a debate on something similar when he was among the leadership at the **Daily Times**. (I have written similar laments for decades).

Naveed's thoughtful piece rightly pointed to the media, government, and society's lacking and demand for thought, research, and ideas. Let me add the key reasons why the space for intellectual growth is so limited in Pakistan that even the ground rules for discourse are not yet determined.

In my recent book **Looking Back: How Pakistan Became an Asian Tiger in 2050**, I note that a debate occurs when several leaders of intellectual thought participate fully on issues of their choice in a concentrated manner. They actively confront one another's ideas, acknowledging contributions with the sole purpose of advancing knowledge. The audience of the debate gets increasingly involved and eventually owns the emerging knowledge.

Normally such a debate emanates from universities and think tanks where well-known public intellectuals are housed. Scholarship leads to debate. Through publishing, holding conferences, and seminars, they create vibrant evidence, analyses, and forward-looking thought for change.

Unfortunately, universities here have been colonized by the bureaucracy which controls rules, funding, and even recruitment. In turn, through years of seeking funding, training and research from aid agencies, the bureaucracy allows no local funding for local research. Instead, policy and research have been now fully outsourced to donors. This leaves our researchers/thinkers in the cold with only two choices: play research assistant to donor consultants or migrate.

The few conferences that are held through donor funding are ceremonial events to host and honor VIPs. At these, no research is presented, no discourse happens. Speakers — many of whom have no research — make their favorite speech while donors push agendas to please headquarters.

Why is it that in a country of 207 million people, which in its early days produced Mahboobul Haq and Abdus Salam produces no fresh thinking and citations? Yet when you look through donor reports, they see no need to attribute ideas to Pakistani thinkers or even cite their work. All thought has to come from outside the country.

This is because most researchers in Pakistan survive on donor contracts. Following funding sources, they have to agree there is little original thought in-country. Besides, they have to protect their market, and they must show an intellectually-barren country.

Sadly without citation, there is no knowledge. Intellectual thought is one long conversation within humanity. Citations are the best way to acknowledge receipt of messages and replies. The growing number of citations show a growing consensus of thought on hypotheses, theories, and empirical regularities. Eventually, citations even lead to public awareness of key policy ideas and lay the basis for change.

Donors regularly talk of ownership of the policy. Yet, they undercut ownership when they refuse to give equality on policy development to local thinkers. When they refuse citations and attribution of originality to local thinkers, they stunt the development of public thought leaders so essential to local debate and ownership.

Citation communities, as they appear, show a body of evolving knowledge that has broad participation. Audiences learn how the subject has evolved and how various minds have contributed to it. The knowledge of such a development process and the teamwork involved develops confidence in the proposed idea. How can you trust ideas that appear to be coming from only one individual who claims to have thought it all up in his bathroom?

In official meetings of donors and policymakers frequently claim “no need for research; all we have to do is copy best practice.” In my book, I have followed many important thinkers such as Easterly, Farmer, Page to suggest that human systems and networks don’t really replicate without cultural adaptation and idiosyncratic innovation. The policy then becomes “learning globally, solving problems locally.” This requires local research, thought, and debate. Mere copying fails. Perhaps that is why donor policies have wasted decades.

Even in the environment of intellectual disdain we live in, researchers can do small things to lay the foundations of an intellectual tradition. They could start listening to one another, citing and reviewing one another’s work, developing a system of no-frills/no VIPs seminars and conferences. They could associate thinkers with policy ideas, hypotheses and theses and begin to talk about them instead of accepting the notion that all ideas come from donors.

Can such boldness and community be found among our intellectuals?

10.2. DESIGN VS. IMPLEMENTATION

At many conferences, there is a refrain that “Research and inquiry are not necessary, we know it all. We need to act and not think.” Alternatively, “we know it all! The only problem is that no one will implement what we are suggesting.” I found this very disturbing. So I asked a few of these loud implementers, “what is it that you want to implement?” They point to some donor reports. This raises several issues that need to be understood and discussed. Do we assume that

- All donor recommendations are excellent and can be fully implemented off the shelf?
- All donor consultants who completed those reports are of the best quality?
- All donor consultants know all local conditions?
- All solutions can be borrowed there is no local innovation possible?
- There is no need for a domestic review, critique, or discussion of this excellent work?

Let us count some donor successes for these people

- Social Action Program which the Bank itself would like to forget
- The foreign currency debacle that both the Bank and Fund would like to leave behind
- The civil service reform program that sent people to Harvard at great expense with no end in mind
- The National School of Public policy that merely changed nomenclature at great expense
- The Access to Justice that spend millions on the Project Implementation Unit
- I could go on but let us leave it at that.

The proponents of the ‘no think, follow the donor’ approach would say the fault was not in the design but in the implementation. Convenient!

Even if I accept that, let me ask, should we not then do a study to apportion blame on where the fault lies in the design or the implementation.

After all, a failed policy could be due to poor design or poor implementation, or both! Only research could determine what weight should be placed on design or implementation or policy failure. So no matter where we go, there is a need for study and research. To leave all thinking to the donor and all implementation to the locals is a poor approach to policy that can in no way lead to good policy. After all, cookbooks alone do not make Michelin chefs.

No matter that in this rush to act, we created the FCD problem, created a half-chewed local government scheme, protected car monopolies, created hotelling monopolies, built up housing scheme scams and so on and so forth. This simplistic approach has led us to crisis after crisis.

Donors argue that “prescriptions are easy” and that “they know it all!” Why then do their parent countries not agree that prescriptions are easy. They have an enormous infrastructure for generating policy research and discussion. Unlike us, they have deep teams for developing policy thinking. Whatever policy initiative is taken is well researched frequently debated. Political parties, even in opposition, maintain think-tanks for the development of policy initiatives to be used when they come to power.

Why is it that the policy in the industrial countries has been following academic thinking and not activism? Keynesianism prevailed for a long time, and when it lost the academic debate to the market-based system, the policy changed. It seems that research leads policy and that policymakers do not seem to rush into the most easily available prescription.

Why should prescription and implementation be separated? A good analysis will take into account the prescriptive and implementation aspects of the particular situation. All analysts worth their merit will examine the practical aspects of their prescriptions. To separate the two is, at the minimum, naive.

Given our current state of understanding of socio-politico-economic processes, we should be more humble and inquiring and not claim “prescriptions are easy.” On the contrary, the hypothesis can be advanced that the reason that change is so slow maybe because of our cavalier attitude towards prescriptions and the prescription-making process.

Yet, simplistic schemes are bandied about by our esteemed columnists: fix the deficit, get the macro right, increase development expenditures, get education right! Yes, these are all truisms that no one can disagree with. But the issue is doing any of these will require a lot of thinking, research, planning, and maneuvering. And all these activities will require a large number of very competent people involved in basic research, implementation, and evaluation at various levels. Even implementation has to be based on continuous evaluation and revision which in itself is research.

What should be done? There are no shortcuts.

- First, we must build up thinking and debate into policy.
- Second, we must build teams in institutions. Most institutions remain one-man affairs with no coherence or depth to the team. These heads remain totally insular and are not subject to any form of peer review. Why is there no policy debate in Pakistan, and why are there no teams in various institutions that will define and debate policy in their sectors?
- Finally, our thinking community must write a more well-researched and informed critique of policy rather than blame it all on Musharaf, Shaukat, NS or BB. What happened in the FCD crisis? Who was responsible and why? How did the IPP’s happen? Why was such a strange pro-monopoly policy on cars and hotels developed? Why are our urban development laws so archaic? What is wrong with the archaic cooperative law that it continues to plague us in the current housing scams and in the past coop society frauds?

These and many other such issues need considerable research.

10.3. PLAGIARISM IS BUT ONE SYMPTOM

Plagiarism continues to rear its head in our universities, and the response is the same “dump on our professors.” Perhaps it is a part of our larger disdain for learning. But of that later!

Every so often, there is a gleeful story that x number of professors caught plagiarizing, and they have been suspended. The gossip on this lasts a few hours and subsides.

Whether or not an investigation is properly conducted, we will never know. Could it be that in academia, plagiarism charges have become what blasphemy is in the rest of the country? Could this be how rivalries for promotion are now settled? No one has looked into this, and we are all content with the charge of plagiarism being used and some careers ruined.

Now I am not saying there is no plagiarism. Of course, there is. And some prominent cases have been uncovered convincingly where papers of Nobel Laureates have been blindly copied. This incident speaks well to the level of academic development in Pakistan, where academics even lack the ability to plagiarize well.

Is Plagiarism the Only form of Academic Dishonesty?

We hear of this software that detects plagiarism. Yet, I have not heard of how well it has been tested? Like all other software, it must have some margin of error. Who is using it how? Can it be abused? Of course, our media is too busy chasing political gossip and arranging mock politician battles to investigate such issues. But then why should anchors rise above the energy and competence level of the rest of society.

The software can only detect similarities of text but not other forms of intellectual dishonesty. For example, what happens when original ideas are lifted without attribution? Is that not a crime or is it only a similarity of writing. I have seen so many writings on Pakistan both by local authors and foreign, including large donor agencies where original ideas are taken without attribution. Take any donor report and look at the references, and you will see quite easily how they have missed out on ideas that have been hammered out by our thinkers. Another question worth asking, then, is, do our professors learn from the donors who feel they are above norms of intellectual property rights?

Similarly, what about data manipulation, which several governments have used to show the success of their economic policy? Similarly, there is an industry out there that is always making up statistics to make a biased case for funds they seek. For example, there is pressure by funding agencies to show poverty and other social indicators are always worsening.

Should We Rule Out Imitation?

Imitation is the way humanity learns. Let us be sure that we are not discouraging some imitation. Well-known cases of authors and musicians copying each other with minor variations have created great work. Remixing in music is a delightful and creative industry. Let us not confuse creative imitation with plagiarism.

To begin with, all students learn by summarizing masters and finding little twists to show originality. A certain amount of imitation is necessary to learning. I hope that these plagiarism witch-hunts are not scaring away students and even professors from creative mimicry.

When I was Vice-Chancellor of PIDE, I had asked all students to just go to the Nobel website and review the work of all Nobel laureates in Economics and write essays on ideas of each of these individuals but do so in their own words and storytelling style. The idea was to publish a cheap volume to be distributed in all our colleges and universities. To me, such work is a part of pedagogy even though it may not be path-breaking and creative.

While we are all focused on plagiarism, we must also ensure that it is not a witch-hunt of academics. We must all ask the question, why is it such an epidemic in our universities? Are the faculty members alone guilty? Or is it the designers of the system who are also to blame?

HEC's Mechanical Approach

Hoodbhoy was among the first to point out the faults in the incentive structure set up by the HEC. The mechanical approach based on counting degrees, years in service, and number of publications has focused academics on HEC's indicators of quantitative success, taking them away from inquiry, thought, and research.

Many of us (mostly Hoodbhoy) have written on how HEC needs to rethink its paradigm, but the bureaucracy of HEC is deaf to such pleas even if they emanate from prominent Pakistani thinkers. Donors such as the World Bank conduct HEC evaluations without listening to such opinions. Of course, donors are academically honest!!!!

The biggest failure of HEC is that it has failed to create an academic atmosphere. The easy way has been playing the mechanical numbers game and blaming it all on lack of financing. But then, to be fair, HEC never contended to be developing academia. They were always in a numbers game to generate thousands of universities, millions of PhDs, and billions of papers regardless of quality.

A good professor is not a mere publishing machine. In the rest of the world, the quality of publication matters too. How peers perceive research and how seminal it has been is also a big consideration in determining its merit. Academics who shake a paradigm are held in high esteem no matter how many publications they have. Case in point is John Nash of 'A Beautiful Mind'. On HEC criteria, he would never have been appointed a professor in the Pakistani University system.

A university is not just a place where students agglomerate for a brief interaction with average teachers. So far, HEC has focused on numbers without direction. The approach has been to build more and more universities, expand enrolment, and push for publications and as many degrees as possible. What was forgotten in all this is the academic quest and atmosphere, which we have failed to build in all our universities.

Where are the Professors?

At the heart of the academic quest is the professor. To HEC, she is just an employee to be filled by advertisement and mechanical criteria. The professor is a motivated inquirer, researcher, teacher, motivator, inspirer—someone to be cherished and not a machine to produce degrees or papers. Universities are not mere administrative units to be managed the same way as factories with clear productivity goals à la Taylor. Instead, they are built around professors who cluster students in inspirational inquiry and a quest for knowledge.

When I was at the Planning Commission, I always asked universities that came for funding, ‘how many professors do you have?’ The answer always dismayed me. Most universities had less than a handful of professors often none of an international quality. There was no telling these people that international universities have 20-30 professors of the best quality in one department while they do not even have that many in most of their universities. They could not see that these universities competed for professors and did not wait for them to show up on an advertisement to be interviewed by a deputy secretary.

Yet, the lust for funding was making them expand their campuses across the country. We are the only country where universities have more campuses than professors. Is this model not giving students a substandard education? Is this not just as bad as plagiarism? Or worse?

When I interviewed some of these students, I was distressed to see the product of this university system. The education being imparted was of questionable quality. Their employment possibilities were seriously affected. Further education prospects of these students are seriously impaired by this system.

There is now a human capital emergency in the country, as our system is not producing what is required for global competition. But who is listening? This is why I find the focus only on plagiarism somewhat misplaced. We need to reform the whole system of higher education and not just pick on a few professors.

I tried to explain to the HEC that we need more professors, that a university is a collection of clusters of name-brand professors in departments. Clusters of well-known professors inspire, set standards, engage in peer review, and set up academic debates. Combined, these activities are the engine which stamps out research, learning and societal and student knowledge. Such clusters police the quality of research and debate, weeding out plagiarism as a routine.

A university well stocked with professors and academic freedom will be a hubbub of activity full of classes, seminars, conferences, experiments, projects, debates and many other forms of creativity. Such universities work around the clock, not like HEC universities that are barren by the afternoon.

Is There a Lack of Funding or Management?

HECs refrain is the lack of funding. Their mission to educate is empowering. By now, a sense of entitlement prevails among these self-appointed education missionaries. When I questioned them on quality, the answer, I got was that it is the next stage. So when will it come? ‘Oh -- maybe 30 -40 years from now. What a great model. Give me all the funding I want. For results wait decades after I am gone. I wish we could all have jobs like that.

HEC told me in many open meetings that cut defense and give us all the money. A notion, which showed me how naïve and unacademic these people were. A country at war needs defense funding. Countries at war have even closed universities down. But the sense of entitlement allows them this naivety.

I pointed out that universities should be in a position to raise resources, especially when there has been a state gift of huge tracts of land. In any case universities cater to a richer class than schools; hence some of the burden could be shared by students. They also had an alumni base that is a source of funding the world over. I suggested that all universities prepare a

business plan and share it with the Planning Commission. Of course, this business plan will assume that the government will continue to subsidize education and allow universities to run at a loss. But it will be a great management tool to see how finances could be managed and delineate key objectives and see how they could be achieved.

To my surprise, there was an uproar against this proposal. Academics did not understand this argument, which was quite revealing. To date, no such plans have been prepared. Meanwhile, demands for funds keep increasing both in size and volume.

Note most of our universities have huge tracts of valuable city center land. Can they not learn from Stanford, which owns a shopping mall, to derive income out of? Some universities own hotels, commercial buildings! None of them give up their land, which by law is protected. But on a partnership basis, they gain income from these properties. And over time, these developed properties return to the university. Why can we not do this in Pakistan?

Political Fiefdoms with No Accountability

But then the VC often runs the university in Pakistan like a fiefdom. VCs, in turn, are selected on a political basis by a process that is deeply flawed. No academic is involved in this process, which is designed to rule out the best that the country has to offer.

Advertisements for six or more vice-chancellors are given at one time by the secretary of education. A shortlist is prepared by the education department for the search committee to conduct one interview to decide on VC. Only in Pakistan is this called a search process and an interview committee called a search committee.

So-called search committees are appointed on a permanent basis and comprise of government favorites, often of those who know nothing of education. Search committees are supposed to be university, position, and purpose-specific and do active search, not just an interview. Surely the HEC should know the difference between a search and an interview committee. Clearly, they do not!

Reforming HEC

There is an urgent need to reform the HEC system if we are to build human capital or build any world-class university. Plagiarism is a symptom of a poorly designed university system that places no value on academics or research.

Like all other Pakistani government organizations, HEC too has built a moat around itself, protecting itself from any reform. HEC administration has also learned how to use student power to their own ends and resist any effort to reform and improve the system. I was surprised how they used the student body to resist the move to decentralize higher education and even to interfere with HEC staffing.

But like the mullah, HEC is on a divinely ordained mission placing it above any questioning. They want an inordinate share of the pie with no responsibility. Like the Mullah, they claim their performance measurement cannot be held in this lifetime.

10.4. WHO PROTECTS OUR ‘THOUGHT’ INDUSTRY?

Three decades ago, Ghari Baqir returned with a Ph.D. from Harvard. Keen to use his newfound skills to contribute to policy and thought, he started teaching at university as it allowed him time to research, write books and perhaps at some stage advise the government. He had ideas and was willing to work hard.

Soon he realized that professors were at the bottom of the barrel. In a society where power and wealth are everything, he had neither. His counterparts in the bureaucracy had nuisance value, generous perks, and plots, whereas all he had was a measly salary, no power, no perks. His tiny, filthy office did not even have a phone in that era before cellphones.

Luckily, donors offered paid consulting opportunities. Eventually, he made enough money to buy his own house. In the process, sadly dreams of independent research, those bright ideas, those books he wanted to write got buried. Donor consulting was working on others’ agendas. He wrote long, lengthy, and often meaningless reports on poorly thought-out projects. He reported to junior donor officials and their contractors who controlled money with little originality. The terms were very clear: Ghari could only dance to their tune. Worse, he was also discriminated -- paid at ‘domestic’ rates -- usually half (or less) that of international consultants who often were much less qualified than him.

He often says, “discriminated against in my own country, but who do I turn to? So hungry are the MOF and EAD for donor money that they never question donor practices, quality, or agendas. EAD has no care for exploited domestic ‘thought industry’ or donor controlling policy agendas, only their EAD foreign tours, and perks.” But the game had to be played. He often thinks of writing his book to tell about this iniquitous situation.

Ten years later, his growing business led him to make a consulting firm in Islamabad where he would be close to his paymasters. The firm has grown. He is now very close to 2 of the biggest donors and has strong relationships with 2 of the biggest beltway bandits being their steady subcontractors in Pakistan. Yes, money is coming in.

However, he knows that he has peaked and that the firm can grow no more. Donors will never allow him to compete with their own consulting firms--his senior partners. He knows them well, and he knows he can do a better job. But the fine print in the rules prevents him from competing. So relegated to being a junior partner, he is often merely a logistics supplier. In other words, a bag carrier.

So ACME Consulting of Washington DC got a 100 million USD contract out of which his firm got only 3 million. Ghari’s firm did most of the work. But ACME consultants came there at huge rates, lived in 5-star hotels, and gave instructions.

He thought about expanding overseas, but he could not compete with the ACMEs, who had huge support from the ‘cartel’ of donors. So when last we met, he told me that there would never be a Pakistani consulting firm of international stature given this structure of the international thought industry.

Well, we have protected cars exorbitantly for 50 years, I told him. To make an engineering goods industry, we have the Engineering Development Board, which with SROS mothers a stunted Engineering Industry.

In addition, we have the National Tariff Commission (NTC) to guard all industries in Pakistan from dumping practices. Their website shows ongoing investigations into Polythene, Soda Ash, and garments for allegations of dumping. They have successfully investigated many such allegations in the past.

We also have the Competition Commission in Pakistan (CCP) to look into anti-competitive practices, and it has taken stands in the sugar and cement industries. Why don't you appeal to the NTC and the CCP?

Ghari is a serious, well-meaning sort of fellow. He marched off to all these agencies to plead his case. He had a hard time explaining what an 'intellectual industry' was. They see and need cars but not thought.

Ghari had come full circle—starting as a professor in a society where education and research had no value to becoming a sort of 'thought' entrepreneur in an environment where intellectual work has no respect and is routinely subject to dumping by donors. Even his original ideas do not belong to him. Consultants and donor agencies get the citation. They sit at the policy table. Ghari is merely the ghost in the machine.

And Ghari concludes with a sigh, "History and country experience has abundantly illustrated that development is the direct product of better ideas arising from thought and research. Yet, in Pakistan, EAD and MOF unintendedly facilitate dumping on our 'thought' industry. Do they really understand development, or are they 'marching to the tune of defunct economists'?"

10.5. NO SOCIAL OR INTELLECTUAL CAPITAL

It was like being in a twilight zone. I was at a local conference, which has become an institution as it annually gathers a fine grouping of Pakistani social scientists to create a fine debate on policy and thought. Generally, it is interesting and participating in it is fun.

As I keep saying, conferences are for learning. But our intellectual for many reasons, has never achieved relevance and is self consciously seeking attention but not through academic work. Combine this with ignorant and arrogant public policy that has no research demand and provides no research funding. The result is that we have starving intellectuals whose product has no market.

Our conferences are anything but places for learning. There is no honest debate. People are not even listening to each other, seeking and testing hypotheses, developing models and analyses, accepting results, and keeping the memory of past themes. There are no real paradigms, and the approach is anything but scientific.

I cannot understand how everyone in an academic conference begins by saying that we have all solutions and don't need to learn anything. All we need is implementation and political will. So there is no need to create knowledge. No wonder our intellectuals are irrelevant. If they do not produce knowledge and have no questions, why should ministers, secretaries, or civil society pay attention to them.

Most conferences explore themes from a paradigm. They seek factors that explain some phenomenon seeking to find patterns, exploring associations in those patterns, and developing associations into models. Through presentations and debates, they seek to deepen understanding of the patterns and models to seek simplification and indent iffy causal relationships.

For example, the question of why Pakistan is not reaching self-sustaining growth, the refrain is we know the answer. Why is there no implementation? Ok, what is it that should be implemented? Government must invest in infrastructure, education, health, and other good things. Well, earlier government investments in these areas have not panned out well. The answer is to do more do it better. Ok, what education and what infrastructure? Can we sharpen at least that? The conference is not interested.

All they are interested in is tautologies. Growth does not happen because we do not invest. Investment does not happen because there is no political will. We say invest, they implement. Sparkling thought. Then there is inclusive growth. Everyone says we want inclusive growth. Can we define what we mean by it. That is too boring!

Each speaker, each session is independent in content and thought. There is no need to listen to questions or ideas posed by anyone. There is no memory of research done in the past, of easier paradigms or earlier writings. But even when the previous speaker may have presented something that challenges what the current speaker is saying, no worries who is noticing.

Conference organizers are not looking, to sum up knowledge, culling hypotheses and models safeguarding results, initiating and preserving debates. Instead, they are worried about VIPs. In academic conferences around the world, VIPs are academic stars who parade their theses to spark debates.

Here conference organizers are running after ministers, secretaries, and donors. Ministers are paraded in to make absurd claims, treated with kid gloves. They come and go learning nothing only for ceremonial purposes. But our academics feel good and heard.

Donor consultants fly in from the US and UK using our aid money, flying business class, claiming USD 2000 to offer platitudes with no meaning. They are the stars, placed prominently next to the VIPs, with the label handle with care.

They did not know where to place me. They are good people and my friends. But they were uncomfortable. Here is a former State Minister of Planning. He has also written a lot of academic papers and has seminal pieces originating themes of domestic commerce, cities as engines of growth, pushed original thinking on perks/plots and the civil service reform.

But the current minister for Planning is claiming that there was no strategic thought after the last Nawaz government and has initiated a vision 2025. Despite Vision 2030, medium Term Development Framework, and the Framework for Economic Growth, my academic friends are out to please him.

My academic friends participated in the conferences for the Framework for Economic Growth. Large conferences, small conferences, many of them. Some of them made numerous presentations at these forums. Some of them had also participated in the events for vision 2030. Yet to my bitter amusement, none of them wanted to recall those conferences. It was as if nothing had happened before vision 2025.

By denying history, credit for intellectual work, and the power of analysis, we will never be able to lay an intellectual foundation.

No Intellectual Capital!

At that session, I was invisible. My friends could not see me because they were busy pandering to the new minister. They did not want to draw on my experience and my academic background.

No Social Capital!

These are investments we must make. Conferences are for that. How can we understand this?

10.6. HEC

Every few days, former HEC officials lament the lack of funding to HEC in the context of a burgeoning youth population. No amount of money is enough for these people; demands range from Rs 120 billion to over 300 billion per annum.

We have been on a university building binge for the last decade or more and now have about 128 universities. Yet a former HEC chief writes that we only have about 7000 PhDs in these. That means that there are about 55 PhDs per campus. And they tell you that a majority of these are fresh PhDs. That experienced and competent professors are few and far between.

They are also quite clear that university education has to be permanently and fully subsidized in the country. They are very good people and well respected, and far be it from me to challenge them or to doubt them. And I do not. However, I do think that HEC is working on a flawed model. Let us see how.

First, let us review what a university is. When most of us chose a university, a building was the last thing we had in mind. It was professors and brand name professors at that. How did you recognize a professor? By the research, ideas associated with her name, the books published, the journal articles published. Professors are like stars of a university and are cultivated as such by the university administration.

Take for example, LSE, or Imperial College or Columbia University, or even MIT. None of these have large campuses which sprawling lawns and huge empty buildings. LSE, for example, has no green patch. It is a set of buildings in the heart of London that is all. Yet it competes for the top professors in the world hiring from India, Australia even Pakistan.

HEC has been building buildings and large campuses, leaving professors for last. Could it not be that some of the building money could have been used to get better professors?

Second, HEC has a bottom-up approach to building a faculty—the same model that has been in place for the last 65 years. We have been sending people for PhDs for the last 65 years in the hope that it will build faculty. Moeen Qureshi went abroad in the same hope as did Mahbub ul Haq. The record has been terrible. Few return, those who do, depreciate their skills rapidly and become a part of the bureaucracy seeking to preserve rents.

Elsewhere in the world, the approach has been top-down. Universities build faculty around academic stars. For example, Columbia hired Jeff Sachs at a large salary and gave him a whole institute. It is the senior faculty that develops the culture of research, building workshops, seminars and public lectures. Their work attracts fresh PhDs who serve as apprentices and over time graduate to professorships. Universities spend serious time and effort to hire brand names and then give them serious resources to build departments and centers around them to let this process evolve.

Merely sending thousands of students for PhDs is a mindless, blunderbuss approach and is unlikely to yield results. Besides, why do we not learn from failure? This model failed in the past, the 60s, 70s, 80s, and 90s. Why will it succeed now?

Third, HEC seems to be working on a model that all faculty must be Pakistani. Hence they are sending a large number for PhDs abroad. Most successful university systems are fully globalized. The best professors can virtually go anywhere in the world. Universities woo them.

Most successful departments in universities sport all nationalities. Why is it that all Pakistani universities we see only Pakistanis (mostly Punjabis)? This is part of the HEC model.

Fourth, HEC has an outmoded bureaucratic process for hiring faculty and VCs.

They want to sit on a pedestal and wait for applications for professors and vice-chancellors. The rest of the world gave that up a long time ago. Possibly they never adopted this silly system where bureaucrats sit in judgment on serious academics. Universities are seeking serious professors for these positions. They woo them through search committees, invitations, sweeteners such as research grants, research assistants, choice of course and research centers, etc. The point is to attract someone, not hire a menial through some vague interview process. Obviously, this method rules out the best and those who will not subject themselves to this bureaucracy. And those are probably the best.

Fifth, HEC is stuck in a management model from the Model T era. They are still counting publications and research in numbers rather than quality. Ronald Coase, Nobel Laureate, who just died recently at age 102, was one of the most respected law and economics professors in the world. But he only had about a dozen publications. HEC would not even have qualified him for a professor.

He was also an economist with a position in the law school at the University of Chicago as a professor in Law and Economics. Would HEC allow that, or would bureaucracy have stifled a fine mind like Coase?

Sixth, the issue of funding and subsidy has to be faced. Should we follow the current model that seeks to give an across-the-board subsidy to all or should the subsidy target only needy students?

Can universities raise some of their funding? The state has given many of them prime land. Can this land bank not be used to develop an endowment?

HEC approaches the issue of funding and subsidy emotionally and not like cold-hearted analysts to seek the best way forward.

We all agree that higher education should be subsidized, and we all agree that research should be funded by the government. The issue is that the state will only be able to provide so much. The university system must be savvy and learn to manage business plans that include state subsidy, raise resources, develop endowments and provide quality research and education.

To do this, university management must be professional and not based in grades. Has HEC built serious university management? It is not even on the radar. They are still operating the system in government grades where registrars are in grade 20. Maybe this outmoded system of registrars and grade 20 also needs revision.

Lastly, universities are made by people with commitment. They self-select themselves into universities because they want to build world-class institutions. How they are found, incentivized and retained is a large part of the university culture. It is clear that a top-down bureaucracy will not empower such people.

The model that does allow this to happen is a much-decentralized system of university management. HEC works on a centralized model.

HEC should listen to its critics. There are very few research-minded people in Pakistan, and most of them have been critical of HEC. Instead of listening to them, engaging them, and seeing how we can all move forward together, HEC becomes defensive.

It is time for maturity. Education is too serious a business to be left to an agency or ministry. It should always be the subject of debate, and HEC should be encouraging it.

10.7. ON DEVELOPING A KNOWLEDGE COMMUNITY

Farrukh Pitafi, one of our leading media personalities, has recently been lamenting our lack of creativity on Twitter. This has been a passion for me, and I welcome a debate about this. I recalled a discussion many years ago that I had with Akmal Husain and Ejaz Haider on something similar, and I dug out what I had written then. Here it is:

“To achieve serious reform and enlightened thinking in society, debate is essential. But what is debate? A debate occurs when several leaders of intellectual thought participate fully on a subject at a time in a concentrated manner. They actively confront each other’s ideas acknowledging contributions with the sole purpose of advancing knowledge. The audience of the debate gets increasingly involved and eventually owns the emerging knowledge.

Let us try to understand this proposition and see how we can judge the standard of liberal debate in Pakistan?

Developing leaders of intellectual thought: They stand outside the government and emerge from the universities and thinking sectors. They publish, talk, and debate. For them to emerge, we need the infrastructure of high-quality universities, think tanks, forums where discussions take place, publishing industry, and a government and society capable of engaging. Where universities have been colonised by the bureaucracy, as in Pakistan, there is little room for the emergence of any intellectual leadership. We do not have leaders of intellectual thought, for there is no process for them to emerge.

Plurality of participation regardless of hierarchy: In our feudal grundnorm, where rather than learning and achievement, hierarchy and ego derived from it are a priority, recognition is granted only to those who have managed to get some official recognition. Thus even intellectuals are looking for government ministerial appointments, and when they do get them, they hide behind their title intellectually and refuse intellectual engagement. Newspapers and publishers discuss and publish government announcements; ideas are secondary. Conferences and seminars are arranged around the appearance of a political chief guest; learning is ancillary. Discussions revolve around the title and stature of the speaker and not the weight of her argument. In this milieu, participation on the basis of ideas is not possible.

Concentrated engagement: This is important to all learned discourse on a subject. Participants must listen, stay with a line of argument, and confront every argument dispassionately and independently of the personalities involved, source of publication, and other primitive notions. Plato lived years after Pythagoras but made it a point to confront his arguments.

At seminars in Pakistan, people like to talk about issues relating to the current government when the topic is lunar landing. The convention of discourse is that everyone addresses the topic of the seminar; the chosen speaker of the day has presumably researched the subject and will make the presentation, others will confine themselves to short comments and questions. Not so in Pakistan: people come to seminars to make their favorite speech and will make it regardless.

Remain engaged by reading each other’s work and commenting on it: The few who aspire to intellectual awareness remain infested with their feudal grundnorm and do not submit to the rules of engagement—i.e., participation and confrontation. For that, they need to read each

other's work and address the issues raised. Recently, I tried a little experiment. I sent a few articles for comments to 10 Pakistani intellectuals that I know well and to 10 foreigners, including Indians that I also know. I got no response from my Pakistani friends and considered and pointed responses from 7 out of the ten foreigners. When confronted, one Pakistani said, "I had no comments! Excellent work!" with a smirk on his face, another, "we knew the argument already." None of the foreigners, many of whom are eminent professors, shared these views. They did not try to dismiss the work with superlatives. Instead they tried to confront the argument to see what was new and fresh in its nuances and how robust is it to alternative assumptions and approaches. We all learned from the second approach, whereas none of us benefited from the first. "Not commenting" for an academic and a professional is not an acceptable position.

Work with ideas regardless of the author (confront ideas and not each other): In a deformed feudal society, you will often hear intellectual arguments based on criticizing the writer rather than the thinking and the ideas put forward in writing. Seldom will you hear people cite each other's work or attach a name to a particular argument. I asked the author of a book why he had not referenced a book that some of his argument can be attributed to; his response was, "I cannot quote a book written under a pseudonym." Famous pseudonyms (George Eliott, Mark Twain, Student, even Anonymous) have existed through history and are referenced as such. But in a feudal society, arguments or intellectual work cannot be dissociated from the person, and that person must be of stature to be cited.

The importance of citations and acknowledgment of contributions: In feudal societies, ideas as well as all other things, are owned by the authorities. In Pakistan, I have heard people say, why do I need to cite an author when I can tell you I had thought of the idea first regardless of the fact that a written work is available? Speakers tell me that there is no reason to cite an author because it takes too much time to cite a name in a lengthy speech. It is important to cite people associated with arguments for two main reasons: first, because most intellectual endeavor is based on the reward of citation and the acknowledgment of authorship. If we take acknowledgment of the effort away, we have intellectual barrenness! Second, citations also show a body of evolving knowledge that has broad participation. This shows the audience how the subject has evolved and how various minds have contributed to it. The knowledge of such a development process and the teamwork involved develops confidence in the proposed idea. How can you trust ideas that appear to be coming from only one individual who claims to have thought it all up in his bathroom?

Engaging the audience: People often tell me that economists can never agree on anything. Obviously this stems from the lack of citations among economists and their feudal desire to show themselves as the champion of all economics in Pakistan. If the audience has to be engaged, these principles have to be followed, and we have to associate ideas with individuals who developed them. It has served as a good mnemonic device for centuries, and it will again, in Pakistan. But the ideas must evolve through research that spills over into debate, a process that clearly develops knowledge.

Knowledge: Ali Khan is a major professor in economics and was giving a talk on general equilibrium at the Pakistan Society of Development Economics when a retired civil servant

interrupted him to say that anything other than dreaming up policy proposals for Pakistan is a waste of time. The concept of knowledge put forward was that of activism and issues and actions of government and hierarchy. Knowledge stands on its own regardless of government, hierarchy, and Pakistan. The motivation is only to understand the world and the universe. Unless we pursue pure knowledge for the sake of knowledge, good things like policy, applications and development cannot happen.

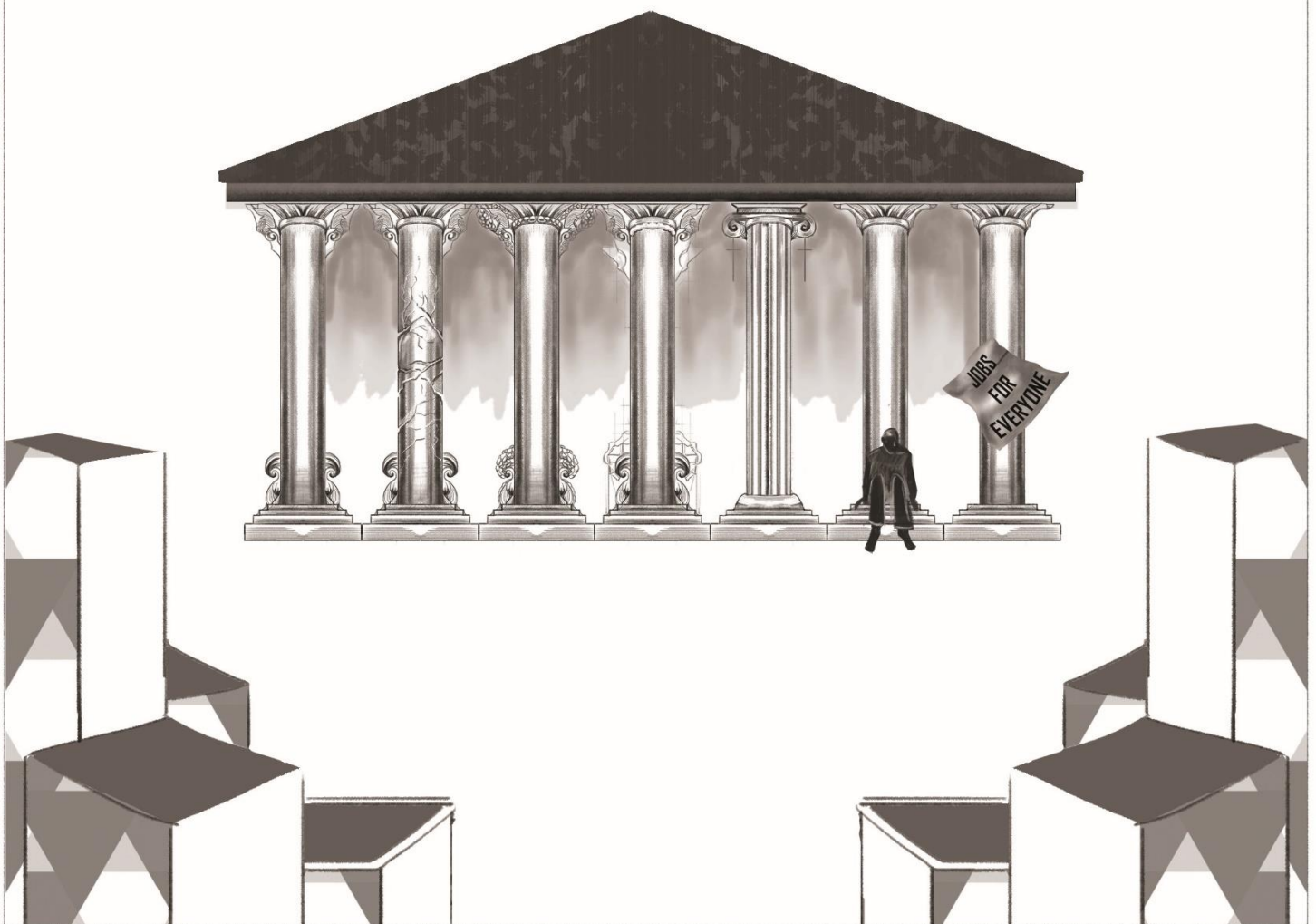
We also have phrases such as “let us be practical and not theoretical!” that are used at most occasions to kill intellectual discourse. In other words, do not research, think or clarify. Shoot from the hip! We have to accept the principle that “no research is useless and that nothing without research is practical.”

To highlight this view of discourse, please note that we learn much of the early Greek thinkers like Thales, Anaximander, and Anaximenes from Plato and Aristotle because they cite them and confront their ideas some two and a half centuries later. In his dialogues, Plato virtually confronts all the thinking of that era. He was fully engaged. That is the academic tradition of citation and confrontation of ideas.

Where we lack is the inability of institutions and/or intellectual leadership to take the enlightened concepts to the people and develop them through a process of discussion, debate, and education, an enlightened endogenous grundnorm. The government won't do it. That much is clear.”

Chapter 11

Fiscal Austerity



11.1. AUSTERITY PAKISTAN 1: SHOULD TAX/GDP RATIO BE OUR TOP PRIORITY?

Decades of fund involvement have changed the economic narrative permanently in Pakistan. Before IMF involvement, we used to talk of growth and investment; now, everyone talks only of TAX/GDP ratio as if that will solve all problems of Pakistan. There was a time when national policy not only built institutions for economic growth such as the Planning Commission and governance infrastructure, governments also engaged in developing social infrastructure through agencies such as the Bureau of National Reconstruction (libraries) and National Film Development Corporation.

The national conversation seems to be dominated by the IMF requirement of ambitious fiscal targets based on increased tax collection and arbitrary expenditure cuts. Growth, employment, and development are almost forgotten subjects. Even development donors such as World Bank, Asian Development Bank, DFID, and USAID have nothing for growth and development. Succumbing to IMF pressure, these agencies push only for revenue collection and severe fiscal correction. The little development work that they do is now social protection and some health and education.

We have been bitten by the bug of austerity without realizing it. The whole world has now recognized the harmful effects of the policies of austerity while we continue to follow them. In this series, I will examine the harmful effects of austerity in Pakistan. We should all review these policies and change our narrative from austerity to growth.

Let us begin by examining the proposition that there can be no development without increasing our tax/GDP ratio.

- (1) It is said that our tax/GDP ratio is 9% of GDP, which by international standards is very low. To justify their proposition, they point to selected countries with a higher tax GDP ratio without establishing the basis for a comparison. Are they implying all countries should have the same tax/GDP ratio? But just examine the advanced countries: the US 27%, UK 39%, Sweden 46%, and Germany 41%. Does this mean the US should increase taxes to 46%? Yet, the US wants to lower taxes. Let us face it there is no theory that tells us that all tax/GDP ratios should be the same. Those who use this argument in the media should be reminded of this simple truth.
- (2) If we want to compare our tax performance to anyone, perhaps we should go back in history and see how the advanced countries did when they were at our level of development. In 1901 the US and UK had a per-capita income of about \$4500 and \$3700, respectively. Their tax/GDP ratios were 7% and 10%, respectively. Through most of the first world war, the UK tax GDP ratio remained in the low teens. Pakistan has a per capita income of around \$1000; should we really be aiming for OECD tax rates?
- (3) Why has our focus been on the tax-GDP ratio for the last few decades and not on growth. What if our tax - GDP ratio went up to about 15%? Would that mean higher growth more employment for people. All over the world, people associate a tax cut as a policy instrument for stimulating growth. Only in Pakistan will a tax increase stimulate growth. For some strange reason, investors will invest more, and workers will work

harder, savers will save more to pay higher taxes. This strange theory prevails only in the minds of media commentators in Pakistan—commentators too lazy to go beyond simplistic donor propositions. This theory belies all received wisdom as well as empirical evidence: taxes take from production, not increase it.

- (4) There is also another belief that if we get more revenues, the government will spend the money wisely and judiciously, giving us more public goods like education, health, and infrastructure. Let us recall that in 2002 we got a rescheduling which did allow us to generate ample fiscal space to do all these good things. Where did we end up? With a humungous energy deficit, bankrupt PSEs, failing education systems, deteriorating law and order situation. Did we make societal investments for public goods? NO! Why then do we hold on to the assumption that more revenues will automatically increase welfare through better public good generation?
- (5) Another theory that donors love to put forward is that when people pay taxes, they have (or will have) more control over governance. The fee-paying theory of revenue is not cognizant of literature. The Sheriff of Nottingham, despite continuously increasing taxes, gave no representation to people.
- (6) This brings us to the heart of the problem. Taxes follow a social contract and a certain need for creating public goods. That is why through history, the sovereign's power to tax has been severely curbed through parliaments and popular vote. Kings and governments had to prove a need to tax through identifying clear public welfare programs that the tax was going to finance. This was at the heart of enlightenment thinking. Now it seems we do not need to show what our taxes are used for. Without regard to public welfare we have to give the government more money to reach a target of 15% of GDP without questioning where the target came from.
- (7) People everywhere in Pakistan are asking what are my taxes used for? "What are my taxes used for? I get no public service, yet pay high taxes. Why?" is a frequent lament. People are intuitively in line with enlightenment thinking. Surprisingly donor philosophy remains anti enlightenment forcing all Pakistanis to pay more regardless of the quality and quantity of public service. Remember no one claps when the Sheriff of Nottingham raises his tax collection because everyone knows he is collecting for his own welfare.
- (8) International observers have benchmarked our poor governance and failed public service delivery mechanisms every which way. Should we hand such a system more revenues? Surprisingly that has become the mantra. What has the system done very well when they had more money in their hands. They engaged in poor quality projects that did not deliver a social return. They also engaged in self-dealing maximizing their own perks, plots and welfare schemes. They created unnecessary and unprofitable public sector enterprises.
- (9) When I raise this argument with donors they point to the need to raise taxes to meet with the variety of donor initiatives that they want in the country, ranging from social protection to money-laundering to environment. So we should tax our people more to follow agendas determined in some dark corridor where we had no say.

Growth is about productivity, investment, jobs and opportunity. Educated kids without jobs and opportunity remain unemployed and potentially a destabilizing force in society. I do not understand why serious people think growth will happen with an increase in revenues? It is a spurious argument and we should not take it seriously.

Taxes and revenues should be increased in line with what enlightenment has taught us. Our governance system needs reform to make it responsive to people's needs and to develop its capacity for public service delivery and for public policy. Reform will also remove the mechanisms of rentseeking such as perks and plots and align public servants incentives with public service delivery. When people see a responsive and capable public sector, their willingness to pay will increase.

To me it seems that public service delivery reform must come before revenue collection. Why have we got it wrong?

11.2. AUSTERITY PAKISTAN 2: THE MYTH OF A LOW TAX— GDP RATIO IN PAKISTAN

We are continuously being harangued by donors and external agents with limited knowledge of our economy with epithets like “a nation of tax cheats”, “poor revenue collection”, ‘why should our taxpayers pay when your people do not!’ Strangely enough, all this emanates from our own bureaucracy that for years has been saying that we have a low tax/GDP ratio, one of the lowest in the world. Then they keep citing some databases that suggest millions of tax evaders.

Meanwhile, poor Pakistan suffers through a plethora of arbitrary taxes time after time to please this narrative of being tax cheats. Strangely enough, our leaders, especially our bureaucrats, do not ever challenge this disparaging of our people; instead, they feed it.

Let us examine how bad we really are! The Figure that we are always beaten with is that our tax revenue as a percentage of GDP is about 9. When we include non-tax revenue and petroleum levy, our tax to GDP ratio goes up to about 13%. This is compared to India, which collects about 17% of GDP and Sri Lanka collects about 15%. However, as I argued in an earlier article, tax - GDP ratios vary across countries. Singapore, for example collects 15%, Uganda, Paraguay, and Indonesia about 12%. Why do we face this severe criticism, and why do our bureaucrats beat us?

Taxation is not mere revenue that the government claims from our incomes and savings. What is never mentioned is that the government can also tax people through several methods other than taxation. Here are some examples:

- (1) Curtailing certain activities can act like places a tax burden on people. For example, for decades, the government did not allow private sector media activity. Now that this activity has been allowed, we can easily estimate that the loss to society in those lost decades. Several high paying occupations such as journalists, actors, commentators, producers, directors etc. have opened up now. It is easy to see that the ban imposed a huge tax burden on society.
- (2) Government-owned companies, through the use of taxpayer funds as well as favorable treatment, can crowd out the private activity in various sectors. Planning Commission Framework for Economic Growth has identified how the government is crowding out the private sector through its direct involvement in several sectors. Glaring examples are the construction companies where the government companies are often favored with non-competitive awards. Airline, airport, gas development distribution, agricultural procurement are other areas where the government either monopolizes or heavily distorts competition.
- (3) A policy can also tax people and give protection or exemptions to chosen activities or industries. In such cases, people do pay a tax, but that tax may not be collected by the government but by selected individuals. Such policy exemptions or advantages to chosen people are called tax expenditures and are not small in Pakistan. For example, cars and various engineering goods are offered protection. Limiting consumer choice as well as making cars more expensive is a tax on the people of Pakistan. Similarly, giving

exemptions on inputs and providing advantages on tender arrangements to say producers of electrical equipment operate as a tax. Such expenditures have been estimated to be anywhere between 3 to 4 % of GDP. Eliminating these policies and allowing a proper collection of tax without exemptions or attached policy goals would increase revenue by 3 to 4% of GDP.

- (4) Government perks and privileges also impose a heavy tax burden on the economy which should be factored in. For example, a large amount of tax-free compensation that government servants receive in the form of perks (houses, cars, servants, utility bills, plots). If these were monetized, revenue collection would increase. The government also holds prime real estate for the purpose of providing perks such as housing and leisure activities to the officials. Not only is this real estate exempt from property tax, it is also not allowed to move to higher-value uses. The opportunity cost of limiting commercial construction on these sites is huge in most cases.
- (5) The perks culture has also held real estate development hostage for decades as officials seek to reward themselves through plots. Private real estate development is held hostage to the plot culture as government-sponsored real estate developers DHA and Coop societies dominate the market.
- (6) Market regulation, when well thought out, fosters transactions and economic activity. However, when poorly conceived, regulation has been shown by many economists to be equivalent to a tax on economic activity. For example, as argued in the Planning Commission Framework for Economic Growth, overly stringent building regulations impede development and create large excess demand in virtually all aspects of urban space demand. The cost of this regulation is estimated to be large and continues to be imposed.

If we look at all these policies that invisibly tax economic activity, tax GDP ratio would be way beyond 9%. Taking this perspective, a better approach would be to reduce this invisible burden on the economy and allow growth and employment to take off.

There is an urgent need to review the bureaucratic approach to macro-policy where the expenditure and the structure of the economy seem to be given, and the only adjusting variable seems to be chasing a large revenue target. When several structural problems are already holding economic activity back, the current approach seeks to further tax an already overtaxed or overburdened economy, laboring under the yoke of inefficient regulation, excessive and poor quality PSE intervention, an incentive structure of officials that precludes economic activity.

11.3. AUSTERITY PAKISTAN 3: AN ECONOMY OF SHORTAGES

Austerity economics in Pakistan have created an economy of shortages and is choking growth and employment. This is not a matter of well-thought-out policy but an outcome of inertia in thought and analysis in government and an inability in our economic profession to keep up with global knowledge. Let me show you what I mean.

Fiscal Arithmetic

Austerity economics has been struggling with the objective of bringing our growing fiscal deficits under control. This approach has been caught up in what I call *fiscal arithmetic*. These analysts see the budget only as expenditures minus taxation, and hence the solution is simple: increase taxes no matter how and reduce expenditures no matter how. Ambitious targets are set with arbitrary taxes (Surcharges, one-time levies, excises of all kinds) and expenditure cuts with no thought for the impact on the economy (Salary freezes, across-the-board cuts). The only thing that matters to the proponents of fiscal arithmetic is the dream of reaching a deficit number of 4% of GDP. If this happens with a 25% increase in taxes and a 20% cut in expenditures, that is fine. Quick and ill-thought-out measures are cited to support these cuts. The impact of these measures on economic growth, productivity, and employment does not concern the proponents of fiscal arithmetic.

Examine the austerity measures that the Finance Ministry (MOF) proudly proclaimed as an achievement in the last few years. The claim was that all now wage expenditures are not being allowed to grow. In fact, MOF was trying to cut such expenditures in real terms.

MOF was also caught in a strange dance with the Ministry of Water and Power (W&P), where the former would not pay the full bill of the power sector, and the latter lacked the wherewithal to repair the sector. A classic standoff where egos were at work! MOF thought that mere withholding money would force W&P to solve the problem. The latter knew that enough load shedding would force the hand of MOF. Hence the vicious cycle of load-shedding and circular debt buildup and eventual payoff and once again load-shedding and circular debt.

This vicious cycle cost the economy a loss of 2-3% on our annual growth rate. Rough estimates would suggest that about 800,000 jobs were lost. No effort was made to understand either the nature of the problem or to address the human and organizational capital in the power sector. The nation lost in this strategic playoff between 2 large ministries (MOF and W&P) with large egos and a desire for power grabs.

Our energy shortage is partly artificially caused by fiscal arithmetic and partly by a bureaucratic system that lacks capacity and the ability to manage complex systems such as energy.

How Easy is it to Cut Expenditures, and What Do Expenditure Cuts Mean?

Government incurs expenditures to provide certain public services. In providing those services, governments employ people, develop some assets, and agree by policy to provide some activities or groups some subsidies. None of these expenditures can be cut overnight. Cutting wages of the public sector workers and the monies required for maintaining assets that have been

created could be counterproductive in the long run as the resulting depletion of human capital and assets will have a lasting adverse consequence for economic growth and employment.

Reducing and managing government expenditures must be carefully done to not erode public governance and policy-making capital as well as to prevent deterioration in public infrastructure assets (such as roads, railways, stadiums, libraries, public spaces, etc.).

Distorting the incentives of public sector workers who are critical for good governance and good policy through arbitrary expenditure cuts such as wage restraints is not a good idea. When this happened in the past, the public sector workers reacted by setting up a plethora of perks and plots as non-wage payoffs to themselves. These perks and plots are not only protected from expenditure cuts but as noted in the Framework For Economic Growth, they also severely reduce investment in the urban sector. Mere fiscal arithmetic will not capture the intricacy of incentives and the economic gamesmanship of bureaucracy.

Most analysts would agree that without a bureaucratic reform, governance will remain flawed, corruption will not be corrected, and policy will be poorly made. However, reform will require expenditure increase since monetizing perks/plots and giving market relative salaries costs. Yet fiscal arithmetic will stop us from making a reform that has a large payoff in governance improvement and a huge payoff in terms of an investment boom. A Planning Commission study showed that monetizing housing in Islamabad alone would create an investment potential of Rs.10 trillion.

Depreciating Assets

Fiscal arithmetic also talks of across-the-board cuts since it is too painstaking to pinpoint where cuts should be made. Time is better spent maximizing perks.

Over the years, public sector worker pressure has forced a wage rate increase for them. Under the pressure of fiscal arithmetic, the government put in a policy of freezing non-wage expenditures--an approach that was much appreciated by donors.

This meant that an already flawed public service incentive system was rewarded while working capital in government was sharply reduced. Needless to say, public service delivery declined as schools were unable to afford books, hospitals, medicines, and police the tools for their work.

Cash-short systems postpone much-needed maintenance of critical assets such as railways, transmission lines, roads, generation companies. Asset depletion adversely affects productivity, long-term growth as well as public service delivery. No wonder that our public sector assets (railways, Energy etc.) are performing so poorly, not having been maintained properly for years and being run by people least interested in productivity (more worried about perks).

Social Infrastructure Killed Off

Four decades ago, Pakistan was developing a system of libraries/community centers earlier called Bureau of National Reconstruction and later Pakistan National Centres. There was also an attempt to make movies and educate people on this medium through a National Film Development Corporation. Needless to say, these were the first entities that were cut when fiscal arithmetic set in.

Yet the Framework of Economic growth of the Planning Commission argues (following considerable global experience) that for growth, such elements of social infrastructure impact the long term development of society and hence productivity. But with austerity, this would be almost unthinkable. Meanwhile, Pakistan society fragments; all global measures of trust and social capital show sharp declines in Pakistan. And generations are growing without libraries when books are costly.

How to Cut Expenditures

Durable cuts in expenditure can only be made through painstaking and detailed reform efforts that ensure quality public service delivery, increasing public sector productivity, improving governance, and well deliberated system of regulation that fosters growth and development. This will only happen through a competent and credible reform system that recruits and motivates professionals into public service and arms them with adequate resources to build assets. While the focus of a public governance system is public service delivery, it must always remain deliberative and thoughtful on the fine balance between the state and market for a growing economy.

This is a tall order and requires patient work and will not happen through quick cuts of fiscal arithmetic.

Fiscal policy is not mere arithmetic but a careful and detailed understanding of the role of government and how best to deliver it. Changes in expenditure and revenue policy must be based on serious reform with adequate time to implement if they are to be durable and if they are expected to happen with improved public service delivery and growth and development. This means moving away from fiscal arithmetic and an austerity focus.

Our policy focus must be growth. Prudent economic management for durable economic growth will force fiscal policy towards stability.

11.4. AUSTERITY PAKISTAN 4: WHAT IS PAKISTAN'S FISCAL PROBLEM

Pakistan's provinces, where much of the welfare and infrastructure lies, are all running a balanced budget as required by the constitution—thank the almighty.

The federal government has obligations to smaller regions that it administers, such as the FATA, GB, AJK, but these are not more than even 1% of GDP. Much maligned defense is about 3% of GDP, which is also not too large. Running of the federal government is only about 1.5 % of GDP. Debt service is the most significant amount, about 4% of GDP. All in all, the federal government does not appear to be a huge spendthrift locked up in huge administrative and defense expenditures that cannot be reversed. Where then is the problem?

The federal deficit borders are on about 8 to 9% of GDP. Our Revenue is only about 9% of GDP. Adding up the above mentioned items, our expenditure commitments are only about 9.5% of GDP. Our deficit should then be about 1% of GDP, rounding out errors. Where does the rest come from?

PSDP

Well, the government wants a public investment program from the PSDP of about 3% of GDP. Can this be contained? Used more wisely? Absolutely.

For years this has been used as a slush fund by all political factions, the politicians, dictators, the defense establishment, and the bureaucracy. There is a rush for development without purpose. Indeed much if it is brick and mortar with a low rate of return and oftentimes developed for non-economic ends.

PSDP has also created assets that could return funds to it if used well so that development could be self-sustaining. The Malaysian Khazana or the Singapore Temasek model comes to mind. But in the current governance structure, such institutional innovation would be anathema.

But in the current model, PSDP spending provides only a small short-term stimulus (.07% for every 1% increase in PSDP see Pasha et al. at PC) to the economy. In the long run, studies by Ghani and Musleh ud Din have shown that the PSDP has no positive impact on growth. If PSDP operation is cleaned up it could easily result in an annual gain of about 1% per annum in economic growth.

PSEs

But the other significant drain from the budget is the PSEs, especially the energy sector. Over the years, the PSEs have been enmeshed in the administrative bureaucracy, which has often used these for their slush funds and repositories of perks. The DMG gets positions on boards and often even as executive heads of the PSEs. The rules of business make the secretary the principal accounting officer (PAO) of the PSE. This status allows the PAO to raid the PSE for vehicles and real estate.

This parasitic or symbiotic relationship between the administrative bureaucracy has for years prevented a clear financial position of PSEs to emerge. Often timely audited balance sheets are not available. Management is frequently not in control of staffing, investment, maintenance, pricing, and other strategic decisions. The result is that we do not have separate organizations.

Nor are we able to anticipate financial flows. Debts build up as a byproduct of our institutional arrangements.

For the last five years, we have continuously been surprised by the frequent buildup of losses in the PSEs despite sporadic pay-downs. And it should be noted that since many PSEs are in control of essential services like energy, railways, and airlines, they can force payments as services are shut down. Meanwhile, an economy of shortages develops. Growth and productivity decline, and hence employment opportunities are curtailed.

Without reform, we can expect that the PSEs are likely to lose 3 to 4% of GDP growth annually.

Commodities

For some reason, despite devolution that has made agriculture a provincial subject, the federal government wishes to intervene in agriculture markets for its own political needs. It subsidizes fertilizer and chooses to set the procurement price with a commitment to buy wheat. While the fiscal cost of these commodity operations is only about .5% of GDP, they do involve large and expensive government guarantees (almost 2% of GDP worth of bank credit is used. In addition, they distort the agricultural market. Cleaning out this operation i.e., rescinding government involvement, is expected to increase GDP growth by about .5% annually.

The Net Result

Summing up these figures, we can see that our fiscal deficit of about 7-8% comes from PSE losses, PSDP, and commodity operations.

Careful and well-articulated reform in these areas could not only make the budget manageable but have the additional payoff of increase in the annual economic growth of about 5 to 6%. The quick fix of arbitrary taxes and chasing false revenue numbers is a bad strategy that exacerbates the ailment of poor governance and low growth.

We would be remiss if we did not add the cost of our maladministration. The loss of government capacity and the weakening of governance procedures in pursuit of austerity has contributed to the adoption of hurried and flawed policies that are costing the government much. For example, the guarantees to various sectors of industry (IPPs, cars, fertilizers, etc.) slow down investment and frequently operate like call options on government.

Arbitrary expenditure cuts in interest of austerity have taught the rulers to disrespect the budget. Hence, the cabinet and the ECC are entertained off-budget expenditure items throughout the year in contravention of rules and fiscal policy. For example, when sugar prices were going up in 2009, the government imported sugar, and when sugar was abundant in 2012, the government bought sugar from sugar mills to save them. Both acts were -budget and resulted from poor procedures and lack of process and human capital in the finance ministry.

Understanding the budget in this fashion shows clearly that there are no quick fixes. The deficit is structural and a product of the underlying institutions of governance. A durable fiscal adjustment will require fixing the governance institutions--detailed civil service reform, development of expenditure management, change in the rules of business, innovation in PSDP management, realignment of the role of government.

All Roads Lead to Rome: Reform Leads to Growth and Fiscal Sustainability

The good news is that if we do this right, we address the fiscal situation and regenerate growth and productivity. Changing the model from austerity to growth is a win-win. As shown in the earlier austerity articles, tax revenues can be increased through deep reform such as elimination of SROs, perks/plot culture, and better use of government assets. It is the same reforms that will help the expenditure side. The same reform increases growth. This, in essence, was the Planning Commission Framework of Economic Growth which was passed by the National Economic Council. Time to take it seriously.

11.5. PAKISTAN IS PRACTICING AUSTERITY ECONOMICS

Some of my economist friends still insist that we are not practicing austerity economics. Once again, let us try to understand.

Austerity is the mindless approach to the containment of a fiscal problem. A fiscal adjustment often is necessary for an economy. The austerity approach is to rush the adjustment without focusing on the reform that might address the deeper structural issues driving the fiscal problem. The rush to meet fiscal targets often leads to cuts in expenditure for the development and maintenance of society's capital—physical, social, and human. In that sense, it places an excessive hardship on the country.

Pakistan has had a fiscal problem for the last 30 years and has failed to address it. Why? Because the Pakistani economics amounts to what I call *fiscal arithmetic*.

These analysts see the budget only as expenditures minus taxation. The only thing that matters to the proponents of fiscal arithmetic is the dream of reaching a deficit number of 4% of GDP. Quick and ill-thought-out measures are cited to support these cuts. The impact of these measures on economic growth, productivity, and employment does not concern the proponents of fiscal arithmetic.

The most important focus for the last 30 years has been revenue collection. Ambitious targets are set with arbitrary taxes (Surcharges, one-time levies, excises of all kinds). For this, they dream up all manner of distortive taxes on mobiles, education, travel, imports, etc. Their grounds are that anything but subsistence farming is luxury goods. They do not see that a working economy requires mobiles, education, travel, and imports. They also do not see that revenue increases also require a vibrant economy. In a lackluster economy, it is probably better not to seek significant revenue increases.

When revenue targets are missed they look to expenditure control. Sounds great, but how does that happen? The Finance Ministry is famous for choking off funding for development and other non-wage expenditures because salaries cannot be reduced. In fact, bureaucrats want to increase their salaries. So what is left is non-wage expenditures where computers, stationary, research, maintenance are cut. The result is productive activity falls.

MOF has does cuts blindly. Quarterly targets are met arbitrarily. Expenditure releases are slowed down either through interventions of Financial Advisors that are MOF emissaries in every ministry or by MOF slowing down the writing of checks. As a result, project work is slowed down, often piling contractor penalties and other cost overruns. Through senseless budget management, MOF slows down productivity and growth.

The Ministry of Finance Examine (MOF) always proudly proclaims that all non-wage expenditure are being cut. Is starving PSEs and universities of working capital something to cheer for?

As an example, consider electricity. The government fails to price energy properly. It refuses to have professional regulatory bodies or allow a market-determined price to evolve. As the owner of the discos, it has an obligation to run them well. But the concerned ministry has no interest in professionalizing management or running the discos efficiently. Instead, employment is excessive, and positions are sold for corruption gains.

Furthermore, the government has made rent-seeking commitments to industry and the IPPs. The losses emanating from these structural problems (mainly from poor governance) in the power sector have to be picked up somewhere. If the government does not want reform, my contention to the then FM was you must pay. His response was, what about the budget?

Good question! Here is where austerity comes in. If the MOF does not pay, it leads to circular debt. The circular debt chokes up the system, which causes load shedding and eventually slows down growth. So either hasten the reform or pay up!

This vicious cycle cost the economy a loss of 2-3% on our annual growth rate. Rough estimates would suggest that about 800,000 jobs were lost. No effort was made to understand either the nature of the problem or to address the human and organizational capital in the power sector.

What needed to be done was to lead with reform. MOF should be paying the bills to keep the economy going while a Ministry of Reform under the close guidance of the cabinet and the PM should be monitoring deep structural reform in the sector. In other words, a transparent reform process has to be built up, and our political leaders are forced to develop an attention span for it.

This reform may not be cheap. On the contrary, such reform may require funding for activities like golden handshakes. Building better management control systems, building technology, making postponed maintenance. Certainly, that will be at odds with fiscal arithmetic and austerity.

Our energy shortage is partly artificially caused by fiscal arithmetic and partly by a bureaucratic system that lacks capacity and the ability to manage complex systems such as energy. So are our problems with railways, PIA, universities, etc. All these assets are poorly managed in need of reform, but current austerity economics will not allow it. Mindless budgetary targets not embedded in reform are what eat away productivity and growth. And that is austerity. Austerity creates an economy of shortages, as in Pakistan. What they forget is that in a growing economy, adjustment is easier. But thinking growth requires economics, not fiscal arithmetic.

11.6. END AUSTERITY POLICY

Our macroeconomic policy stance has been seriously wrong for a long time. It is time to seriously review it. We have been chasing the chimera of fiscal adjustment most unthinkingly. In the bargain, we have killed growth, governance, public service delivery and perhaps even the state. Let us see how?

Consider an economy where economic growth has slowed down, and large fiscal deficits have led to a growing debt stock and balance of payments difficulties. No doubt such an economy needs adjustment. The question is, how?

Several Options are Available

The best approach is to address the fundamental causes that have caused the slowdown in the economy. Often the source of the economic difficulties is deep-seated structural issues such as a bloated government based on poor expenditure choices and a poorly developed mismanaged public sector enterprise sector, poor market regulation, low quality of governance and regulation that drives up the cost of doing business, and several legal rigidities that prevent flexible movement in resources from low to high return activities. Deep, painstaking, and carefully researched reform is necessary in such cases but could require time and resources if it is to be done well. Moreover, this reform does have its political costs and benefits. Often the beneficiaries are the masses in the long run. However, the beneficiaries of the distorted system (lazy and perk-rich civil servants, public sector enterprise managers unions, monopolists with captured regulators) are more immediate to the government. They have the resources and the muscle to delay the reform. As much as possible, this path is avoided.

The preferred path is always to take the fastest possible debt and fiscal consolidation route. To achieve this, governments hastily cut expenditures and raise extraordinary taxes that could have negative growth and expenditure consequences. This set of policies has now come to be known as “austerity”.

As Paul Krugman laments, the Keynesian solution that we all learned in our macroeconomic classes where fiscal policy was supposed to be expansionary in recessionary times and contractionary in good times is now ignored in keeping with current austerity thinking.

In Pakistan, under the tutelage of the IMF, the approach that MOF has followed has been that of “austerity” at its worst. MOF to impress the tutor always chooses the fastest route to get to a deficit target of 4% of GDP. It hides arrears and expenditures, dries up funds to places where needed (such as education, development, railways services), and fixes overambitious revenue targets never meaning to keep.

MOF has to look after its brethren—the public servants. Their wage bill, often with an increase, has to be met even when expenditures are cut. And, of course, no one can be fired even if there is an acute redundancy.

Imagine the police budget being slashed by some percentage, and then the whole system is put on slow-release by MOF to meet its unrealistic numbers. Of course, salaries have to be paid. Well, then the operations suffer, as there is no budget for running patrols, doing drills, ammunition etc.

Over time, such “austerity” based policies depreciate capital that has been built up and impede the renewal of necessary capital. For example, essential equipment for conducting operations becomes obsolete or is in short supply. Like Railways has engines standing but no money to maintain them. Like transmission lines are not maintained on schedule leading to increased line losses.

The important point to remember is that operating systems provide public service. Arbitrary budget cuts as austerity demands erode those systems with long-term consequences for governance and public service delivery. Eventually, these eroded public service delivery show up in the increased cost of doing business driving down investment and growth.

The austerity debate has raged in Europe for the last five years, and even the IMF has now conceded that the pace of fiscal adjustment must bear in mind the cost to the functioning of the state and social contract.

MOF austerity policies have led us into a vicious cycle of incredible, unthinking, and poor quality fiscal adjustment, which in turn erodes governance and public service. Over time this slows down the economy destroying efficiency and even institutions.

Blaming the IMF is useless. Their response is that your government can choose a better adjustment path. MOF can adopt the path of careful reform (first option), taking on the lobbies and putting in process a sensible budgeting approach that will allow departments autonomy and sensible budgeting.

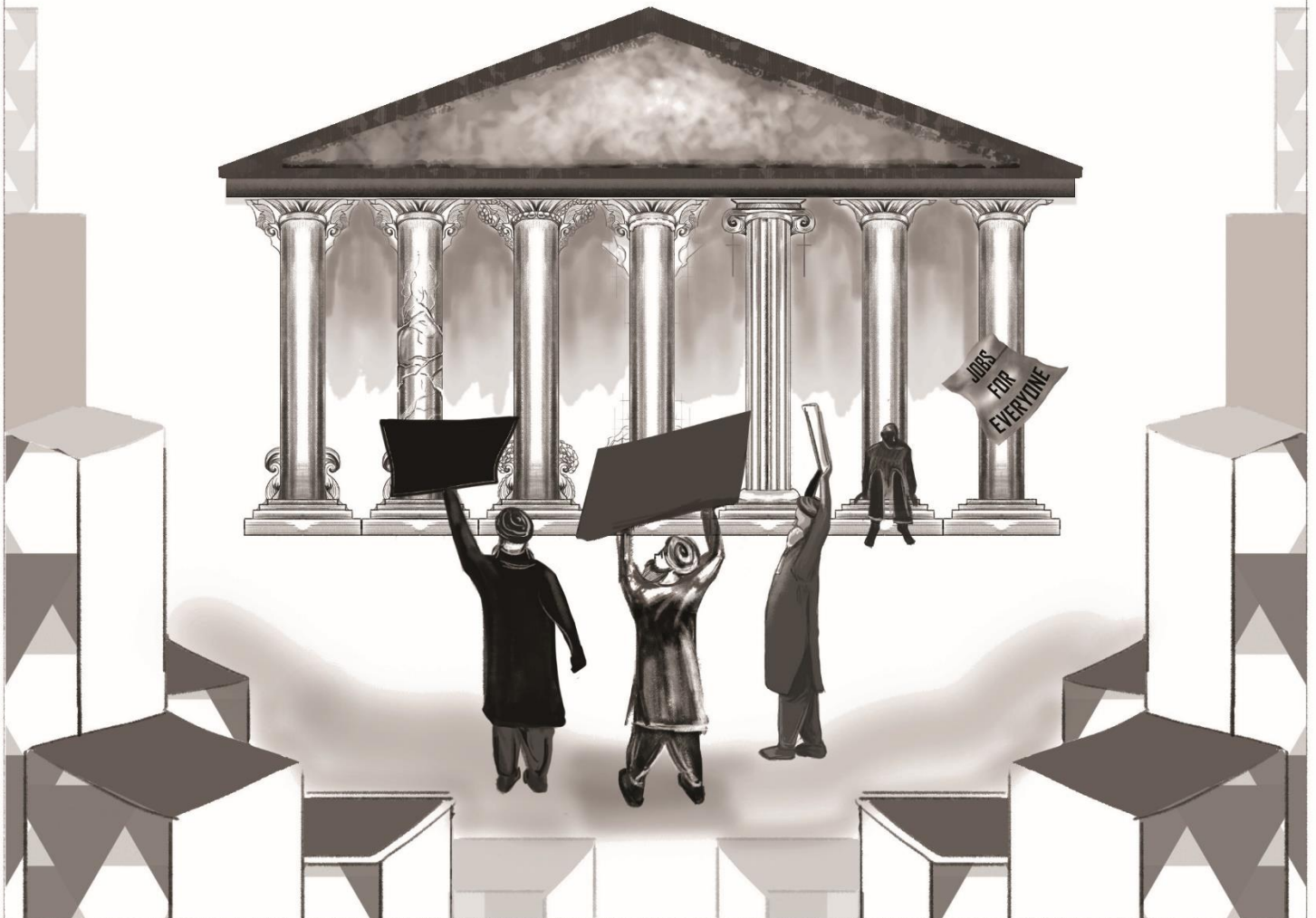
The tragedy is that the austerity policy and postponed reform have so eroded government capacity that change is vertically impossible. We all know the government lacks the capacity to think, research, and develop the kind of policy and reform.

Sadly civil society also worries mostly about poorly determined austerity policy and has little time for debating deeper reform issues. There is much excitement about a missed fiscal number which in any case was projected on a false basis. But little thought as to how MOF is killing public service delivery through bad budgeting.

Indeed it is time to rethink our economic policy stance.

Chapter 12

Fundamentalism



12.1. PROPOSAL FOR A HIGH-LEVEL COMMISSION FOR UNDERSTANDING EXTREMISM AND TERRORISM

Terrorism has been growing over the last decade or more and has now, with the Peshawar incident, reached levels where there is a broad consensus that it represents an existential threat to Pakistan. The roots of terrorism primarily lie in growing fundamentalism in society. Over the years, Madrassas have mushroomed, sectarianism has increased, and radical mullahs have appeared on the pulpit as well as the media to shift the national discourse increasingly toward a narrower definition of Pakistan and Islam.

Pakistan's centrality to global and regional conflicts has also fueled fundamentalism, involved the country in the war on terror, and weakened the state. Continued aid and oil dependence have also forced Pakistan to align itself with radical views on Islam.

Meanwhile, political instability, weak governments, and long-standing fiscal difficulties have weakened state capacity to the point that its monopoly on violence is seriously challenged. State institutions have eroded significantly, requiring the army to take over many key civilian functions from time to time.

Pakistan has a young population –50% below the age of 21—which policy has largely forgotten except as an occasional handout exercise. The education system is hugely inadequate in the supply of both quantity and quality. Opportunities are scarce as job creation is way below potential. Disaffected youth is turning to crime, fundamentalism, and even terror.

The weakened state appears to be captured by the radical elements in society as it gives in to their demands on 'who is a Muslim, blasphemy, and even YouTube. Extremist clergymen control the dialog on Islam with the little role of the state despite a sizeable religious ministry and Aqaf departments.

While we are all reacting to this existential threat with the army leading a military effort to deal with the violence and the politicians coming together to present a united political front to this threat, it is imperative that we understand our state and society and its interaction with fundamentalism and terror and find lasting solutions to evolve our country into a peaceful, prosperous future.

The issues mentioned above are continuously being discussed in the media and even households searching for a solution. In such situations, countries often put in place an independent, objective, and expert commission to carefully conduct deep investigations through research and widespread consultations. Examples of such commissions are the 911 commission in the US and the Butler Review of the weapons of mass destruction in Iraq. Such commissions are well funded, comprised of credible and notable people, staffed by very competent technical experts, and given ample time to do their work.

We did put in place an Abbottabad commission after the killing of Bin Laden but have refused all follow-up as the report has not been released.

It is important that the commission is part of a process that must be followed. The report has to be made public and discussed by parliament. Needless to say, members will be careful not to divulge any national security issues except to the requisite quarters. But a widespread discussion of the report and its recommendations will allow the government to take steps to deal with the issue of terror.

Possible TORs for the Commission

The Commission will examine:

- (1) The evolution of extremism, fundamentalism, and terrorism to understand its historical origins
- (2) The evidence on terrorism to understand its socio-economic and geographic causes.
- (3) The nexus of extremism, fundamentalism, and terrorism
- (4) The state's role and response to the challenge of extremism, fundamentalism, and terrorism
- (5) The role of the private sector in funding and fueling extremism, fundamentalism, and terrorism
- (6) The role of NGOs and their financiers in the development of extremism, fundamentalism, and terrorism
- (7) Societal sentiments and opinions as seen in polls and surveys on the issue of extremism, fundamentalism, and terrorism
- (8) Politics, political parties, and extremism, fundamentalism and terrorism
- (9) State institutions and extremism, fundamentalism and terrorism
- (10) Law, courts and their capacity to deal with extremism, fundamentalism, and terrorism
- (11) The education system, community, and regionalism in the development of extremism, fundamentalism, and terrorism
- (12) How our police, security, and intelligence establishment has dealt with the issue of extremism, fundamentalism, and terrorism

The committee will then seek to outline policy options

- (1) Reform of the state institutions such as the civil and security services
- (2) Legal and judicial reform
- (3) Regulation and management of the religious establishment in keeping the dictates of Islam
- (4) Monitoring financial flows for religious organizations.
- (5) Reform of education, public service delivery as it pertains to the issue of extremism, fundamentalism, and terrorism
- (6) Policy changes that government could undertake for dealing with the threat
- (7) Develop a plan for the government to lead a more comprehensive discussion for the implementation of the report

Who Will Serve on Commission?

Say, nine people including:

- Judge
- Police
- Bureaucracy
- Professor
- Private sector

- Citizens
- Media
- Lawyers
- Economists

Of course, some regional and gender balance will have to be borne in mind

Staff: At least nine young, competent professionals from roughly the same mix as members. This secretariat will maintain all paperwork, keep minutes, write drafts and contracts, etc.

Time Frame: One year at least and, if required, up to 2 years!

12.2. THE MAULVI IS A BUREAUCRAT; WHY TREAT HIM DIFFERENTLY?

If a system such as this is developed, it will soon fall in sync with the aspirations of us ordinary Muslims who find no incompatibility between our faith and the modern world. If the government is serious about eradicating fundamentalism, it must incentivize the maulvi.

This is how it works. For the last four or five decades, global and local forces have offered all manner of incentives to the maulvi to develop a radical and fundamentalist version of Islam. Now, if we want the maulvi to change, a new system of incentives has to be developed.

The government regulates every market and profession except the mosque and the maulvi. The maulvi continues to operate freely and frequently not in the public's interest. The possibility of a foreign hand manipulating the maulvi is always under popular consideration. Fundamentalism has been fuelled mainly because this whole mosque-maulvi enterprise is being led by the unenlightened, and they are easy to manipulate by forces that seek to retard Pakistan's path to modernity.

Currently, the maulvi has no master other than the vaguely defined politico-denominational organizations they might adhere to. No license is necessary to set up a mosque. The ownership and management of mosques is not regulated.

The community that the maulvi and mosque are supposed to serve has hardly any say in the running of the mosque or the behaviour of the maulvi. Neighbourhoods cringe when the maulvi misuses the loudspeaker to say things that they may not agree with. They have no say in how loud, for how long, and when, he can turn on his loudspeaker. They certainly cannot expect any human sympathy or forgiveness from the maulvi. He is there only to scare them and interpret Islam very narrowly.

Unlike the early days of Islam, the mosque is no longer a community place. No learning activities take place there. No seminars, no birthday parties or weddings can take place there. The maulvi uses it virtually as a personal domain. We must change the system of managing the mosque and managing the maulvi to make this combine more responsive to the community if the objective of enlightened moderation is to be achieved.

If the maulvi wase somehow bureaucratized into a hierarchy that could control and incentivise his thinking, we would be closer to moderation. Consider a system of mosque and maulvi regulation based on the following principles:

All mosques, when built, should be publicly owned and subject to a system of community control.

Defined areas to be served by the mosque would elect a mosque committee to run the mosque and define and appraise the work of the maulvi. The case for another mosque in the mosque area should be very carefully made. The use of a loudspeaker should be carefully regulated for Azan only and loud enough only to cover the mosque area gently.

Community uses for the mosque should be clearly defined. Learning activities at mosques should be actively encouraged.

A hierarchy of mosques should be developed on the basis of size and the area that they serve. Smaller mosques in the area of larger mosques should not be allowed to use loudspeakers and should have very confined roles for serving tightly knit communities on a personalised basis.

The larger mosques should have libraries, internet access and learning facilities. All mosques should display a learning calendar based on professional seminars and training delivered by professionals in the community. The maulvi's performance should include the development and management of this calendar.

The profession of maulvi should be organised such that there are professional standards and peer and community review. The following principles could be useful:

Entry: Maulvi should only be allowed to enter the profession on the basis of competitive exams. Ideally these exams should test for knowledge of Islam, comparative religion, humanities, and social science.

Career: To graduate to managing a bigger mosque, knowledge of English and ability to use the internet should be considered necessary. The maulvi should be ranked and graded and should have clear guidelines for promotions. The mosque committee must every year write a performance report of the local maulvi while the district Auqaf head, who should be a member of the maulvi service, would write another. The maulvi should have a maximum tenure of four years in a mosque. An Auqaf council, made up of the senior-most maulvis who have been promoted within the system after having served in many positions, should manage the whole system.

Peer and community review: The maulvi should be encouraged to publish selected sermons as well as his personal research in journals that should be created for this purpose. Debates should be encouraged. The community, the maulvi profession and especially the Auqaf council could occasionally highlight the best sermons and research and use these as an element in the evaluation of the maulvi.

Fatwas and other religious injunctions: In this system, then, fatwas and religious injunctions cannot be initiated by any maulvi. These will only be issued by the Auqaf council with adequate review by the council and the senior layers of maulvis.

Sectarian concerns: The constitution of the Auqaf council would have to be such as to allow some sect-specific issues to be referred only to the members of the council belonging to that sect. No sect big or small should have the feeling that it is losing out to a tyranny of the majority.

If a system such as this is developed, it will soon fall in sync with the aspirations of us ordinary Muslims who find no incompatibility between our faith and the modern world. Our community will also develop as it gets more integrated through a system of mosque management that helps learning and skill development.

Most important, our youth will be the biggest gainers as they benefit from the community mosque that promotes skill development. The present situation in Pakistan has created both short-term and long-term problems that will be difficult to solve. The regulation of the institutions of mosque and **moulvi** in the public interest would be a critical step in ensuring that Pakistan walks a path towards modernity.

12.3. A BATTLE OF IDEOLOGIES

For a while, a debate has raged in development economics between the ‘bottom-up’ school (main protagonist: Bill Easterly) and the approach to the “top-down” school (Jeffrey Sachs and the aid agencies). It seems what is happening in Pakistan is providing an ideal experiment to test which of the competing visions is doing better.

As we all know, Pakistan is the front-line state in the ‘Clash of Civilizations’. Within Pakistan, the war is about Islam and what it means for Pakistan. Both sides hang on to shreds of evidence to prove their case. The truth is that there are two competing visions of Pakistan, and the contest is heading towards the finish line, and it seems that the Islamic side is winning.

Those on the liberal side, perhaps in recognition of their weakness, are getting increasingly shrill--in op-ed pieces and talk shows-- “begging for the army to save them”. All they want is some force, whoever it might be, to go out and fight for them and their lifestyle.

History shows that nations are driven by shared visions that are often created by public intellectuals. Pakistan is no different! The two sides are competing for what kind of a state Pakistan will be in the 21st century and what role it will play on the global scene. Both factions have worked hard for their cause, and both have had their backers and funding sources. Why is one losing and the other winning?

The Islamic lobby has been fighting for its vision of a traditional Islamic state distinctly different from the current concept of a modern globalized state, offered by the West and now widely accepted by most. While some want a harsher form of Islam and some somewhat benign, there is reasonable convergence on gender roles and the dominance of clerical vision.

The Islamic lobby has been gained ground over the years. They have been amply funded by various agencies in the Islamic world, although not openly. But more importantly, a large proportion of their funding comes from private sources.

In contrast, the liberals’ vision has been formed by funding from aid agencies. The vision is that of a welfare state keeping the current structure intact. Their vision is social protection—handouts for the poor—and the widespread provision of education and health. For this, they repeatedly ask for more taxation and better tax collection. The rest of society with all its rent-seeking and elite-preservation structures are largely left untouched. The approach is one of the handouts, not opportunity.

Much of the liberal funding comes from foreign governments. They have had numerous study grants and invitations to foreign conferences for their ideological development. Conferences, and projects provide funding for the propagation of these ideas. Many foreign consultants are constantly in the country, while many more are engaged outside for the ideological development of this vision of the welfare state.

Funds are available for many activities, and the West’s might is behind this battle. They even run advocacy programs for education, media development, mother and child care, civil society development, etc. Donor agencies plan for social re-engineering of all sorts.

Despite all this funding, the western, more modern vision, which many will agree is more desirable is not gaining ground in front of the Islamic Vision, Why?

The answer may lie in the funding modalities. The Islamic vision “bottom-up” objective-based delivery is being funded on a decentralized basis with committed people and a clear goal. Diverse funding sources seek to fund small projects like madrassahs or some local welfare organization without micromanaging modalities and instruments, seeking only the goal of propagating the ideology. As a result, committed recipients self select themselves for opportunities to be innovative and original in their delivery of objectives.

Quite the opposite, the approach of international aid that funds the western vision is “top-down,” closely-monitored, fully pre-programmed with no role for any innovative local committed individual. Programs originate in remote offices and are fully designed and managed from there. Local professionals are all suspect and have only a supporting or, as they call it, an “implementation” role. They have little latitude for initiative or innovation. International consultants are always controlling the design of the program through constant monitoring and evaluation.

Despite this over-design of projects, numerous donor evaluations have noted that their well-funded projects fail to achieve their objectives. It is also immediately obvious looking at either macro-data or the MDGs that donor funding has largely failed to achieve its objectives.

Like elsewhere, the poor of Pakistan are looking for hope from the state. They trusted the technocratic donor-funded vision for decades only to be disappointed. It is not that they are fundamentalists, but they are looking for something that will give them hope. The failure of the liberal technocratic vision leaves only one alternative. And those people with their ‘bottom-up’ approach are closer to the poor, more committed, and capable of responding to their needs without lengthy approvals from distant capitals.

Sadly, it is obvious to most of us living here that the “bottom-up” approach is more successful. Some day perhaps aid will fund an unbiased study to collect harder evidence and reform itself in its light.

Chapter 13

Covid -19



13.1. ONLY THE PARANOID SURVIVE

By Dr. Nadeem Ul Haque and Malik Ahmad Jalal

Andy Grove, the founder of Intel, coined the fundamental management principle to navigate the exponential and unpredictable dynamics of the semiconductor sector, ‘Only the Paranoid Survive.’ The semiconductor market grew 22 times in the two decades since 1975, or the market doubled every 1.2 years. Many initial players did not survive. In the 1980s, telecommunication giant AT&T hired the blue-chip strategy consultancy McKinsey & Co to predict the number of cellphones in the US in the year 2000. McKinsey churned historical data, case studies, and projected 900,000 cellphones. The actual figure turned out to be 120 million. McKinsey mis-calculated by a factor of 121x. This highlights the difficulty of using past data-based extrapolation models to predict the future in an exponential market.

A pandemic is an exponential force. In the initial phases, we received memes of how the Covid-19 risks were overblown since there are many more victims of the common flu. Within one month, the Covid-19 death rate accelerated to more than the number caused by flu, but also deaths due to heart disease and cancer. This demonstrates that only paranoia and pre-emptive action can mitigate a pandemic, and underestimating an exponential force can eventually overwhelm a system, as happened in Italy, the US, and the UK.

The devastation wrought by the pandemic is evident: Pakistan’s economic loss due to Covid-19 is estimated to be \$15 billion, with 12 million jobs lost. In the US, the number of unemployed rose by 2.6 million in a week, the same level of unemployment as the entire first year of the 2008 recession. Effective management and mitigation against an exponential risk are critical to avoid systematic failure to the economy, society, and institutions. Yet, all governments and healthcare institutes failed to forecast the pandemic, despite pandemics being common throughout history.

Our future is changing rapidly as we speak. Technological disruptions, too, are sweeping societies much like a pandemic. The same is the effect of environmental changes on small communities, cities, and countries. All exponential forces that are difficult and costly to contain once their momentum builds up. So how do we mitigate or deal with a rapidly changing environment? What might be effective risk management techniques against shocks from technology and disasters such as pandemics or climate change?

The Covid-19 pandemic has illustrated how unprepared we were with risk management and policies for dealing with an uncertain future. The reliance of experts on so-called predictive mathematical models, which rely on historical data, even if stressed tested with extreme data points, failed spectacularly. These models rely on historical input data, which by its nature is constrained to only predict the future with a lens of the past. Such models will be incremental and won’t predict unique ‘black swan’ events, which have not occurred in the model’s data set.

To plan for the future, which is so uncertain, policy and risk management has to use data but go beyond it—apply imagination, blank-canvas scenario building without the influence of past data or evidence. Most importantly, this approach will require a nimble but surefooted learning-while-doing technique, rapidly incorporating evidence into an evolving strategy to respond to the crises.

During the Covid-19 crisis, we witnessed either fearful overzealous action or over-confident inaction by governments. Both extremes end up being static and can be harmful to the economy or lives of the citizens. The right way to respond to pandemics or emerging climate and technology risks requires us to be institutionally prepared to deal with all future eventualities.

Such preparation must be fluid, iterative, and dynamic, capable of quick learning and adaptation to possible eventualities that are hard to foresee. It requires a readiness to imagine, experiment, and deep connection to the global expertise pool. While data-driven risk management will be involved, it is important to be proactive in a methodical manner to lead citizens with confidence, thereby avoiding panic.

The UK created a National Risk Register, a five-year plan of emerging risks along with prevention and response plans, based on inputs from various line ministries.

We think from one mini-budget to the next without a long-term plan and hence are caught out by the external shocks of oil and commodity price fluctuations. We need to create a structured process of collective brainstorming for our Risks Register and proactive plans leveraging all our thought resources—ministries, think tanks, universities, and civil society. This network of national thinking should be coordinated by the Planning Commission, greatly enhancing our self-reliance, internal capacity building, and ability to respond to pandemics, climate events, and technological disruptions.

The mathematician and philosopher who predicted the 2008 financial crisis, Nassim Nicolas Talib, quoted that if you are paranoid, you can be wrong a thousand times, yet you will survive. But if you are not paranoid and you make a single mistake in assessing a major risk, then you or your system can be wiped out.

Covid-19 has demonstrated the urgency of overhauling our risk management methodologies by reducing reliance on evidence-based models and instead have greater use of imagination in predicting and planning against an unseen enemy.

13.2. UNDERSTANDING SMART LOCKDOWN

Dr. Nadeem Ul Haque and Dr. Durr e Nayab

A model developed by a group of scientists recommends an intermittent lockdown



Lately, the term ‘smart lockdown’ has been thrown around by many for mechanisms that are neither smart nor define a lockdown. For a range of reasons, a complete lockdown is opposite of combating the Covid-19 outbreak. This necessitates the need to find an alternative that can help reduce the pressure on the economy, personal and national, without putting lives in danger. This alternative can be a ‘smart lockdown’, one that is conceptualized well enough to balance between lives and livelihoods.

Lockdowns cannot continue indefinitely, but if they are lifted, the existing infections would cause a surge in the numbers forcing another lockdown. This is the yo-yo effect, with the number of infected people going up and down with every new lockdown.

A model of a smart lockdown developed by a group of scientists, including molecular cell biologists, economists, and health system managers, recommends an intermittent lockdown: ten days of lockdown and four days of work per fortnight. The basic notion is that “In this way, the virus replication number, the number of people infected by each infectious person, drops below one—the magic number that causes the epidemic to decline.” The model suggests that after several such cycles, the number of those infected will begin to drop.

The model is built on the basic principle of epidemiology that when R_0 —the reproduction rate defined as the number of infections an infected person can cause—is below 1, the number of infected people declines exponentially. The cycle provided by the smart lockdown lowers the reproduction number (R_0) through a reduced time of exposure and an “anti-phasing effect in which those infected during work-days reach peak infectiousness during lockdown days.”

To drive R_0 below 1, the model proposes a cyclic schedule with four days of work followed by ten days of lockdown. With a staggered/rotational duty of employees, some level of productivity can be achieved. The cyclic strategies help in reducing the R_0 by two mechanisms: restriction and anti-phasing.

Covid-19 has a latent period of three days, in which it is non-infectious. The suggested 14-day cycle helps people be away from the workplace, and hence spreading infection, as their lockdown days begin when they reach the infectious state. Even if someone gets infected on Day 1 of the cycle, their peak infection period would be during the lockdown days, reducing the number of secondary infections, the R_0 , they can cause.

Coming to the situation in Pakistan, in recent days, the increasing volume of traffic on the roads and voices heard in the media tell us that people want lockdown to end. Heavy losses are certain to be incurred on the economy and individuals in the form of loss in GDP through trade disruptions and increasing unemployment and poverty.

In this scenario, Pakistan can opt for a much-adapted version of the smart lockdown. Wearing of gloves and masks has been found to reduce the transmission of infection and should be made mandatory for everyone leaving home. Those who can work remotely (from home) should continue to do so, including online classes.

All big firms should plan for a two-week work schedule as discussed above. It will allow managers and employees to plan ahead and stay productive while minimizing the chance of spreading infection.

There should be extra emphasis on following strict SOPs at the workplace. This strategy needs to be adopted not as an alternative but in addition to all the epidemiological measures, including hygiene, physical distancing, and testing, tracing, and isolating the infected.

Big businesses should be allowed to continue with protocols that they preannounce and maintain. There should be certain penalties if they show up to be a hub of contagion. The same goes for SMEs.

Local shopping centers can be opened but with their associations announcing clear protocols such as neighboring shops choosing different days to open; each shop displaying visibly the number of people that can enter and ensuring that only that number which can maintain social distance is allowed entry. Restaurants may be allowed only for take-away and delivery.

Local government and police can develop monitoring mechanisms in collaboration with reputed civil society enterprises. Electronic surveillance will be useful in this regard. The strategy should continuously adapt and fine-tune the number of workdays or rotation of staff according to the results achieved.

Risky? Yes, it is risky. Our analysis suggests that the economic cost is huge and perhaps more than our debt-ridden, IMF-strangled economy can afford. People are testing the lockdown because of their own needs every day. The government is finding it hard to deliver support. Signs of food rations being raided and social unrest are beginning to appear. So yes, risks are becoming apparent every day.

Covid-19 is an existential war—perhaps, the worst we have seen in our existence. We are exposed to very large risks. Our approach to beating this must be novel.

No strategy can or should remain static. With experience and evidence, all strategies must change and develop. We are merely suggesting a lockdown approach that can be fine-tuned with experience wilfully rather than the current approach of people developing informal approaches to beat it.

The world is perplexed by this Black Swan event. No one has an advantage over knowledge and information. There should be a far more public interface (virtual, not physical) in this effort to combat the problem. People need to see the guidelines, SOPs, and other information that will guide as well as educate them on behavior and public health.

Covid-19 is an existential war—perhaps, the worst we have seen in our existence. We are exposed to very large risks. Our approach to beating it has to be novel. It is time to meet these risks in collaboration with our best talent and innovation. Designing a lockdown mechanism that is actually smart, fully implemented, and diligently monitored can help us get out of this situation. In its absence, a complete lockdown, with all its negative consequences, is the only option.

Chapter 14

Health



14.1. MALNUTRITION HAMPERING PAKISTAN'S DEVELOPMENT

The youth of a country—frequently the largest part of the population—often fuels the engine of progress. According to the Pakistan National Census Report 2017, the highest percentage of Pakistan's population is between the ages of 15 to 35. No doubt then, Pakistan's youth is the force that can put the country on the road to success. However, the nation can only achieve success if the minds and bodies of our youth are in a position to work towards economic and intellectual progress. Currently, we know that malnutrition is one of the most pressing problems that Pakistan is facing; this is a challenge that could slow down our potential for growth.

UNDP Pakistan's second National Human Development Report, 'Unleashing The Potential Of A Young Pakistan', focuses on the youth as a critical force for shaping human development. As mentioned above, Pakistan currently has the largest generation of young people ever in its history, with about two-thirds of the total population under 30 years of age. This includes children under 15 who will be tomorrow's youth. All this potential will go to waste if we do not start working on the problems that the age group is facing. According to Dr. Atif Habib, Assistant Professor Pediatrics and Child Health at Aga Khan University, "Malnutrition also has a vicious, multi-generational impact since malnourished mothers are more likely to have underweight children."

According to a new official report, Pakistan loses US\$7.6 billion or three percent of its GDP each year due to malnutrition. 'The Economic Consequences Of Under Nutrition In Pakistan: An Assessment Of Losses', a report prepared by the Pakistan Scaling Up Nutrition (SUN) Secretariat, in collaboration with the United Nations World Food Programme (WFP), has used economic modeling to review 15 nutrition indicators from the 2011 National Nutrition Survey and the 2013 Pakistan Demographic Graphic Survey.

According to the report, more than 177,000 children die annually in Pakistan before their fifth birthday due to them or their mothers falling victim to malnutrition. This constitutes future generations of the workforce lost and costs Pakistan an estimated US\$2.24 billion per year. It is an alarming sign that more than two-thirds of Pakistan's children suffering from anemia, iodine deficiencies, or stunting will suffer deficits in mental and physical health, which results in lower school performance and lower productivity as adults. This impacts the GDP by a shocking US\$3.7 billion annually. During his recent visit to Pakistan, the World Bank President said that Pakistan should address the high prevalence of stunting among its children on a priority basis.

UNICEF says in a report that Vitamin A could reduce child deaths by between a quarter and a third in many developing countries, saving between 1 and 3 million young lives a year. It could also save the eyesight of hundreds of thousands of children. Meanwhile, another micronutrient deficiency—the lack of iron—affects half of those growing up in Africa and South Asia. Iron and Vitamin A are inexpensive and needed only in tiny amounts. The challenge is getting them to the millions who lack these micronutrients.

'Food fortification' refers to the addition of micronutrients to processed foods. In many situations, this strategy can lead to relatively rapid improvements in the micronutrient status of a population, and at a very reasonable cost, especially if an advantage can be taken from existing

technology and local distribution networks. Since the benefits are potentially significant, food fortification can be a very cost-effective public health intervention. However, an obvious requirement is that the fortified food needs to be consumed in adequate amounts by a significant proportion of the target individuals in a population. It is also necessary to have access to and to use fortificants that are well-absorbed yet do not affect the sensory properties of foods. In most cases, it is preferable to use centrally processed food vehicles and to have the support of the food industry. Fortification of food with micronutrients is a valid technology for reducing micronutrient malnutrition as part of a food-based approach when and where existing food supplies and limited access fail to provide adequate levels of the respective nutrients in the diet. In such cases, food fortification reinforces and supports ongoing nutrition improvement programs and should be regarded as part of a broader, integrated approach.

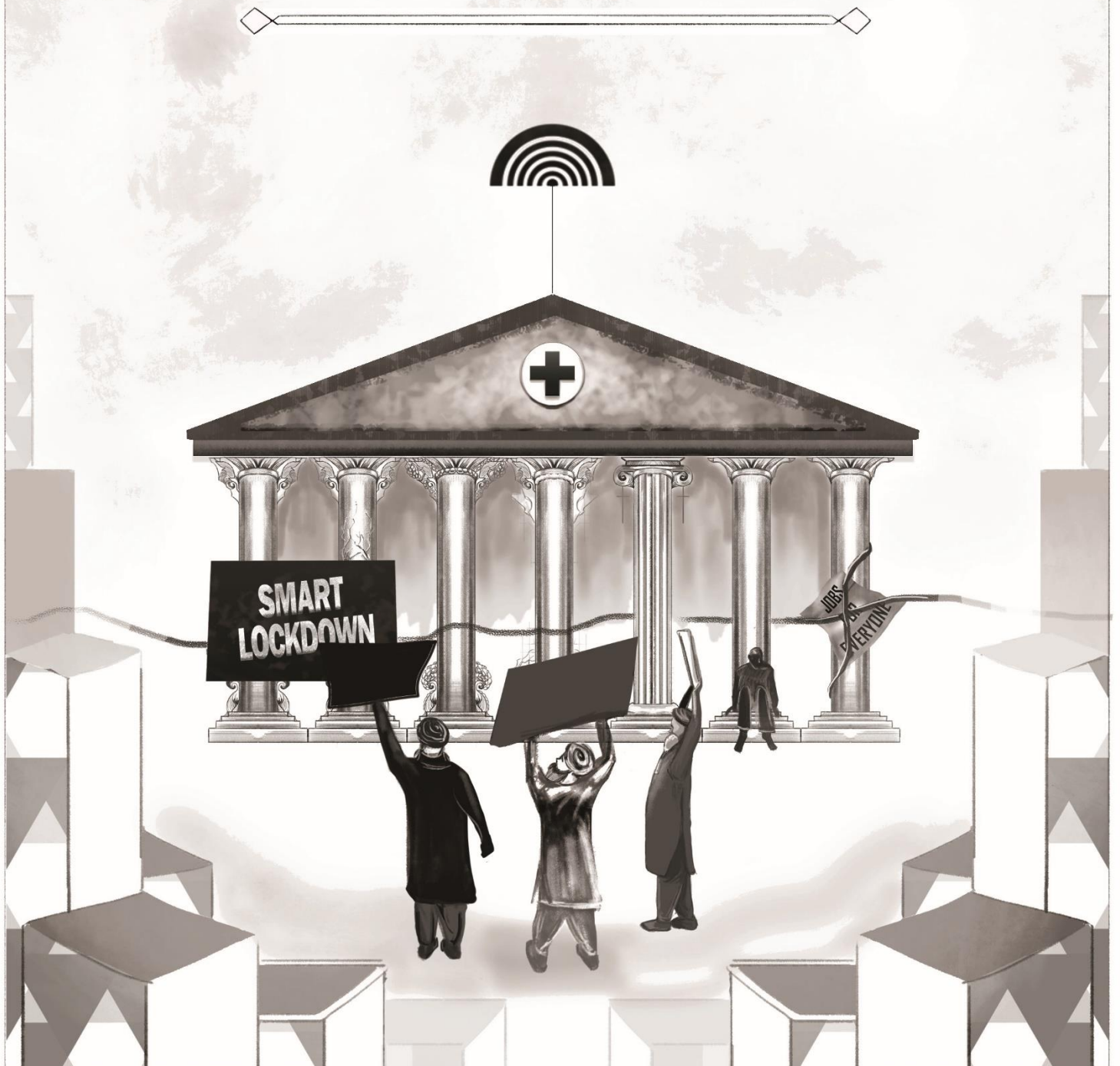
Food fortification has a long history of use in industrialized countries for the successful control of deficiencies of Vitamins A and D, several B Vitamins (thiamine, riboflavin, and niacin), iodine, and iron. Fortification has become an increasingly attractive option in recent years, so much so that planned programs have moved forward to the implementation phase more rapidly than previously thought possible. Given the success of the relatively long-running program to fortify sugar with Vitamin A in Central America, where the prevalence of Vitamin A deficiency has been reduced considerably, similar initiatives are being attempted in other world regions. Currently, the first sugar fortification experience in sub-Saharan Africa is taking place in Zambia, and if successful, will be emulated elsewhere. Darnton-Hill and Nalubola have identified at least 27 developing countries that could benefit from programs to fortify one or more foods.

While it is unfortunate that Pakistan is not one of these 27 countries, if similar steps could be implemented here, we could go a long way towards tackling the scourge of malnutrition. It is only by arming our youth with basic mental and physical health and nutrition that we can prepare them to take Pakistan forward into the future. The need for this is very urgent; all parties need to play their role in creating awareness. With the upcoming 2018 General Elections, now is the time for political parties to make nutrition a part of their electoral commitments.

Already, most of the mainstream political parties have signed a commitment for the inclusion of nutrition requirements as part of their party manifestos for the elections, during a high-level forum on 'Food and Nutrition Security', organized by HELVETAS Swiss Interco operation (HSI) in collaboration with Scaling Up Nutrition (SUN) Secretariat, Planning Commission Government of Pakistan. While this step shows that the political elite appears to have realized the scale of the epidemic, only time will tell if they are prepared to take the concrete steps needed to battle the danger of hidden hunger.

Chapter 15

Connectivity



15.1. INTERNET FOR ALL

The internet has become part of everyone's life all over the world, including Pakistan. While most of Pakistan has weak connectivity, our priority in our public investment remains to build roads and brick and mortar. All this while people have limited access to devices to use the internet well. During the pandemic, PIDE and other academic institutions, have experienced extreme difficulty in teaching on the net due to the poor connectivity in most areas of Pakistan.

PIDE engaged in a four-month exercise on this subject, talking to CEOs of telcos, users, Silicon Valley Pakistani renowned experts as well as e-commerce developers to understand how Pakistan can get internet connectivity for all. PIDE has now concluded that access to the internet should be treated as a right. Our economic future depends on the availability of fast internet to all. Every possibility in the future is going to depend on the net. Pakistan has not taken advantage of the opportunities of globalization and the computer age. We should now make ourselves ready for the connected age. And we must do it on an emergency footing.

How can we get internet for all? Do we have the resources? Should the government fund it? PIDE has learned that we can easily and quickly get internet for all if the government gets certain aspects of the regulation right. And no, there is no need for the government to spend large amounts of money. What then is needed? To start with, the government should allocate more spectrums for internet usage. The spectrum exists and must be used, or it disappears. The government likes to allocate a small part, keeping back large parts—for what?

Spectrum bandwidths are auctioned to maximize revenue. Since the price is unknown and there is a suspicion of underselling, officials fix a reserve price that is too high. Often auctions are canceled. If investors spend a lot of money on buying spectrum, they have little to spend on development. This slows down internet development and also makes the service very expensive.

Revenues can also be collected over time rather than all at once in an auction by giving the spectrum for a share of revenues over time. That would allow for faster internet development. Our students, commerce, and people will be happier. Fiber optic network is the major carrier of digital content. Barriers to the laying down of this fiber optic cable should be removed. Once again, revenue-raising through taxing the laying down of cable must be stopped. All networks of cabling or piping such as for electricity and other infrastructure should include facilities for adding fiber optic.

The last mile will be 5G, and we should start preparing for it. The regulatory and permission framework should be fast-tracked—now. Companies should start investing in it—now. Internet is provided through a network of fiber optic cables with towers at nodes to send out the signal. The towers and pipeline could be owned by different companies, and the providers can rent their use. The government regulatory framework must allow for it. Our focus must shift to digital content provision and away from mere telephony.

Finally, there is no use in providing connectivity when devices are taxed heavily. For education, telemedicine, content development, and many other creative entrepreneurial activities, a good computer, tablet, and mobile phone are necessary. Let us not stop our people's development merely for the collection of revenue or for facilitating the assembly of yesterday's technology. PIDE suggests the internet is now a human right and must be a top priority of the government.