A ‘permission economy’

Pakistan has become a “permission economy” due to over and inefficient regulations. This regulatory burden has suppressed economic activities, investment, and ultimately GDP growth. There are over 118 regulatory bodies under the Federal Government, which indicates the pervasiveness of permission culture in every sector of the economy.

The Pakistan Institute of Development Economics (PIDE) has conducted two studies to assess the cost that these regulatory bodies are inflicting on the economy. One study shows that the regulatory burden imposed by the government in the form of the footprint is more than 67% of the GDP. While another study captures the cost of regulations as more than 39% of GDP in the health and construction sectors only.

To understand how did we get into this mess of regulations, one has to look at the post-independence evolutionary process of regulations in Pakistan. During the first decade (1947-1958), which we can call “the survival era”, regulations are more focused to provide the basic necessities. There were no markets, and the private sector’s contribution to the economy was almost zero. The government intervened to develop the country’s industrial base and help the private sector to grow.

The next wave of regulations from 1958 to 1968 was growth centered. During this “growth era” the regulatory framework revolved around directed capitalism, where bureaucracy played an active role in establishing private sector capital.

Government regulations were present in every sector, with tight controls over trade, exchange rates, and financial capital. The Haq/HAG model, which is based on the aggressive capitalist development approach, was adopted for growth and development. This directed capitalist approach to development did bring growth and development during this era; however, it aggravated the disparity issues among different regions.

The regulatory interventions followed by the directed capitalism policies were more illiberal. To address the disparity issue, the government embarked on a socialist-style of regulatory framework. As a result, all major industries were nationalized, with the social sector becoming the key area of focus in government policies. The regulations that emerged during this “nationalization era” were, in a sense, based on the populist view. The bureaucracy once again played an essential role in managing the economy during the 1970s.

The next decade of Pakistan’s history saw a diversion from the socialist policies of the previous era toward capitalist and more liberal regulations. From the early 1980s, economic policies adopted by the government were more liberal compared to previous eras. However, the bureaucracy remained a key player in acquiring capital and in assuming the role of entrepreneur and financier. The liberalization movement picked the momentum during the 1990s. Openness, privatization, and market-friendly regulations became the government’s new mantra, with significant reforms in financial and external sectors.

The drive to modernize the regulatory framework according to the challenges of the twenty-first century marked the start of a new era of regulations. Private sector-led growth with a minimal role of the state was established as the main objective of regulatory reform movements.

> Till today Pakistan is struggling to achieve the objectives of regulatory framework modernization. Many governments attempted to modernize the regulatory regime and failed due to resistance from the existing outdated governance structure.

Any remarkable achievement in the regulatory modernization initiative is not possible in the presence of the colonial era's bureaucratic structure with a heavy government footprint on the economy. Instead of reducing its footprint, the government is either expanding it for market development or to protect the environment and the country's social fabric.

To address the perennial low investment problem, Pakistan needs to drastically reform its regulatory regime on an urgent basis. Although some reform measures under the auspices of the BOI (Board of Investment) are in progress at a lumbering pace. To attract investment - both foreign and domestic - we must overhaul the regulatory regime at a broader scale. Such an overhaul can be realized through the introduction of a regulatory management system with a strong political will. Success stories of regulatory reforms in different countries indicate that modernization requires initiatives on four fronts: Modernize the existing stock of regulations; Control the flow of new regulations; Develop institutional capacity, and Institutionalize the reform drive.

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