

# **GOVERNANCE, ECONOMIC POLICY AND REFORM IN PAKISTAN**

**ESSAYS IN POLITICAL ECONOMY**

**ABDUS SAMAD**

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**VANGUARD**



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Reprint

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## **Author's Introduction**

These essays were written over a period of three years primarily as a means to analyzing the political economy of the country and present that analysis in a manner that is easily readable by the ordinary reader. The style of these essays is, therefore, very informal and, I hope, easily readable. As much as possible a conversational tone has been maintained. The device of fictional conversations, debates or even interviews has been used merely to make several difficult concepts more understandable. Jargon has been almost totally avoided. The little that was used has been explained in the appendix at the end of the book.

If this book manages to interest a few people into understanding and debating some basic issues in our economic policy and its interaction with our political framework, it will have achieved its purpose.

## **A. The dependence on government**

### **I. Intellectuals, academics and the dependence on the government**

# 1

## **A question of depth: our deteriorating values**

Quite frequently, one reads of how our deteriorating values or even the lack of values are an explanation of our social, political and economic problems. For example, Dr. Eqbal Ahmed wrote in Dawn on September 20, 1992, "At the root of this imbalance between non-democratic and democratic forces in our political life lies the questions of tradition and values". One cannot help but agree with this statement. In fact, hardly anyone disagrees with this line of reasoning. Probably, this argument has been used at every pulpit and has been discussed in every teahouse. Religious obscurantists of all shades love this as a prelude to selling their variety of religion.

The advantage of this approach, "blame it on our values", is that it provides both a readymade analysis and an easy answer, "fix your values". We then wish for values to change. The hope is that, someday a new moral, incorruptible, altruistic and hardworking man will emerge in Pakistan and all problems will, by definition, be solved.

Perhaps, these learned individuals would also like to tell us the yardstick that they are using to measure our values. Do they have an international scale for measuring values where they can rank countries according to their level of values? If so, from a trivia point of view, I would be interested in finding out: are we any greedier than the Germans? Any lazier than the Tanzanians? Any bawdier than the Argentineans? Any more selfish than the Russians? And so on and so forth.

Dr. Ahmed also notes that, "values, then are central to the stability and growth of any social and political system. When these disintegrate, society and polity go down also ever deeper into a crisis". Could it not be argued that the following two statements are equivalent: a) a society is in a state of decay because



of its declining moral standards, and b) values and moral standards are declining because of the decay that has set in society? Perhaps every transitional society or one that is in turmoil is characterized by a flux: in its values and moral standards. Consequently, the observation that the values of such a society are not the best, is stating a truism.

### **Causes of our moral decline**

Unfortunately, the analysis always ends with a lament regarding our deteriorated values. Not one of these learned individuals even attempt to determine the causes of this decline in values.

#### **a. Intellectual effort and the moral decline**

Perhaps, the superficial intellectual analysis and the superhero intellectual climate, is itself helping to reinforce the decline in values. For example, consider the situation where leaders of thought are lazy and rely more on their cliques, and the beauty of language rather than thought and research. Combine this with a thin and uninformed audience that is split into personality cults. In such a situation debate is stifled, and who said what is more important than the content of thought. In that manner we have already dispensed with intellectual honesty- an important value or virtue.

It is a bitter and unfortunate truth to swallow that the Muslims of the subcontinent have produced a very limited number of academic intellectuals of an international stature. While this fact may be of some interest to historical research, it has resulted in a lack of intellectual depth in society. In such a facile intellectual environment, there is no distinction between journalists, academics and political activists. Intellectual discourse is governed by the tea-house traditions of winning an argument. Thus a known academic intellectual is one who yells the loudest, relies extensively on rhetoric, and displays a quickness to insult. Careful and systematic reading, research, and the collection of evidence are often replaced by beautiful syntax or a well chosen verse to seal the argument and the audience applauds with a series of sighs.

This lack of intellectual depth is supplemented by our desire to deify our leaders. A journalist/ political activist establishes himself by writing a few newspaper articles and developing a rapport and a camaraderie with the few like-minded individuals that there are in this country. Once this is done, we must then applaud even if they say the obvious-thought in well written prose and with the appropriate jargon. Thus for example, we have to repeatedly hear of new approaches for the solution of Kashmir, the latest conspiracy being hatched by the ISI on Afghanistan, last night's thoughts on foreign policy, this morning's development on nuclear strategy and finally how we feel about the increasing class hatred among the people and our deteriorating values. No matter if the piece is cliché-ridden, based on unconfirmable hearsay only, and asking no interesting questions nor providing any clear answers, we must applaud.

Debates and alternative viewpoints are stifled in many different ways. Dr. Ahmed says that "tolerance, as a whole is surely lacking at most levels in our polity". While I agree with this statement, I wish to extend it to intellectual thought as well. The intellectual/ academic elite is equally intolerant of new thinking and ideas be they left, liberal, or center, religious or secular. They and their supporters will pounce on any new opinion, hypothesis, or theory that is put forward denouncing it with all that they have. Pet clichés in this regard are "bourgeois", "foreign", "American", "narrow upper class viewpoint", etc. When all else fails, they resort to personal attacks. And if the supporters of the attacking intellectual are in tow and ready and willing to clap and applaud when he/she makes his/her personal attacks, all the better. The parvenu intellectual is vanquished without having had his views or research fully considered. Serves him/her right for not having followed the traditional path of moving up from the level of a coffee-house apprentice cum groupie to a full member of the guild.

#### **b. The role of the government**

One could put forward another plausible hypothesis for anyone interested enough in studying this issue further: our intellectual giants-both from the left and the right- have always argued that the people do not know what is best for themselves.

Consequently, they have tried to organize our life such that all decisions are made for us. For example, both the liberal and the fundamentalist intellectuals maintain that our children should not receive a Western education. Each argues that they know best what is of relevance to Pakistani society. Both wish to impose an educational system through the government. On the other hand, we vote against such thinking by using a large chunk of our assets to send our children overseas to obtain a Western education. We are forced, therefore, to bypass the efforts to control our lives sometimes even in devious ways.

Arguing in this manner against the rationality of the common man, these intellectuals have relied upon greater and greater control over our lives. For this, they have perennially argued for a larger and larger role for the government. In the sixties, they wished for all forms of planning as well as import and exchange controls telling us what we could consume and where we could invest. Not being content with the limited freedom we had, they argued vehemently for socialism and nationalization. As these experiments continued to fail, we were told that we needed still more government for providing us health and education, reducing our population growth rate, etc. Thus, we are told that, for our own good, we need more and more government or, lately because of the increasing ineptitude of the government, NGOs. Needless to say, the concerned established intellectuals are the only ones capable of heading those newly founded government institutions or NGOs.

Perhaps because the government was a great benefactor of such intellectuals, it was always regarded as entirely benevolent and altruistic in nature. Not once are we to consider the possibility that perhaps the government functionaries as well as these intellectuals may also be greedy and desire to hijack the treasury. Could it be that their recommendations are tainted with the motive of personal aggrandisement. The newly founded government institution may only be a ploy for someone to acquire more power. After all how many public sector institutions have been formed ostensibly for the public weal, while in reality, they are merely a means for providing public officials public funds as well as opportunities for taking bribes.

Such thinking resulted in an increasing concentration of resources and administrative power in the hands of the government.

As a result, the government's ability to hand out favors and wealth increased. Large fortunes were made with considerable ease by officials and their friends and relatives at the expense of the public exchequer. In line with this thinking, the government grew and along with it a class of individuals who had amassed a fortune by robbing the country.

The children watched this process and learnt. They learnt that hard work and a passion for excellence ought to be replaced by a lust for wealth easily acquired from government largesse. These children have grown up and are now responding to incentives. There is only one game in town: easy money off government contracts or licenses or cheap non-returnable credit doled out as a political favor. Is it any wonder that these children now seek a share of the plunder at a frenzied pitch? It is more surprising that intellectuals/academics remain unable to understand this process and continue to argue for the growth of the government, or of the NGOs, that are not accountable and rely on public funds.

## 2

### **Aping Westminster**

Intellectualism has not been our forte in Pakistan. We have neither encouraged intellectual debate, nor fostered intellectual growth in our country. We have always regarded the pursuit of knowledge with some disdain or with an attitude that it is a historical luxury that can wait till we have looked after certain other more pressing issues. What those pressing issues are, we as a society have not chosen to define, nor have we had those capable and learned men who could help place these diverse views into some perspective. In fact, the importance of encouraging an intellectual debate on important issues regarding our sociological, political and economic development has never really been emphasized by us. As a result, the debate on our past, present and future has been conducted at a most superficial level.

It is difficult to ascertain the causes of the deep-seated "a-intellectual" streak in our society. It is an important question that needs an answer. Unfortunately, for a satisfactory answer, considerable intellectual effort and investigation is required. The lack of accomplished intellectuals and intellectual depth in our society precludes the possibility of an answer any time in the near future.

An unfortunate and important result of the lack of thought in our society has been the excessive use of slogans and facile reasoning. Those who have taken over the task of intellectual leadership, lacking the intellectual wherewithal, have profited from this superficiality. Very seldom, if at all, do they seek to define their terms or slogans. Nor do they attempt to fully explain their reasoning or pressurizing the leaders of our society to explain their reasoning. This superficiality has not been without a cost to us. In fact, I would argue that we have suffered considerably because of our inability to focus on, understand and analyze issues.

The lack of intellectual depth has frequently allowed our

leaders to blame all our ills on some external event or on our past. They have blamed imperialism, superpowers, previous governments who are always wrong, and vague concepts like various "isms" for all that has gone wrong in our country. No problem or mistake is of our own making and especially not of the making of our leaders except for when they are gone.

A leader or a government has to but make a claim and the media and all the so-called intellectuals do one of the following two things: those who seek to profit attempt to back the claim, those who do not, idly moan against it. Neither side will analyze what was said or ask the individual or the government to clarify or define the meaning of the statement. For example, nowadays it is in fashion to blame all our ills on the martial law of the past. There are a large number of questions related to this issue that remain unanswered, at least, in my reading of the Pakistani media. What is the operational difference between the martial law government and the democratically elected government? Is the government working any differently now? Is it a more open government? Is it more responsive to the needs of the people? Does it have any more direction? Is the lot of the people going to be better under the new government? Are the elected MNAs of this government very different from those that profited from the martial law regime? Is the new government any more responsible or less corrupt? Despite our many problems and despite the government's many mistakes, has the government or any minister shown any responsibility? These are some of the questions that come to my mind. Perhaps others will add their own questions and some of the more learned may present us with answers.

Among the terms that we have used loosely, the most important is "democracy". We are all for democracy as is every right thinking man. Every leader in the world, both on the right and left sides of the political spectrum, has been for democracy. However, as any student of political thought knows, the definition of democracy has varied from one political thinker to another. For the Marxists the socialization of the means of production was the cornerstone of democracy. They could, therefore, reconcile authoritarian party rule with democracy as both Mao Tse Tung's and Lenin's writings show.

In Pakistan, we have had much talk of democracy as if democracy were a religion. Ask not. Question not. Democracy, though we know

not what it practically means, is our deliverance. Claims are made that "once we have democracy, all will be well", "all our ills persist because of a lack of democracy", and "democracy means freedom and responsible government". What is this democracy that will give us so much? Where, when and how will we get it? The only answer that our leaders of thought give us is that democracy is the casting of votes once every five years. The mere act of voting ensures a responsible government. The elected government comprising mainly of the same old oligarchy that has aided and abetted dictatorship, with the aid of the degenerated colonial institutions, will be able to fulfill all our Utopian dreams. The elections alone are supposed to be a cure-all. When the elected representatives start their age-old tactics for amassing their personal fortunes and corrupting the system further, our intellectuals can only look on helplessly.

Pressure these learned columnists, lecturers, and thinkers further on a definition of democracy and all you will get is what our colonial masters taught us and taught us too well: "Westminster-style democracy is the only solution". The English parliamentary style government with wide-ranging powers for the Prime Minister is the only way to go. No matter that the English took centuries and many revolutions to evolve to that system. No matter that evolutionary process developed many conventions, such as the disgrace associated with crossing the floor for personal gain. Of course, other systems of democratic government, such as the American and the French systems, have nothing to teach us.

Taking their cues from such thinking the writer 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 fully in motion, having evolved over centuries. We, on the other hand, have to start a new system. As any mechanical engineer will be able to 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 so that it will 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 concentration of power is indeed corrupting? For this purpose, perhaps we can learn from the separation of powers and the checks and balances of the American constitution. We should learn from the mistakes that England made in evolving its system as well as those of others in setting up a system of checks and balances that produce responsible government. The learned mechanical engineer can teach us much. But will our pundits listen?

Even in the face of historical evidence, the priesthood retains its old ideas. 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 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. Our learned mechanical engineer would say, if consulted, look to the design of the engine. The engine of democracy is clogged by a legislature that time and again involves itself not with its principal task of legislation but with personal aggrandisement and childish games. Perhaps some institutional mechanism that forces disclosure of the politician's financial and legislative assets can be devised to allow the population to be fully apprised of their representatives' growing financial fortunes and declining legislative value.

Perhaps, it is time we learnt 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 democratic form. Let us seek to better define democracy and that which we want from democracy. Having defined the term and our objectives, let us consider the best means available to achieve those objectives. Only 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. We may all agree on democracy but can we not disagree on modalities? Might not a debate on the modalities produce a better design for democracy?

# 3

## **Academics — their nature, role and importance**

### **What is an academic?**

In Pakistan, the term academic means something totally different from what it does in most industrialized and developed economies. In most countries, academics are what give universities their prestige and status. They are individuals who are learned in a particular area or academic discipline. They have not merely earned a title of a "professor" and stopped to learn, think and research. On the contrary, these individuals, who call themselves academics and profess to have some expertise in a field, never cease to learn and investigate. They attempt to reach and explore the frontiers.

Academics are creative and enquiring. Seldom will they boast of their knowledge to lay audiences. They spend many months, sometimes even years, researching, experimenting, observing and analyzing data, to produce a carefully annotated, well referenced, well argued, and logically coherent article for publication in an academically respected journal. When the research paper is submitted to this journal, it is sent for review to two or more academies of standing in the profession. By means of such peer review, the paper is either accepted or rejected for publication. An academic, therefore, makes his reputation on the basis of peer review and not by means of cheap publicity such as publishing in newspapers or TV appearances.

The world over, an academic is known for the quality and quantity of his publications in his own area. The quality is judged by the number of his publications in prestigious journals in his area.

This criterion shows his currentness in his field as well as his ability to research at the frontiers of his field.

### **Oral and written traditions**

In a well-established academic tradition, the hope of all accomplished researchers is to publish in prestigious journals where the peer review ascertains that the research presented for publication is truly of a fundamental nature. Academic reputations are made on the basis of counting the number of such quality publications that have been achieved. The stream of such publications and the journals that present them build up over time a continuum in the informed intellectual debate in the country. As this material builds up and clarifies issues it establishes intellectual traditions.

As the pace of such research accelerates, many efforts are simultaneously undertaken to understand outstanding problems. This published material establishes the written tradition in academics as well as the various trends in thought that might be contending for providing explanations for various problems. As the pace picks up various conjectures and thoughts are offered at a fairly rapid pace. On occasion, unwritten thoughts or ideas are offered which the fast-paced activity has to acknowledge and take into account. As the number of people who are involved in this activity grows intellectual honesty is enforced. In such an environment, even the expression of thought orally is acknowledged and attributed to the original author of the idea. In this manner, both the written and oral expressions of research and investigation further knowledge in any society.

In an intellectually charged atmosphere, these traditions ensure some form of intellectual honesty. Credit is given to him who generates thought and ingenuity. The individual who has put forward an idea, whether verbal or written, will be cited as the author. To do otherwise would be to risk being caught out by the other researchers who are watching anxiously the process of idea development. Self-policing takes place efficiently in a truly academic environment to ensure proper intellectual behavior and debate.

Intellectual traditions that enforce honesty are not just morally

desirable but also economically efficient. If all those who generate new ideas are actually credited with those ideas, the incentive to be creative remains alive. The reward for creativity is, in many ways, the recognition. And an assurance that the recognition for discovery will only be given to the one who deserves it truly fosters creativity and the hard work so necessary to discover and create.

### **The importance of quality academics**

Continuous work on the frontiers develops intellectual ability. Work of this caliber then develops a deep and informed analysis of the functioning of society and the economy at the level of social science and new, or a better understanding of the existing techniques of production or as far as the hard sciences are concerned. Such knowledge as it accumulates over time forms the basis for a change in social, political and economic structures.

Better and more effective policy is also based on knowledge and research. As patient research develops evidence, it informs the body public and creates the awareness of possible improvements. The awareness in turn helps to facilitate a change as and when it seems appropriate.

Without patient and painstaking research of a high quality, policy gropes blindly and the populace remains ignorant. The result is that many needed improvements remain unimplemented and the country suffers a potential economic loss in terms of forgoing the growth that it could have achieved. This, then, is the importance of quality academics!

### **Pakistani academics?!?**

Pakistan is a country where academia has never taken root. We have always considered activities like academics, learning and any form of professionalism to be base, and worthy only of "kamis" or menials. Thus, for example, teachers are always paid the lowest salaries, and made answerable to administrators. Crude and unimaginative administration has resulted in the demise of all

our academic institutions and traditions. Granted, buildings and benefits for the administrators claim resources. However, little of any academic or intellectual substance is produced in these so-called educational and research institutions.

Despite this lack of academics in the country, we have a number of high-profile resident intellectuals all of whom lay singular claim to all knowledge. Since no academic audience exists, the market for academics is not determined by peer review. Instead academics market themselves by various means to a non-academic audience. They do not distinguish themselves by furthering research and engaging in patient intellectual endeavor, but by means of high profile activity for a lay audience. The methods that are used for this purpose can be summarized as follows:

1. Write scholarly-looking articles for newspapers since that is where the lay audience of bureaucrats and parlor intellectuals is most likely to notice who is writing. Chances are that they will not read but at least they will remember the name.

2. Make lengthy speeches in very good prose, full of romantic but development-related anecdotes at high-powered conferences that take place in the large multinational owned hotels. Ministers, dignitaries, and donors all note the crisp and easy delivery and that serves to generate more invitations and donor-funded contracts.

3. Keep up with the current fad and all its jargon. Every so often, new fads hit the funding community. Those who are quick to pick up the jargon of the fad and can feed it back in their talks at conferences and in their newspaper presentations, are quite likely to be well regarded.

4. Become a part of an intellectual clique for cliques promote, protect and support their own. Just as the socio-political scene is dominated by the "baradaris", cliques dominate the intellectual scene and survival outside the clique is difficult. A productive and thinking writer outside a clique is always worth less than the worst charlatan in a clique.

5. Remain on the good side of donors for that is where funding and conference invitations are. Donor support is a true indication of the worth of an academic.

By following these five basic principles, anyone who can write and speak English well, is well on the way to academic stardom. Such an academic is revered and virtually believed to be the fountain of all

wisdom. There is no pressure to develop careful research and remain abreast of the latest developments in the profession. Thus many of our academics remain of a stature that is well below international standards. As such, they remain incapable of understanding our society and its functioning.

Most serious academic endeavors attempt to understand how the world works. It is recognized that a complete explanation of any process may not be possible. However, models and theories are developed to see if the process in question can in some manner be simulated. Reality in that sense is captured by such models or theories for the purposes at hand. The hard part of academics is to keep abreast of such models and theories that are being developed at a rapid rate by those who are working in that area. It requires keeping up with articles by various researchers all over the world even before they hit the journals.

The Pakistani intellectual does not need to know the latest theory or modelling approaches. After all, he is out on a grander quest: to understand the world as it is and not as it is theorized. Moreover, all those theories developed overseas are not for us. We need something entirely different, something indigenous and something that is firmly rooted in our society. Thus, in the realm of our Pakistani intellectual, his eloquence, his idealistic vision, his romantic anecdotes, and his jargon, mesmerized we listen. When we wake from our hypnotic trance, we wonder, "what have we learnt or gained?" Meanwhile, the pied piper plays on at the next donor-sponsored conference at a multinational-owned hotel without learning or practicing any new tunes.

## 4

# Donor funding and the development of research potential in Pakistan

Like all other activities in any economy, research depends on available funding. Unfortunately, this relationship between research and funding frequently, results in the availability of funding determining the direction of research. The direction of, or the agenda for, research is very important to a society for, very frequently, research by providing information informs policy. In that sense, it can even have the ability to lead policy. For example, research ideas, such as planning and basic needs, have caught the imagination of our planners and catalyzed some changes in domestic thinking and policy.

Unfortunately, in many developing countries like Pakistan, indigenous research and academic activity are severely underdeveloped. This has resulted in the lack of a well-defined agenda for research that has been determined domestically by well-established local academics. In these countries, academics do not lead in terms of the development of ideas and thoughts. Instead they are led primarily by means of the carrot of funding.

### **The quality of consultant**

Both donors and governments use the infant stage of developing country academic development as an excuse to rear the child according to their own desires. But because the former group controls funding, it ends up calling all the shots. Most often the two parents-donors and governments- together will marry to produce yet another offspring- a new research institute,

another university, or a think-tank in the government or lately a non-government organization (NGO). High-priced foreign consultants will be invited to take on the enormous new task. These high-priced specialists are often not among the better academics or consultants in their domestic markets. Their academic or professional credentials are limited, in turn limiting their academic future in the industrial countries. They could be academics who did not cut it in the rough and tumble of academia in the industrial countries or retired, or about to retire, individuals.

Nonetheless, these consultants are provided the ultimate in comforts, diplomatic statuses, and numerous Pakistani assistants—either low paid government servants or consultants who have a penchant for getting along with foreigners - to flatter their ego during fireside chats on local inefficiency and ignorance. In most cases, they are also provided firm charge to lead the project and show the locals how it is to be done.

The foreign consultant will attempt to set in motion that which he is most familiar with. Most often, he is not very innovative, because if he were, he would have fared better as a professional at home. Even when the consultant is competent, he does not have the time or the commitment to be effective. After all, in about an average tour of three years, he has to settle in a new environment, see South Asia, be feted as is his right, buy carpets and souvenirs, collect trivia and perhaps even learn about Pakistan if he has a mind to. The bulk of the money on such a project is spent on financing the comforts, travel and the style of the foreign consultants and their few Pakistani compatriots. Once that is gone, the consultants go home, often with a so-called institution that is supposed to have been born of the donor-funded project.

Unfortunately, because of the nature of the somewhat discriminatory arrangement, the better quality Pakistani professionals are not attracted towards such ventures. Thus in the very nature of the project is a stillborn institution that represents a claim on the budget.

### **The magnitude of donor funding**

Perhaps much of the money that is supposed to help us is used by the donor only to help employment of academics in the home country.



Technical assistance grants constituted some 12 percent of the total debt service of Pakistan and some 33 percent of our expenditure on social services in 1990. This money is almost entirely distributed at the discretion of the donor. Since it is a grant, we willingly accept it and ask few questions as to how the money is spent. However, 12 percent of our total debt servicing needs, or 33 percent of our expenditures on social services, is not an insubstantial amount. If nothing else this money could be diverted into easing our debt burden or for beefing up our much needed education and health facilities.

Donors not only control grant money but also a substantial component of our loan money in the sense that they determine how this money is to be spent. Now this is money that the ordinary taxpaying citizen of Pakistan will repay with interest in the coming years. Even the loans that we take out for infrastructural development are in some ways tied in to a consulting study which are earmarked for foreign consultants. Thus the cost of any project that we undertake is raised by a dubious consulting report which primarily benefits an overseas firm.

There are many ways in which donors ensure that some form of grant or loan funds are returned to their own consultants. Large consulting firms that rarely have representation of the best professionals are able to obtain large contracts. Surprisingly, the same firms have been able to get contracts in all the past fads. International agencies are floated without any funding of their own but only to enter a developing country in order to compete for donor funds like any consulting firm. This international agency carves out a share for itself from bilateral aid flows, which may or may not have a grant element, and employs a host of foreign consultants at very attractive salary packages often including a hardship allowance. By this means, they have found an avenue for ensuring that some of the funds that are given to us either as grants or interest-bearing loans are returned to the donor capitals by means of the industrial country professional overload.

### **Donors and policy**

Another disadvantage of the donor-funded and donor-considerations-led research is that the research and policy agenda

appears to have no long-term trend and remains susceptible to the vagaries of domestic political concerns. Whether or not, the foreign consultant is competent, the research agenda appears to be not tailored to local conditions. In any case most of the consultants, even those who are quality-wise better than the standard consultants, are here only for a tour that lasts about 2 to 3 years. Most often, by the time they have had a chance to acquaint themselves with the country, it is time for them to leave.

The result is that most of the donor-sponsored work does not appear to have a long-term agenda that has been determined by domestic considerations. Instead, because donor-experts are not fully involved with the country, they are more susceptible to influence of trends in thoughts that prevail internationally. As a result, quite often, donor-sponsored work appears to be quite fad-oriented. Themes for research appear to be picked up as they become fashionable without regard to whether earlier themes for research have been successfully completed. Thus for example, whereas themes such as "basic needs", "women in development", and "participation", were fashionable until quite recently, the theme that is quite in fashion these days is "environment".

Since research and thought normally lead policy, the determination of our research and policy agenda by donors means that much of our policy priorities are determined by donors. Thus when they wish for us to turn to "women in development", we do so; when they ask for us to start forming NGOs, we rush to do so; now when they wish to worry about environment, we frenziedly commit our resources to the environment leaving all the other projects behind us, half-completed. Resources are quickly diverted from one activity to the next without any evaluation or accounting of the earlier activity that has been dropped. Unfortunately, the government and the academia are so busy chasing donor-fads that the underlying structural problems of the economy are seldom researched. No ongoing research or information collection procedures are put in place that will inform us on issues such as:

a) the causes of the rapid deterioration of domestic institutions and how to arrest that deterioration;

b) the quality of management of the government and its effect on the economy and polity;

c) the effect of the inadequate and in some senses outmoded legal and regulatory system that can deliver justice, on the economy and society;

d) related to c) above, the inability of the government to protect life and property and how that affects the economy, investment, capital flight, and foreign direct investment;

e) the need for generating, as well as the method for achieving adequate, financial intermediation so necessary for domestic resource mobilization; and

f) how to emphasize quality conscious in the functioning of all avenues of economic and social life especially in the management of the public sector.

Without addressing some of these issues relating to the very structure of our economy, little improvement can be expected in any area, least of all, the more fashionable areas such as the "environment". In defining policy we must remain aware of how important the implementation of the policy is. Implementation, in turn, depends entirely on the quality of public administration. Consequently, in defining appropriate public policy the delivery or implementation capacity must be carefully borne in mind. Evidently, an important component of our development strategy should be the improvement of our implementation capacity.

### **Donors and the brain drain**

While donors are busy importing the overflow from their professional markets, to Pakistan some of our best brains are desperate to leave the country or are languishing overseas. Some time ago we used to call this phenomenon, "the brain drain". Nowadays, as determined by the donor, this is not a fashionable subject despite the fact that in many specialized fields, while many Pakistani professionals are residing abroad and yet there are none at home.

As our well-trained and skilled individuals leave the country, donors replace them with overseas consultants. Thus we replace those who know more about, and have a greater commitment to, the country and with those who have no knowledge and no commitment to the country. The two known methods of sponsoring academic activity in the country- donor-funded and

government-sponsored- ensures that Pakistani scholars of repute, even if they be of the Nobel Prize category, such as Dr. Salam, would be excluded. Both the donor agencies, as well as the government have rules that pay a Pakistani consultant far less than a foreign consultant even if the former was better qualified. In most cases, such rules would also require that the Pakistani must report to a foreigner, again notwithstanding quality differentials.

Perhaps the government and donors could hammer out a middle position where the needs of the donor to find employment for their own professionals could be harmonized by the recipient country's need to reverse the brain drain that has taken place. Moreover, if this reversal of the brain drain could be linked to institutional development in the country, perhaps lasting and longer term solutions could be achieved. In any event the best brains of the country must be involved in defining the questions that would constitute our research agenda if we are to begin to address issues that might be relevant to Pakistani concerns and a better future for Pakistan.

## **II. Economists and economic policy and the dependence on government**

# 5

## **Have anecdote, will travel!**

The latest in slick businesses is consulting. Consultants hang around donor offices and planning commissions. They own NGOs and talk in terms of slick jargon like "participation", "community", "empowerment", "M&R", "RFP", "SAP", "AKRSP", "OPP", etc. Us ordinary mortals are always in awe of these super-slick individuals who can speak so eloquently and jargon-intensively if not knowledgeably about the development process. When we hear of the very fancy organizations that they work for, we cringe further in our seats. For how can we simple folk with only rudimentary education talk with someone who is a consultant to the IBRD, UN, UNU, ILO, GATT, UNCTAD, UNDP, ADB etc? God, the international exposure of this erudite philosopher must be phenomenal and he must be an international celebrity to be in such demand from all the various international acronyms.

On my last visit to Pakistan, I got to meet a number of consultants at a large, well organized and well-funded seminar on economic policy and economic development in Pakistan. Donor agencies had got together some of the finest as well as various luminaries for seminar- the finance minister opened it, various ministers and other notables chaired various sessions. The number of notables was large forcing the organizers to create more and more positions on the dais as well as official designations such as co-chairmen. To accommodate such VVIP's the proceedings were frequently interrupted for welcome addresses. All this was splashed on TV and in newspapers. The organizers and the consultants were exceedingly happy with the media hype that the seminar generated. The purpose of the seminar had been served: projecting the organizers and the consultants and hence furthering the political or bureaucratic careers of one group and the

consulting contracts of the other.

I settled in quite intimidated and hoping to learn a lot. After all I was in the midst of these individuals whom I could see were very well-spoken, erudite and considered very valuable by all donor and international agencies. I must confess these people were very eloquent and enthralling. I heard a lot of wonderful anecdotes, poetry, jargon and glib prescriptions but I found that the discussion at the seminar was full of platitudes. Issues were not researched, no evidence was presented, no fresh ideas or hypotheses were presented or researched. No discussion took place. Only a series of speeches were made. But all the organizers and participants were very happy with headlines and their pictures in the papers for that is what would lead to their career enhancements.

To my surprise I found that the high-priced academics/consultants/speakers did not feel at all pressured to develop careful research and remain abreast of the latest developments in the area in which they were speaking to us. For example, none of the papers that were presented even felt the need to show any familiarity with work that had been done in the area. Many did not even contain any references and those that did referred only to government publications and the author's own previous versions of the same paper.

At the seminar, there was no discussion. After the speakers' lengthy presentations, no questions were raised or even the material that the speaker presented considered. Conference participants had prepared themselves to make speeches that morning and nothing on earth would make them stop. Regardless of the subject under discussion, they proceeded to deliver their speeches. I learnt soon that for evidence and data, these individuals relied on anecdotes. The grandiloquent speakers had not even read the daily papers as I discovered to my horror. That morning's opinion page article was related to the themes of the seminar. Not one individual had even looked at it let alone thought about and prepared to discuss it.

Borrowing freely from arguments of others, our consultant was free of the dictates of academic honesty. Acknowledging that someone might have made an argument would serve to illustrate that there were fountains of knowledge other than the consultant. Even when pointed out that such and such an argument had been made in such and such a source, our consultant shrugged it off as "I had thought of it earlier,

but had not found the time to express it till today". No need to acknowledge intellectual property rights.

Most serious academic endeavors attempt to understand how the world works. It is recognized that a complete explanation of any process may not be possible. However, models and theories are developed to see if the process in question can in some manner be simulated. Reality in that sense is captured by such models or theories for the purposes at hand. The hard part of academics is to keep abreast of such models and theories that are being developed at a rapid rate by those who are working hard in the area. It requires staying abreast of journals and articles by various researchers all over the world even before they hit the journals. The first argument that our academics/consultants/ speakers normally make is that theories and models developed in other countries by well-known academics are not applicable to us. Our academic/consultant/speaker is on a grander quest in his speech or consulting report: to understand the world as it is and not as it is theorized. Moreover, all those theories developed overseas are not for us. We need something entirely different, something indigenous and something that is firmly rooted in our society.

Of course the use of such an argument is so convenient. The academic/consultant/speaker is now free of all constraints. He neither needs to keep abreast of any literature since there is nothing that he can learn from others. Nor does he need to research a topic so who should he quote or what references should he cite? He merely needs to tell us off the top of his head what he thinks for that is "something indigenous, something Pakistani".

The "something indigenous, something Pakistani" approach has an additional advantage. It removes the yardstick for differentiating good from bad. Once this norm is accepted, then only the in-house evaluation of the established consultants is acceptable.

By means of such a yardstick they manage to segment the market for themselves shutting out external competition. They are able to declare themselves superior to any and all individuals who may have an international academic standing.

Most important of all, his speech or consulting report does not conform to or accept any theoretical framework at all for there are none that is applicable to us. Blissfully unaware of theoretical possibilities or empirical regularities that others may have established, the participants merrily made hundreds of policy recommendations



in their lengthy and rhetorical speeches. They were truly free-free of any constraints of the discipline of any subject or its theory. They needed only to rely on their own thoughts and for data, oh! Yes. there were anecdotes. I sat there listening to high theory: "I recollect from my stay in that village.". "I spoke to people at the AKRSP.", "my friend Ashok Bhabani said." "Akhtar Hamid Khan said...", etc. Such anecdotes are an expensive method of establishing major empirical regularities for us. But who are we to question? The consultant's approach "have anecdote, will travel!" is paying huge dividends in terms of making these individuals with limited education and academic credentials very rich.

# 6

## The new doctors

Every decade in our history has had a resident doctor, very visible, vocal and profound. Much of our economic thinking has been shaped by these doctors who have all shown an exceptional ability to sell their ideas. The sixties or the Ayub regime saw the rise of the original doctor, our first doctor, Dr. Mahboob ul Haq. The seventies and the first Bhutto regime found Dr. Mubashir Hasan, our second doctor, to chart our economic course. The return to martial law saw the resurrection of the old doctor i.e., our first doctor, Dr. Mahboob ul Haq. Several new doctors are currently posturing for the position of the resident doctor. Though not as influential as the previous doctors in determining economic policy, for they do not yet have any portfolio, these new doctors are just as vocal and sharp in offering opinions on all areas of policy.

It is reassuring to know that though the doctors have changed, showing an occasional change of garb and some different packaging, not much else has changed. The new doctor still travels in the "Tardis"/telephone booth of official patronage and is still fighting the "Daleks" the alien influences that are forever impeding progress in our country. And so we should all be thankful that the "econolords" are around to preserve economic sanity around us.

Like his predecessors, the new doctor is also a strong defender of big government. Like them he is also a champion of the poor. Like them he too believes that the government is the ultimate savior of the poor and consequently of the clear need to expand the government into every conceivable activity. The government cannot waste, cannot be inefficient, and has infinite resources without ever needing to tax the poor. All the doctors felt that the vested interests that controlled the government which employed the doctors, could be civilized only through a larger government. Although the principal function of the government

may be to serve the interest of the vested interests, the government was the only vehicle for serving the poor down-trodden masses. At all cost, the country must be protected from the brutal competitiveness of the market place. And a large and growing government, even if corrupt and grossly inefficient, is the only protection for the people. After all the market place is not quite cricket as our colonial masters taught us well.

In recognition of our debt to the "econolords" and to put the new doctor in perspective let us briefly review the tradition of the doctors.

The first doctor was especially adept at propounding theories for ensuring excessive government controls and regulations. He began his career by championing the cause of planning which created an over-regulated economy and a growing role of the government. Not being satisfied with the regulated economy that he and his bureaucracy controlled, he denounced the private sector that had developed as monopolistic and laid the intellectual basis for nationalization and therefore a still larger role for the government.

The second doctor takes over at this juncture. With the old doctor having exited the stage with his vehement attack on the private sector and its 22 families, the second doctor, in order to preserve continuity, chose to carry the attack forward. At this stage the large government could only be made larger with the direct involvement of the government in the production process. This act, therefore, is very full of action. The private sector is under full-scale attack. Reckless nationalizations take place without much care for the government's capabilities to manage the nationalized enterprises. But that was not enough to expand the government's size to the satisfaction of the doctors. Being very innovative the second doctor devised another scheme for expanding the public sector. He saw that it was extremely easy to create public sector corporations. The only limit on the size of the public sector was the imagination of the government. This new scheme had the additional advantage that a new vehicle had been found for extending government patronage. Influential individuals could now be provided with "jagirs" - a public sector corporation-in much the same way as it had been done from the days of the colonial masters. The response to this innovative scheme was immediate. Public sector corporations multiplied faster

than rabbits in Pakistan.

Martial Law in 1977 chose to recall their old ally, the first doctor. Recognizing that fresh ideas were now needed to sell the age-old objective of big government that was held holy by the doctors, the innovative first doctor was quick to propound new theories. Analyzing the past, he encouraged the role of the private sector in the growth process. But the noble doctor's heart bled for the poor. Who could deny that, for too long now the poor had been denied their economic rights in the country and that poverty must be eradicated. The government was, therefore, duty-bound to ensure that the "basic needs" of the poor were met. Thus the noble doctor was once again able to salvage the day for the government. Despite all its inefficiencies and problems, the government must expand yet again for this noble cause of providing "basic needs".

Carrying on with this glorious tradition, the new doctors are proving themselves to be deserving "econolords" as they continue to surprise us by finding further and fresh arguments for increasing the role of the government. Notwithstanding the collapse of communism, and the global trend towards the reduction in both the size of government and the extent of government intervention, the new doctors make a convincing case for further expansion of the government. Using a variant of the first doctor's "basic needs" approach, the new doctors argue for more government by pointing to our earlier neglect of our infrastructure as well as our many other pressing problems such as population growth and haphazard urban development. The brave new doctor has, therefore, launched a gallant attack on all forces that seek to reduce the size of the government.

They spare no effort in placing before us an agenda for the nineties: "The prerequisites for solving our problems is the establishment of a heavy industrial base- electronics, heavy engineering and chemical industries". How is this large-scale investment to be achieved? Through increased government expenditure and increased government regulation, of course. How is this massive investment effort for the new development strategy of the "econolords" to be undertaken by a country that has not an altogether sanguine international and domestic debt situation?

Continuing to be suspicious of the private sector, the "econolords" have found a fresh approach, that of "participation"

where they can play the role of a messiah or in their language the animator. They will be hired by the government and the donor at considerable expense to teach participation. Non-government organizations (NGOs) will be set up for this purpose to provide the bureaucratic set-up for "econolords" to play participation. What is "non-government" about the NGOs remains unclear. They are just as unaccountable, and as unfocused, and as dependent on public funds as the government agencies. But no matter, the new doctors can do their jobs.

Thus the "econolords" pursuit of big government continues. Even though the government has grown to unmanageable proportions, the new doctor, in the tradition of his predecessors, continues untiringly to find arguments for further growth. The level of government debt may be high, perhaps even unmanageable, the "econolords" through the new doctor continue to advocate the need to increase not reduce the government deficit. There are no limits to the government's thirst for the country's resources in this view. It does not matter that we have seven bulky plan documents with laudable objectives which despite the expenditures of substantial resources, were not met. It is not important that bloated bureaucracies meander inefficiently and autonomous institutions only gulp resources and produce nothing. But large government is an article of faith. And the doctors must preserve tradition. Thank God for the doctors and the government.

# 7

## Government and employment challenges

Pakistan's economy faces many challenges not the least of which is the challenge of increasing the economic welfare of the country in the face of a growing population. Through most of our years of independence, our population has grown at a rapid rate of 3 percent per annum. At this rate our country falls in the group of countries with the fastest growing populations. It is immediately obvious that a poor country with such a rapidly growing population has to grow at a much higher rate than a country that is not growing so rapidly. Unless this happens the welfare of citizens will decline and unemployment will increase. This is a matter of simple arithmetic and requires no great economics to understand.

What should be done about this problem? This is an important question that requires attention of our best economic minds. Unfortunately, I am a little disappointed when I see such honorable gentlemen voice obvious answers such as, "increase economic growth" , "reduce population growth" , "direct policies toward increasing employment". This, as I tried to prove in the above paragraph, is a simple matter of arithmetic and "if wishes were horses beggars would ride".

Articulating the basic problem of rapid population and its implications for unemployment, our development oriented thinkers (DOTs) present a long list of wishes such as increasing growth in the economy and increasing rural employment. (I refer to them as DOTs for in this country anybody who can write or speak feels it incumbent upon himself to pronounce on the economy). <sup>1</sup>The DOTs do not tell us how these will be achieved, but merely that, if achieved, our economic problems such as

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1. See appendix.

unemployment would be solved. Thus there is little that is innovative or useful that comes out of such discussions or high-priced papers and seminars.

For example, the national manpower commission which begins by urging the government to adopt "an effective and forceful population and employment program". This is typical of the type of argumentation in most of the economic writing in the country. These learned individuals continue to urge the adoption of some comprehensive program that would somehow achieve wonders like reducing the population growth rate every few years. While doing so, they forget that the government did supposedly implement the program that they had supposedly recommended a few years ago. In that implementation, considerable public resources had been wasted with little to show by way of results.

Consider, the ten recommendations of the National Manpower Commission that supposedly would solve our population problems. These include highly thought-provoking suggestions such as increasing growth, increasing rural employment, accelerating growth of small-scale industries, and reduce unemployment among the educated. Presumably, this commission comprised of several of our high-powered, high-priced economists who wasted taxpayers' funds giving us tautologies. Perhaps they wish for us to read a 1000-page report on how to translate tautology into policy.

Our DOTs distrust the growth of the sixties and both "trickle down" and "neo-trickle down" (obviously club terminology or jargon to impress us; what is the difference?). They admire the seventies because of the populist fervor and the expansion of the government by means of nationalizations. They are not puzzled by this fact nor do they worry about the fact that the expansion of employment occurred because of a rapid growth in government.

Another tautology that OOTs are very fond of, is that if somehow more labor can be used instead of machines, unemployment will be reduced. Needless to say, if computers and cars could all be produced by means of labor alone, we would have no un-employment. The OOTs have little idea of the extent of substitutability of labor for capital in existing technological arrangements. They do not examine, for example, whether increased labor intensive techniques could lead to reduced product quality and hence reduce profits and value-added. Without consideration of such important issues, these "economists"

urge government intervention for the promotion of labor intensive technology.

At the heart of most of these lengthy and esoteric argumentation lies a strong distrust of the private sector and the notion that only strong government intervention can save an otherwise deteriorating situation. They claim that the promotion of "laissez-faire" policies and an undistorted policy environment will not necessarily be sufficient for achieving the right pattern of labor intensive growth. This propels them to take the leap in logic and enjoin the government to continue to ration credit and space as well as license and regulate. Occasionally, they wish for the rationing to be biased in the direction of the small-scale sector. Of course, they choose to ignore the fact that numerous government rationing schemes, such as the small farmers credit rationing scheme, or the cooperatives, or the rationing of industrial plots all resulted merely in the wealthy and well-connected being the ultimate beneficiaries. Yet, they would not recommend the allocation of credit by market means.

Such is their belief in the government and its various agencies that DOTs want to increase the role of the Provincial Small-Scale Industries department. Perhaps, they could tell us by what miracle such a department will be able to deliver in providing a dynamic leadership to the small-scale sector? Would it not be better to get out of the miracle business and use practical economics and practical common sense and acknowledge that this is not an area in which the government can deliver? Maybe it is better to save the exchequer's money and close down the department?

The official economists have tried in every manner possible to give the government an excessively large role in the economy. Planning, direct controls on imports, on exports, on consumption, and on investment, government involvement in the production of goods, socialized health, education etc, have all been tried. In each case, I would venture to say the government failed to achieve any results. However, the government showed no hesitation in devouring resources for these high-sounding objectives. Departments multiplied, commissions were frequently set up, and senior positions were rapidly created, all leading to expenditures but no results. All this at the expense of the poor taxpayer who incidentally is the poorest segment of our society; for tax collection is based on indirect taxes



The nature of the economic discourse in the country has been shallow. Outmoded and useless economics is taught in the most abstruse way in our classrooms. Occasional pronouncements by our economics establishment and economic discussions all center around expenditure allocations and grandiose plans for government expenditures. Never is it asked whether the official machinery can, or has it ever delivered on such targets? Or is it a bottomless pit which can easily devour all increases in expenditures without achieving the desired results?

## 8

# Government education expenditures and education

The continuing high rates of illiteracy are the subject of many a lament in Pakistan. Policymakers, thinkers, journalists, economists, and all other forms of thinkers and intellectuals are all almost united in their call for an increase in the literacy rate in the country. Many good things are expected of an increase in literacy. Among these, economic growth is expected to pick up for literate individuals are more productive than illiterate ones; population growth is expected to decline as the literate recognize the advantages of a small family; and health will improve as the literate are either more conscious or can be more easily made aware of hygiene and sanitation.

Despite these many advantages, it is surprising that not enough effort is being made to increase literacy in Pakistan. For this lack of effort, the commentators blame the government. They point to the fact that the government has no coherent policy to promote universal primary education. As proof it is noted that as a proportion of GDP, the expenditures of the Pakistan government on education are among the lowest in the world. These commentators all agree on the urgent need to increase government expenditures on education. Journalists, thinkers, economists and do-gooders in general, all continue to make repeated calls for an increase in government expenditures on education.

The implication of this line of argument is that a mere increase in government expenditure will somehow solve the problem of illiteracy in Pakistan. With more resources at its disposal, the government can easily build more schools in the rural areas, and hire more teachers for these schools.

A dispassionate examination of the record of the government,

however, suggests that this fervent hope of many of our intellectuals may not be well founded. Many governments and five-year plans have announced the imminent achievement of universal literacy. Many a new document on education and education policy have been announced with considerable fanfare to be our final word on education and the attainment of universal literacy.

Despite the tall claims and lofty objectives of the various governments and the official economists, the fact is that the expenditures that the government currently makes on education yield no dividends. A bloated education department bureaucracy wastes budgeted expenditures and is not held accountable for its inability to meet stated policy objectives. We hear stories of planned expenditures for building primary schools being extravagantly wasted. Buildings that do get built serve as barns. A large part of the investment expenditure in the area of education is wasted in this manner. The bulk of teaching is done orally by teachers. Yet their salaries constitute only a small part of the education budget. As a result, disinterested teachers provide poor teaching and serve mainly to increase the dropout rate.

While the inability to decrease illiteracy is frustrating, sadder still is the fact that the quality of education, that this bureaucracy is administering, has declined abysmally at all levels. And perhaps, I speak euphemistically. At all levels, the education system is antiquated, relying on outmoded methods and syllabi. No attempt is ever made to assess the quality of the student at various stages of education for purposes of international comparisons.

Despite the lack of data, it is widely believed that quality of education provided in public institutions is indeed very poor and definitely far below internationally acceptable standards. Evidence for this belief is provided by the choices that parents make for their children's education. Parents, who can afford to pay, spend thousands of rupees in tuition costs every month to send their children to private schools even when there are cheap government schools available. Nothing could induce these parents to send their children to government schools. Oearly, parents seem to believe in the two principles that, "you get what you pay for". and "if you want your child to have a future, you send that child to a private school". Those who cannot afford to send their children to private schools also behave rationally by rejecting the inferior education provided by the

provided by the government schools. Their response is to drop out in large numbers.

For many years, education bureaucracy maintained a monopoly on higher education. The results are interesting. There used to be a time that the higher learning institutions that were run by the government, such as Government College, Lahore, were considered adequate for their children by most people in Pakistan. Not anymore. The quality of education provided in those institutions is now so low that people incur huge costs to send their children overseas. Any university overseas-even minor colleges- are now considered to be better than our best. The view of the parents is confirmed by employers who happily pay a premium for a foreign degree- any foreign degree.

From this background on the performance of the government in education, it seems immediately obvious to me that an education policy, based primarily on an increase in government expenditures, is doomed to failure. The bloated education bureaucracy, which has not only been unable to build the edifice of universal literacy, but has also served to destroy the structure of a moderate quality of higher education, should definitely not be provided with more resources. We have wasted enough money on education in the past without any accounting for results. To increase expenditures on education at this stage would be like throwing good money after bad money.

# 9

## Government by advertisement

A review of government actions in several major episodes in the last two decades shows that the main form of government in our country has been "government by advertisement". The government has not tried to articulate laws or to frame rules and regulations to deal with evolving sociological, economic and political developments. Even the legal and regulatory heritage that was left to us by the British has been allowed to deteriorate.

In this legislatively sterile environment, the government has not made any attempt to enforce the existing laws of the country. This is particularly true of white collar crime. Through our history not a single important white collar criminal has been caught and actually thrown him in jail despite the fact that, along with all other crimes, white collar crime has been on the increase. Similarly, although tax evasion is widespread, and is acknowledged to be widespread by the government itself, there has never been any important investigation or indictment of a tax evader leave alone an arrest and a prison sentence. Rather than function as the guardian of the system- catching criminals and enforcing laws- the government advertises against crime and illegal activity. By this means it hopes that criminals will be dissuaded from crime.

Let me illustrate my point by walking you through some episodes in the financial markets and the government response to them.

### Episode 1

The symptoms: In 1978-79, we first saw a number of finance companies mushroom all over the country, partly with the blessings of the government. Some of these companies over reached themselves in their desire to be competitive and ended up

being either illiquid or insolvent. Perhaps, some were mismanaged or simply run by crooks. Whatever the reason, by 1979, the finance company game was turning sour.

**Government response:** To this emerging crisis the government response was quite the unexpected. It did not try to define and enforce more stringent regulatory and monitoring procedures. Nor did it try to make a thorough investigation into the crooked practices that did take place. Instead, the government confined itself to putting out advertisements in the press against all finance companies, thereby undermining any remaining confidence in the finance companies.

**The result:** within a short period, the finance companies all died. Depositors lost a lot of money. Not one manager or owner of any finance company was prosecuted. These "entrepreneurs", having acquired capital as well as the experience of financial fraud, moved on to bigger game. Neither was any notion of ministerial responsibility evoked. Neither the finance minister of the time nor the governor of the central bank of the time resigned. Nor was there a clamor for them to do so.

## Episode 2

**The symptoms:** In 1987, this experience was repeated. As a result of strong growth of the domestic official and "black" economies as well as the growth of workers' remittances during the seventies, it seems that Pakistanis had accumulated a fairly large amount of liquid savings available for investment. The government tapped into this available supply of saving by expanding its internal debt at a rapid rate and allowing the fiscal deficit to grow unchecked through most of this period.

The private sector did what it does best- innovate in response to a market signal. Responding to the large supply of savings that seemed to be available, finance companies and Ponzi schemes of all sorts started to surface again in 1987. A growing economy, excess liquidity, and rising values of real assets had already contributed to creating a heady environment where optimism reigned. Investors lined up again to invest in the finance companies.

**Government response:** Although this was history repeating

repeating itself, there was again no effort on the part of the State Bank or the ministry of finance, our guardians of the financial system, to regulate or monitor these companies. The government proved incapable of handling financial innovation in the private sector. Used, as it was to a tightly controlled system, it was caught napping. At the first sign of emerging difficulties in some of the finance companies the government resorted again to managing by advertisement.

Again an advertisement campaign was conducted against all finance companies. And again no regulatory or monitoring procedures were put into place to ensure that the depositors were protected in some manner. Neither was any investigation conducted of any illegal or crooked activities.

For a while, some of the better finance companies ran an advertisement campaign of their own to counter the government propaganda against them. They pointed out, and pleaded for the definition of adequate regulation to allow the more responsible finance companies to remain in business and in fact cultivate the public confidence. They wished for fuller investigation of all activities of all such companies. They emphasized the need for Depositor confidence in a financial institution. They placed advertisements to announce that they would entertain all depositors who wished to withdraw their money. They entreated with the government to stop its propaganda for no financial institution no matter how healthy could not sustain such an attack from its own government and central bank. After all, all financial institutions operated on a fractional reserve system and indeed could not maintain a fully liquid position no matter how healthy its balance sheet was.

**The result:** As in the earlier crisis, the defamation campaign run by the government succeeded in killing all the finance companies. Depositors again lost a lot of money and again not one manager or owner of any finance company was prosecuted. The more crooked of these "entrepreneurs" acquired more capital and more experience of financial fraud moved on to more government promoted rent-seeking. Needless to say, once again, no notion of ministerial responsibility evoked, Neither the finance minister of the time nor the governor of the-central bank of the time resigned. Nor was there a clamor for them to do so.

There was one difference this time. The government realized

or was forced to realize by the international institutions that the time had come for some financial innovation. Thus having successfully closed down the finance companies that had been started spontaneously, it determined to start up their own finance companies. Again the government did what it does best—give licenses to its old favorites. The large houses such as the Alis, the BCCI's and the Crescent group were given licenses. All the entrepreneurs in the area, including some of the honest innovators in the financial sector, were driven out.

## Episode 3

**The symptoms:** While the licensing procedures were underway and major loans were being doled out to the fresh licensees, the excess liquidity was continuing to seek an investment opportunity. The middle-east migrants' remittances were still available as were the injections of aid funds that were being continuously distributed by means of rent-seeking activities. People were also making money, including collecting foreign exchange, by means of illegal activities such as smuggling. The net result was that there continued to be a lot of cash in the hands of the private sector that was continuing to seek investment opportunities.

Unfortunately, as is likely to happen, the market was not willing to wait for the government to dilly-dally through its cumbersome licensing procedures for its favorites to obtain finance companies or investment banks. It did what it does best—innovate. The private sector had found another legal loophole and again financial innovation took place. An old law lurking around from pre-independence days was used to make cooperatives operate like investment banks. High returns were promised and people ran to invest in them. Cooperatives mushroomed all over the place and grew rapidly. These cooperatives were shaping up to be the finance companies of the nineties.

**Government response:** Perhaps the government wished to protect the licensees of the government that had just been sanctioned finance companies. Or perhaps it wished to protect the debtors of the cooperatives who were very influential people. But definitely, the interests of the depositors was of the



least interest to the government. Once again the government merely ran another advertisement campaign against the Coops. No public audits were made available, no State Bank seizing of assets took place. Nor were any of the owners thrown into prison for fraud. Only a suspicion of fraud was created among the depositors.

**The result:** The seeds of suspicion that the government sowed with respect to the cooperatives, resulted in killing all of them in a short period. Depositors again lost a lot of money while the manager and owners of the Coops and their politician/ bureaucrat friends were not even prosecuted leave alone punished. Perhaps these individuals are now busy planning another chapter in the history of financial fraud. Of course, in the absence of a proper investigation we will never know of the financial wizards in this crowd who were honestly managing people's money. The path that the government took drove all of the Coops out of business, the good as well as the bad. While the depositors lost their money, the guardians of the financial system-the finance minister and the governor of the State Bank of the time- did not resign.

This time there was a clamor for something to be done for the depositors. The economy was looking weaker. The heady eighties were over not only in Pakistan but around the globe. The Middle East had gone through its own crisis and it did not look like remittances were likely to grow. Geopolitical considerations had taken over and the external financing situation was no longer looking rosy.

By now the government had learnt that the constituency of angry depositors who had lost their money to charlatans was weak. Certainly weaker than that of the robbers for the latter often were able to buy their way into power and license. The government silently weathered the turbulence. And now the Coops are history and depositors relegated to an occasional letter to the editor.

## **Conclusion**

These three episodes have taught the government that all it needs in order to govern is to advertise. It recognizes that its constituency is the rentseeker and not the people. Hence it does not

feel the need to legislate or regulate. Certainly, the government is not going to make the political mistake of actually enforcing any law or regulation that exists. Advertisements are useful because they give the impression of government concern and activity.

Nowadays the government is concerned about adulteration. It has done nothing to set up government measures or standards of purity or sanctions against adulteration. Nor has it any means of investigating such crimes or enforcing punishments against such crimes. Needless to say no one has, nor will be jailed for this crime. What the government is doing, however, is running advertisements against adulteration. Front page, back page everywhere these days there are advertisements against adulteration. Perhaps the only purpose is to give some budgetary resources to the newspapers, thus keeping them happy. In this way, the media can be bribed into not publishing any serious evidence on government ineptitude and corruption. At least these advertisements perform some function, for without a doubt such advertisements are not going to do much against adulteration.

# 10

## Participatory or predatory government

For too long now we have had to listen to the government sponsored, development-oriented thinkers, (otherwise known as the "econolords" or "doctors" since each of them is a doctor). They have told us how we need more and more government, how only policy knows best what we should consume, import, work at, where to work etc, etc. If allowed, the econolords would let the government control every aspect of our lives.

Much of our economic thinking has been shaped by these econolords who have all shown an exceptional ability to sell their ideas. One way or another, the econolords have served the government well by frequently coming up with new theories that preserve the dominant role of our government. An analysis of the thinking of the econolords over the course of our history shows that all econolords have been defenders of big government. Interestingly enough they propound their ideas of big government while championing the cause of the poor.

The econolords strongly believe that the government is the ultimate savior of the poor and consequently of the clear need to expand the government into every conceivable activity. The government cannot waste, cannot be inefficient, and has infinite resources without ever needing to tax the poor. They feel that the vested interests that controlled the government which employed the doctors, could be civilized only through a larger government. Although the principal function of the government may be to serve the interest of the vested interests, the government was the only vehicle for serving the poor down-trodden masses. At all cost, the country must be protected from the brutal competitiveness of the market place. And a large and growing government, even if corrupt and grossly inefficient, is the only protection for the people. After all the market place is not quite cricket as our colonial masters taught us well.

In our early years, the econolords led by the good Dr. Haq propounding all kinds of theories for ensuring excessive government controls and regulations. The cause of planning which was championed by them began the era of an over regulated economy and a growing role of the government which to this day has not receded.

By the late sixties, the econolords were not satisfied with the regulated economy that they had created and their masters, the bureaucrats, controlled. They needed a further expansion of the government. Consequently, they began to denounce the private sector. They saw monopolies everywhere and worried about the concentration of wealth among 22. Needless to say, the econolords did not blame the government families and its licensing and regulation for the creation of the monopolies. At this juncture they were united in their call for destruction of the private sector. They provided the intellectual basis for nationalization and therefore a still larger role for the government.

Econolords had by means of their fuzzy thinking proven that there was no need to be rigorously schooled in economics. Consequently, it was no surprise when an engineer, Dr. Mubashir Hasan, took over as the new econolord. Cheered on by his fellow-econolords, he carried the attack for the government forward. At this stage the large government could only be made larger by directly involving the government in the production process. He nationalized in every manner possible without a care for the government's capability to manage the nationalized enterprises.

But that was not enough to expand the government's size to the satisfaction of our econolords. Being very innovative our resident econolord of the time devised another scheme for expanding the public sector. He saw that it was extremely easy to create public sector corporations. The only limit on the size of the public sector was the imagination of the government. This new scheme had the additional advantage that a new vehicle had been found for extending government patronage. Influential individuals could now be provided with "jagirs" - a public sector corporation - in much the same way as it had been done from the days of the colonial masters. The response to this innovative scheme was immediate. Public sector corporations multiplied faster than rabbits in Pakistan.

Martial Law in 1977 chose to recall their old ally, the first econolord, Dr. Haq. Recognizing that fresh ideas were now needed to sell the age-old objective of pig government that was held holy by the doctors, the innovative first doctor was quick to propound new theories. Analyzing the past, he encouraged the role of the private sector in the growth process. But the noble doctor's heart bled for the poor. Who could deny that, for too long now the poor had been denied their economic rights in the country and that poverty must be eradicated. The government was, therefore, duty-bound to ensure that the "basic needs" of the poor were met. Thus the noble doctor was once again able to salvage the day for the government. Despite all its inefficiencies and problems, the government must expand yet again for this noble cause of providing "basic needs".

Another decade went by. The rhetoric of "basic needs" began to wear thin. The numerous promises in many plans of universal literacy, health care for all and improved sanitary conditions and housing for the poor, were never fulfilled. Oh yes, expenditures were incurred for these purposes, public sector corporations were created, econolords and bureaucrats were given jobs and lucrative consulting contracts, donor agencies pumped money all over. But unfortunately, the promises were not fulfilled.

Now the nineties are here. Communism has collapsed. The government is under attack everywhere. "Privatization" and "market economy" are perhaps the key expressions of this decade. The government, politicians and the bureaucracy are worried. So are the vested interests who look toward the government for their personal aggrandizement. The government must be saved from this attack.

Thank God for the econolords. They rise to the occasion. The econolords like their futuristic counterparts, the timelords, never fail to disappoint. We must admire the doctors for their abilities to adapt their ideas to the times and with such agility that the dominance of the government was preserved and in one form or another market forces were not allowed to develop. However, we must also sympathize with the econolords for, winded as they are, they have been called upon yet again to do what they do best• defend the dominant role of the government.

Intelligent as they are, the econolords recognize that they cannot

return to the past. Proposals of excessive regulation or nationalizations or land reforms or import substitution or quantitative restriction on imports which were like the holy writ in the past are at best jokes today. Democracy rather than martial law is in vogue today. You cannot brutalize somebody today for carrying foreign currency in his pocket.

The econolords of today are aware of this changed environment. In keeping with this new democratic spirit and the worldwide respect of market forces, the econolords are choosing a new rhetoric that will keep the government involved in leading our lives. This new notion is that of participatory government. Stripped to its bare essentials, this new theory basically says that the government should continue to plan our lives and to spend lavishly by means of large fiscal deficits on achieving these so-called plans but in deference to the new democratic ideals of the times the government should encourage some community participation. The government is urged to draw up plans and implement the plan in consultation with the community.

How does the government listen to the community? According to the econolords, non-government organizations (NGOs) are expected to play a crucial role in intermediating participation. Not surprisingly, many of the econolords have now founded NGOs and are recipients of large donor and government grants. And again not surprisingly, many rentseekers have now turned to creating NGOs. NGOs now constitute legitimate rent-seeking activity.

Perhaps the econolords can let us know how we can participate with a predator. The econolords have perhaps not heard of the concept of a predatory government or if they have they choose to ignore it. Our government is predatory in the sense that hungry for our resources and has absolutely no regard for the welfare of the people. It is also predatory in that it serves and protects those who prey on the people and not the people that the government supposedly serves. The government has shown no desire to protect the populace that it supposedly is under a social contract to serve. It has in fact helped those who have preyed on the people whether they be the sharks who ran away with the citizen's deposits, or the thieves who robbed their houses, or the murderers and kidnappers. The government has shown every tendency for corruption, inefficiency and the promotion of rentseeking.

In every manner possible, the government has conferred benefits on its favorites. In all plan implementations, the beneficiaries remain the same.

The econolords need to show us how our predatory government can be made to participate with us. Or is it that there will be government agencies created for participation such as PIPS (Pakistan Institute for Participatory Studies) or SPC (State Participation Corporation)? Like all other government agencies, these agencies will have bosses (or jagirdars), cars and privileges for the bosses, plush offices in big cities, rest houses etc. They will have all the benefits for the bosses. Scarce budgetary resources will be wasted that all us participants will pay for from our taxes. What will happen to participation? But then what happened to education over the last so many years when the education department and the university administrations grew fat? What happened to health and population control despite ample money being wasted by the government?

Perhaps the econolords can tell us why is it that after 45 years of repeated government failure, we still cannot simply conclude that the government cannot deliver? Why will the government suddenly turn to participating with us listening to our needs responding to them? Should we not suspect that the government and its rentseeker friends will turn participation to some advantage to themselves? They will get rich again at the expense of the people while the people will be involuntarily indebted further yet again. Can we expect kindness from a predator, a hyena?

Though the econolords may not agree, perhaps it is time for the people to wonder at the role of the government. Perhaps the time has come to make the predator toothless. If the government power was taken away to interfere in all spheres of our lives, it will not be able to indulge in its rentseeking and predatory practices. Perhaps the good doctors can assist us in the long overdue and much-needed wholesale reduction of the government and its role. A reduction in which many government departments are summarily closed. Or maybe they would rather tell us how they might spend a night caged with a tiger or a hyena?

# 11

## **Pakistan government: a comedy of errors!**

Last week, Pakistan government in its recent efforts at combining foreign policy with raising capital in international markets provided us with political satire and comedy at its best. Thank God, (or maybe the government should thank God), that the euphoria of the cricket World Cup victory diverted the attention of the people.

Let me recount the events. On Monday March 16, 1992 and Tuesday March 17, 1992, The Wall Street Journal carried advertisements supposedly from the State Bank of Pakistan for the sale of the government's foreign exchange bearer certificates. Fair enough so far. Many countries have done this and by now such an event or advertisement does not raise any eyebrows.

Unfortunately, Pakistan's ad which looked very official highlighted the statements: "no questions asked about the source of funds" and "no identity required". This is unprecedented. No country has ever put such statements in bold print while soliciting funds in international markets. Not even the largest dirty money laundry in the world- Switzerland.

At this juncture you might well ask questions regarding the competence of the professionals who man our State Bank, our foreign office, our embassy and our ministry of finance. Did no one at these agencies understand the impropriety of such statements or the lack of delicacy associated with them? Did all these agencies not coordinate with each other on the sagacity of such an ad? And where were all our high-priced foreign consultants• Neal and co. and Vogl and Mark Seigel? How are their fees justified now?

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1. Written at the time of the FCBC scandal that broke out in the Wall Street Journal. The episode proves conclusively the ineptitude of the government. No disciplinary action was taken against any individual despite such inane behavior at all levels of the government.



Had the story ended there, it would have been funny enough. But the Wall Street Journal decided to follow it up and called on the State Bank and the embassy. An official of the State Bank proceeded to tell the Journal in no uncertain terms that the government wanted to launder dirty money. Thrilled with his explanation, he even added "do you understand now?" An official of the embassy also categorically told WSJ that the government would not inform the Federal Reserve of the US of any fund that it receives and that the bonds are called whitener bonds. Needless to say the Embassy official did not know the law that is even stated on the custom forms for entry into the US that the Federal Reserve has to be notified of any movement of money above \$10,000.

Again several questions rush to mind. Did these individuals have the clearance from the various authorities to make these extremely inane pronouncements that have affected our foreign relations and our image in international financial markets? Is that the training of our bureaucrats and officials to shoot off the mouth? Why did they not check with the relevant authorities and give WSJ a prepared statement? Finally, for their stupidity, how are these gentlemen now paying? Or is there no cost to mistakes in our government now?

Thanks to these stupidities of our high-priced professionals, the world is calling our government a money-laundering government and congress and senate are reinforced in their negative view of us. All our so-called professionals are silent. Most embassies would have written at least an intelligent letter to the editor claiming a misquote to make the best of a bad situation. But not our embassy. All the high-priced executives did not even try and stop the ads from running till the WSJ blew the whistle.

On March 24, 1992, The Washington Post carried an advertisement from the State Bank saying that the Embassy in Washington had informed the State Bank that no securities could be placed in the American market without prior permission of the Securities and Exchange Commission. For that reason, the State Bank is now withdrawing the ad.

Unfortunately, dear reader, one is left guessing again. Why did the embassy not inform the State Bank before the ad was placed? Did the State bank consult with the embassy? Its consultants? How can the embassy official's statement where he was so confident that the Federal Reserve did not need to be informed, be reconciled with the latest ad?

Is this a recent finding of the embassy and the State Bank that the selling of bonds in any country by a foreign government require some form of notification or permission? Would the State Bank allow any country to just advertise its bonds in, say Jang, without permission from the State Bank?

Unfortunately, this was not a TV comedy show but reality that the whole of Pakistan will have to live with for some time. As an episode of "Yes Minister" or Monty Python" it would have been funny. Even as a major political-literary, Kafkaesque piece, it would have been interesting but at least fictional. But most unfortunately, this is our reality.

This episode gives us an insight into the functioning of our government. It appears that anarchy reigns in our government with the left hand not knowing what the right is doing. It is probably a euphemism to say that our government is now totally bankrupt and incapable of handling any matter. We cannot expect any meaningful inquiry into this episode that has substantial foreign policy implications. We will see none of the individuals responsible even momentarily swing.

Perhaps it is time we recognized that government departments and functionaries are gods unto themselves and no mistake is too costly for them. Nor are there any checks and balances left in our government! And worst of all probably the level of competence of our government functionaries is probably at its lowest ever.

This ad campaign and all the official time that went into it will probably have cost the exchequer over a million dollars of public funds. We will end up losing more in terms of our standing in international credit markets where lenders will perceive us as high risks and, as a result, charge us more on our loans. But the government fully understands that these costs are invisible to the people and therefore will not represent any political burden.

Perhaps it is time to send a message to the government saying "physician heal thyself". How can we expect a government that cannot get its act together on a simple issue like advertising its bonds to lay down good policy for us? To plan our economy? To use our resources? Perhaps it is now time that we should begin to lobby our creditors for not lending to our incompetent and corrupt government!

# 12

## Government institutes or 'jagirs'

At long last, the wastefulness and the inefficiency of public sector is widely recognized. Privatization is underway and the government is almost committed to not involving itself in the direct production of goods. Thus considerable progress has been made in the direction of eliminating waste and inefficiency.

However, there is still some work to be done. Unfortunately, little attention has been devoted to the elimination of all government waste and inefficiency. We should take the opportunity to study all public sector corporations in order to identify those that are wasteful and inefficient. Perhaps some can be privatized. But certainly not all. In which case, will the bold decision to close down these institutions be taken or not?

One area where probably fat is more visible than on a sumo wrestler is that of the so-called government institutes for research and cultural and literary activities and in other educational establishments. Unfortunately, detailed data on these institutions is not available to allow anyone to see how much of our taxes these institutions consume and what they produce. However, a rough picture can be obtained from crude estimates and it suggests considerable waste.

There are at least 150 academic research institutions in the country. At an average cost of about a crore rupees a year, these institutes cost us about Rs. 150 crore a year. Then there are at least 8 cultural and literary organizations. Computing at the same average cost as the research institutes, these cultural organizations are spending about Rs. 8 crore.

What are these organizations producing? By all accounts, academics is not an area that we have taken seriously in the past. The result is that we have very few Pakistani academics. Of the few that we have a large fraction reside abroad. Consequently, the chances are

are that there are not enough serious scholars in any one discipline in the country to develop a critical mass for a research institution in that discipline. Yet in each area we have a number of institutions. We have 10 institutes in economics, 3 in rural or agricultural related areas, about 6 in international relations, regional studies and strategic studies. The list goes on and on.

There are also over 20 universities in the country and each of these universities has a department for each of the areas that there is a research institute for. The budgets of these universities are huge and the quality of their output, namely their students, is extremely poor. But that is another story.

To illustrate my point, I will study the example of social sciences, an area that I know something about. As mentioned above, there are about 15 research institutes in the social sciences. There are two new institutes that are coming up in economics and related areas. In addition to these, there are about 20 universities.

Universities in the US tell me that in order to have a reasonable department in any subject, they need a minimum of about 20 senior faculty members who are actively publishing. Research institutes in the US indicate that for them the number is about the same if not more. Let us assume that the research institutes that are set up for research in social sciences which incidentally comprise of a number of subjects, require only 10 economists, half that of what the specialized institutes require. We can now determine the total demand for high quality social scientists by these academic institutions. As definition of high quality let us take some form of research and publishing in respected and reasonable journals overseas.

In order to staff these 20 universities and the 15 research institutes in the social sciences adequately, at least 550 of these high quality, academic social scientists would be required in each of these social science departments. By highly qualified, we would mean those who have been publishing in the area. Thus taking social sciences to include economics, sociology, politics and anthropology, we would need about 2200 such people to man our universities and research institutes.

Armed with this demand figure, I went to the library and looked up journals to see the availability of Pakistani academic social scientists. In the last 5 years, I found only 20 Pakistani names in academic journals. Of these eight, 15 lived overseas and none were in

our academic institutions. The conclusion is immediately obvious: all our academic institutions- our departments in the social sciences economics at universities and our research institutes-have no academic social scientists.

The situation would be much worse if we looked at the components of social sciences such as sociology, anthropology, and economics. In fact to staff departments in each of these areas, specialists in each of these fields would be required. If the above calculations were repeated for each of the social science subjects, the number of social scientists that would be required would be larger.

The output of these institutes tends to be very self-serving. It has only one purpose to project the boss of the institution. The large budgets available to these institutes and the lack of accountability means that considerable wastage can be indulged in for the purpose of the personal aggrandizement of the boss. Thus glossy publications-the emphasis on gloss and not on substance-with the boss's name up front are frequently showered on the world especially the powers that be. One scholar who spent a short while at a prominent institution told me of how he had written a piece on his Ph.D. dissertation but that it was published by the research institute with the boss's name first.

The boss frequently spends a lot on his projection. Elaborate conferences are arranged at five star hotels. The prime minister or the president is invited to open the conference so that the boss can look good. Foreign dignitaries are invited to court and treated royally again to make the court of the boss look more resplendent.

Researchers in these institutes must realize early on that they have only one function that of serving the boss, says an aspiring young scholar in strategic studies who served in one of these academic institutions. All the employees of these institutions whom I talked to said that they felt like serfs. They had no say at all in the running of the institute. Nor had they any recourse to appeal against the dictatorial rule of the boss.

One woman, a scholar in sociology, likened these institutes to jagirs. Just as in olden times kings would reward favorites or buy prominent opponents with the award of a title and a jagir(fiefdom), the government of Pakistan awards these institutes as political favors or bribes, she argues. Oftentimes a retired official or some politically important individual that the government wished to confer a favor

upon, was awarded such an institution. At times such an institution has been created solely for the purpose of providing a favorite a fiefdom. Once the job has been given annual financial allocations are made available to the new boss and no account is ever taken. The boss now gets umpteen personal benefits such as status in society, a house, a car, servants, all bills paid as well as a large budget that can be made subject to much creative accounting. Within his little institute he is now a duke or a jagiradar. He can rule his jagir doing what he wishes till he does not incur any displeasure of the current regime.

Such institutions have been allowed to increase rapidly over the years. They, or should I say their bosses, have been "flourishing", comfortable in their large budgetary allocations. Most serious academics concede that these institutes have done no serious work that can justify their large budgetary claims. The institutes have a rigidly authoritarian structure designed not to enhance work but to ensure a lengthy tenure and maximum benefits for the boss of the institution. Surprisingly there is no effort to look into the finances, productivity, and the bosses of these so-called academic, cultural and other institutions. The silence of newspapers on this waste is indeed amazing!

### **III. The press and the role of the government**

# 13

## **The press: an evaluation**

Freedom of the press was apparently instituted, or happened, some time in the last few years. As a result we have seen the rapid proliferation of newspapers and magazines. More important, many of these have shown a marked improvement in quality over the years. However, given the limited interest that these publications show in the more important issues that affect the quality of life of the average Pakistani, one wonders if this freedom of press is doing what it was supposed to do. Perhaps, the powers that be allowed the press to go free in recognition of the fact that the press would not touch the more sensitive areas. The press was now amply trained to serve the current system and its elite and, despite some attempts at annoying inquisitiveness, it would not swim in murky waters.

In order to substantiate this allegation, let us study what the priorities of the press are. Prime space in all the media is reserved for government press releases or inane pronouncements of ill-educated, self-styled politicians cum feudal landlords whose only claim to fame is that their ancestors served the British well. For example one is sick of seeing headline after headline of politicians are hurling abuse at one another without any mention of important policy issues and their stands on such issues. A politician has only to call a press conference or form a party lacking any mass membership and he is considered to be ordained with the right to the front page. Perhaps, it is time that these recriminations be reserved for the bottom corner of the eighth page. Let the politicians too for a change feel that the front page, unlike their feudal in heriances borne out of their service to their imperial masters, is not their birthright. Unless they say something of any merit, they cannot waste our valuable time.

At the analytical level, the larger issues as well as those of a



general nature are the ones that fascinate our intellectual and media elite. This is an important aspect of the old civil service, generalists' tradition founded in our educational system by the British. There is a tendency among the educated elite to fancy themselves as the archetypal Victorian individuals well versed in the classics shunning all specialist or technical knowledge. Consequently, they tend to concentrate on the larger issues such as foreign policy and the larger politics of the country and preoccupy themselves with the bigger constitutional issues. There are far too many analyses of what our policy on foreign affairs or constitutional issues such as the legitimacy of the government, ought to be, or should have been. The opinion/editorial pages are full of such analyses and such material is often given priority of space and headline.

After these two areas have been adequately covered, the editor serves his elite audiences well by providing us with ample literary fare. Articles-- some memories, some analyses- on Iqbal or Faiz are very good fillers for such space. Esoteric literary subjects are also quite acceptable. The Nation, for example, has carried a number of articles on the op/ed page on an obscure literary field• deconstructionism. Perhaps esoteric poetry and obscure literary ideas will provide the economic uplift that 99 percent of Pakistan needs.

And now for the leisure of the elite. Well fashion, the more Westernized the better is important with tons of color photographs. Next of course is art. Looking at the recent issues of Herald and News line it seems that Pakistan is a renaissance country. Roughly 20 percent of the recent issues of these magazines were devoted to art and this is not counting the number of letters that were published on Mian Ijaz ul Hasan's book. After all, fashion is what the Westernized ruling elite is wearing and art is what they collect to adorn their living room walls.

Perhaps it is time to mention a few of the areas that some of us would like to see emphasized in an effective press. In order to delineate these areas, let us first define what our principal problem or problems are. In my opinion, the single most important issue facing the country is that of poverty and catching up technologically and institutionally with the rest of the world. Every effort should be made to achieve this end even at the expense of letting poetry, art and cricket take a back seat.

Take for instance, education. The bulk of our population is illiterate. Similarly rapid population growth means that the proportion of youth in our population is increasing. Without proper educational emphasis we will be creating a large and growing unskilled labor force that will be increasingly uncompetitive in global environment that is going to be increasingly competitive. Consequently, looking at the larger picture from the average Pakistani's point of view, the demand for education is growing and needs proper policy and media attention.

However, from the standpoint of the ruling elite who have made their choice of sending their children abroad to study, this is a minor issue. This viewpoint regards the current supply of low quality school and university education in the country as adequate for the native population. The media reflects this viewpoint adequately. Recent issues of none of the quality magazines and newspapers have carried even a single article on education. There has been no effort at exposing the outmoded teaching methods and syllabi. Universities and research institutes are being run as fiefdoms by people who long ago ceased to have any academic leanings yet no media attention has been focused on them. Most important of all, the media is not interested in looking at the use of funds by the educational establishments and their priority of expenditures. Even the issue of holding examinations on time and not closing the universities for administrative convenience is not of interest to the media

From such media coverage, one wonders what sort of a message does the youth of the country get. Perhaps, they learn that fame and fortune lies in, a) becoming a politician and making headlines with inane pronouncements and petty politics, b) the pursuit of literature, art and cricket and c) developing a generalist and philosophical approach with little or no technical knowledge or background. Needless to say, education is low on the priorities of such youth.

# 14

## Questions that journalists should be asking!

For some reason, our journalists and intellectuals are preoccupied with intellectual pronouncements on foreign policy and Kashmir or with broad issues of constitution. They appear to have little time for issues that concern the common man. For example, issues related to official patronage and the level of waste in the government appear to be low on the agenda of most intellectual effort. No matter that the burden of all expenditures, whether wasteful or not, is entirely borne by the taxpayer.

Perhaps this lack of interest in the local institutional decline and waste is the legacy of colonialism. In the colonial days, the second son came to India to make his mark. He was concerned more with larger gee-political considerations such as the Afghan wars or larger reforms that civilized the natives. The welfare of the natives was not of great importance to him. Neither was any involvement in the nitty-gritty of institutional management, economics, productivity or efficiency of any interest to him. He looked to his audience and his knighthood at home.

We are no longer living in colonial times. In fact, the decay that we have witnessed in our independent country makes our the earlier colonial days appear peaceful by comparison. It is time that we developed a healthy respect for institutional development and devoted some time to the task not leaving it up to some foreign agency or power. In this task the key role has to be played by the press and journalists.

The press has to begin to ask for healthy institutional reform, pressing institutional bosses to be more productive and cost conscious or supporting those who encourage productivity and thrift in their institutions. Unless this climate is developed we cannot expect any

change to take place in these institutions.

Pakistan has a large number of public sector corporations, educational establishments such as universities and research institutes as well as a number of other government institutions and departments. To date, I have not seen an interesting and detailed analysis done of the productivity and financial flows of these institutions. Even if the entire budget of these institutions is spent in some ways on the boss of the institution alone, the press does not appear interested. Or for that matter, we do not hear of the new building that was made at an excessive cost to line certain pockets or of the expensive but useless equipment that is frequently bought.

We hear anecdotes of such events and occurrences. However, the evidence is seldom used as materials for headlines. Even when it is, it is seldom sustained beyond a day. In fact, the bosses have figured out methods of keeping the media happy and counteracting such stories. They maintain media cells to manage the media. Media events like conferences and shows are arranged completely with press releases and canned stories. Unfortunately, journalists lap these media gimmicks that advertise bosses, as they are easy to fill up space with. On occasion, editorials are contrived in this manner to promote an institutional boss.

In order to interest some journalists who might be interested in trying to look into issues of some interest to us all, I have developed a list of questions that should be repeatedly asked of the head of all public sector, corporations, institutions and departments as well as their employees. The questions are:

1. What is your annual expenditure?
2. Do you make any profit? If so, how?
3. Do you borrow from any government financial institution? if so, how much? And at what terms? How current are you in meeting the service requirements of such borrowing?
4. What percentage of your budget is spent on the welfare of the head of the institution? On the senior members of the institution? On the office building and its appendages?
5. What percentage of your budget is spent on your principal activity?

6. Can you identify the sector of society which demands your product?
7. Do you contribute to the budget or do you get government financial support? What are the magnitudes of the flows (either to government or from government)? If you get a subsidy from the taxpayer, how do you justify it?
8. Are your personnel really competent in the area that they are employed in? Do they have any market outside the institution? Have any individuals gone out into the private sector? How can we judge the professionalism of these individuals?
9. How easy is it for anyone who is competent and desirous of applying for a position to get in and at the level of his or her competence?
10. What is the average length of tenure of the individuals in the organization (remember, long tenure is not very good because it may show ossified individuals)?
11. How easy is it to fire an incompetent individual? What are the incentives to work hard? Can a hard worker earn an accelerated promotion or is it only grey hair that are rewarded?
12. How accessible are you to your employees? What input do they have in your decision making? What, if any, are the channels that they can use to convey their opinions?
13. What are the rules for the appointment of the boss? Are you all in all or are you answerable to someone? How independent are those individuals and how well-informed about your organization? How long is your tenure supposed to last and where do you go from here?

Using the data thus generated, the investigator should try to form a notion of the productivity of the institution and the level of waste if any. He/she should be able to form an opinion regarding the ability of the organization to achieve its objectives in the most cost-effective manner. For such a judgement to be formed, the investigator will also need to look at the entire management structure of the concerned institution. In that connection, some objective criteria would have to be laid down for judging the quality of management as well as personnel keeping in mind the perspective of the announced objectives or the product that is required.

Journalists should continuously and vigorously pursue these questions to keep the tax-paying public informed. We cannot expect our politicians, parliamentarians or the intellectual elite to perform this task as they are too busy enjoying the spoils of rentseeking or benefitting from the large government. Why should the beneficiaries of maladministration and inefficiency do anything to check waste in government?

Unfortunately, while the spoils of government are for only the privileged few, the burden of waste and excess is ultimately borne only by the public at large. Perhaps the important point to remember is that any money that the government saves is a direct saving for the taxpayer. Whereas American policy in the Middle East, or how we should lead the Muslim world, or the ramifications of the new world order, may be intellectually titillating but will not put any food on the table. In a country where poverty continues to afflict the vast majority, issues of economic efficiency and improvement are of greater interest than grandiose foreign policy analyses or pronouncements. Perhaps there are some honest journalists out there who care for the disenfranchised poor and for the future of the country enough to start investigating such issues.

# 15

## A conversation with some Pakistani immigrants

(This interview reflects the views of a group of Pakistani immigrants in the US. I sincerely hope that I have faithfully and accurately reported these views. Needless to say the ideas presented here may not be representative of all immigrants.)

**Q.** Ladies and Gentlemen, do you feel that you are too far removed from Pakistan and have no more interest in the country?

**A.** On the contrary, "Distance makes the heart grow fonder" is a popular and meaningful cliché which we expatriates understand well. A lot of our time is spent excitedly debating, or seriously considering the many problems that Pakistan faces. Our exposure to many new thoughts and ideas as well as a different culture and work ethic makes us wish that we could find a way to transmit all this new-found wealth of knowledge and information speedily to our homeland so that improvements could be affected and pave the path of our return. For truly, we do feel the lack of adequate development of the country and the economy to be the real cause of our banishment.

**Q.** Are you able to transmit your ideas to people, policymakers and officials from your country?

**A.** "Distance develops some perspective" is perhaps a cliché that we should add to our list of sayings. Too often, immigrants like ourselves feel that our fellow-countrymen, who have remained at home, ignore our thoughts as being too fancy and outlandish. Our thirst for knowledge and quest for distant challenges and wealth is held against us. We are told that unless we return and forget all that we have learnt and become like the rest of Pakistan, there is nothing for us to contribute.

The fact that we have been able to learn from the rest of the world, and that we have had a chance to reflect on our problems in a detached manner, is not well regarded. We are not a part of the vested interests of Pakistan. There are no bank loans that the honest, normal immigrant can get (of course there are some who are the agents of the rent-seekers at home amongst us as well). Nor are there any government licenses that will distort our perspective. Instead we seek with a \_very honest and open heart for rapid development of institutions and the economy to allow us to, at the very least, retire peacefully in our homeland.

Most of us are honest hard-working Pakistanis who left not because we were in any way alienated from our childhood environment, which we to this day fondly desire to return to. We left only for our economic betterment and hoped, that some day we would save enough to be able to return. However, we are cognizant of the fact that, in order for this dream to be realized, we need stability and economic growth at home. Thus, no one could be more honestly patriotic than us for we have no vested interest other than the good of the nation at heart.

Yet, too often our ideas are easily dismissed as being outlandish only because they make the vested interests uncomfortable. The media finds little space for us. The dignitaries from Pakistan- politicians, army brass, embassy officials, and bureaucrats- all treat us with the same disdain that they treat the ordinary people in Pakistan. They mistake our respectful treatment of them deriving out of our love for the homeland as the traditional sycophancy they are so used to. The last thing they want from us is the thoughts and ideas that we could give them. For these thoughts and ideas would only seek to weaken their power.

**Q.** Are you adequately supplied with information from home?

**A.** It is with this "fondness" and "perspective" of distance that many of us spend our time reading the magazines and newspapers from Pakistan. For providing us with some excellent journalism, we extend our heartfelt gratitude to the journalist community. They are to be further congratulated on the remarkable improvement in the standard of journalism over the last few years and indeed shows promise of improving still further. Indeed there is every reason to be extremely satisfied with the improving quality of the press especially if one bears



in mind the resource constraint of many such ventures that are being run by honest, hardworking and dedicated individuals.

Nevertheless, it is true, especially of the English papers and magazines that we see here that they do tend to reflect not the underlying problems and issues that the society at large faces, but merely the westernized ideas and ideals of a particular class that they are catering to.

**Q.** Do you mean to say that these newspapers have little of any interest for the average Pakistani?

(To support their arguments, people produced copies of newspapers and magazines such as Herald, The Friday Times, Newline, Dawn and The Nation etc.)

To answer this question, let us look at what most newspapers and magazines like to give premium space to? The most prime space is reserved for government press releases or inane pronouncements of ill-educated, self-styled politicians-cum-feudal landlords whose only claim to fame is that their ancestors served the British well. For example one is sick of seeing the headline that BB said that the III mullahs are retrograde and then the same old cliches in the text of the so-called headline item. Or for that matter that BB's husband was very corrupt without any substantiating evidence presented in the news-item. Perhaps, it is time that these recriminations be reserved for the bottom corner of the eighth page. Let the politicians, too, for a change feel that the front page, unlike their feudal inheritances borne out of their service to their imperial masters, is not their birthright. Unless they say something of any merit, they cannot waste our valuable time.

The larger issues as well as those of a general nature are the ones that fascinate our intellectual and media elite. This is an important aspect of the old civil service, generalist tradition founded in our educational system by the British. There is a tendency among the educated elite to fancy themselves as the archetypal Victorian individuals well versed in the classics shunning all specialist or technical knowledge. Consequently, they tend to concentrate on the larger issues such as foreign policy and the larger politics of the country and preoccupy themselves with the bigger constitutional issues. There are far too many analyses of what our policy on foreign

affairs or constitutional issues such as the legitimacy of the government, ought to be, or should have been. Such material is often given priority of space and headline. Yet there is too little interest in our domestic issues.

**Q.** Such as?

**A.** Take for instance education. The bulk of our population is illiterate. Similarly rapid population growth means that the proportion of youth in our population is increasing. Without proper educational emphasis we will be creating a large and growing unskilled labor force that will be increasingly uncompetitive in global environment that is going to be increasingly competitive. Consequently, looking at the larger picture from the average Pakistani's point of view, the demand for education is growing and needs proper policy and media attention.

However, from the standpoint of the ruling elite who have made their choice of sending their children abroad to study, this is a minor issue. This viewpoint regards the current supply of low quality school and university education in the country as adequate for the native population. The media reflects this viewpoint adequately. Recent issues of none of the quality magazines and newspapers have carried even a single article on education. There has been no effort at exposing the outmoded teaching methods and syllabi. Universities and research institutes are being run as fiefdoms by people who long ago ceased to have any academic leanings yet no media attention has been focused on them. Most important of all, the media is not interested in looking at the use of funds by the educational establishments and their priority of expenditures. Even the issue of holding examinations on time and not closing the universities for administrative convenience is not of interest to the media

Issues such as fashion and art receive a lot of attention in these magazines but not education. All of the above-mentioned magazines have special sections on art and fashion but there is none yet that carries a special section on education. After all fashion is what the westernized ruling elite is wearing and art is what they collect to adorn their living room walls.

## **B. Sociological and political essays**

# 16

## **Have all immigrants deserted Pakistan?<sup>1</sup>**

This question is frequently posed of most Pakistani immigrants and quite often in derisive terms. Frequently, our Pakistani brethren leave us with the impression that we have deserted those who are continuing to fight in the trenches. For the almighty dollar we have sold ourselves while our counterparts continue to work for a pittance for the love of the country. No matter that more often than not the proponent of this notion appears to be living quite well, indeed very well by our standards. (He is often visiting first class and quite unperturbed by the expense- something that we have not experienced). But that is the subject of another time and place .

In order to address this issue, I recently raised this question with a number of well-reputed doctors, professionals and academicians in the US. The stories that emerged during the course of the conversation were quite interesting and perhaps well worth reporting to a Pakistani audience. In particular, I would like to relate three tales that I think encapsulate the predicament of the Pakistani immigrant professional who has labored hard at acquiring scarce skills and harbors the dream of returning to the homeland to contribute. Unfortunately, for reasons of their own all the individuals wish to remain anonymous in every way.

A well-known surgeon, well-versed in performing certain complicated surgical procedures, said that he had made several overtures to hospitals and colleagues in Pakistan only to be ignored or rebuffed. He had offered on several occasions to visit Pakistan for a few

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3. Though the names are not given, the stories alluded to in this article are based on personal interviews with several individuals and are factual. Since writing of this article, the author has learnt of another prominent orthopaedic surgeon, who has left for the US after 10 years in Lahore, saying that "it is not possible to be a respected professional in Pakistan".

weeks at his own expense in order to perform the procedures that he was skilled in as well as to train younger doctors in those procedures. All he required was for hospital administration to provide the equipment and the operation theater and arrange for the patients and the trainees. He would perform several operations a day at the same pace as he worked in the US. Despite the fact that his services were being offered free, he has not had a single positive response thus far.

Another well-known medical specialist told me how he had returned to Pakistan at considerable expense and after having given up his high-priced practice in the US. Despite senior appointments here in the States, he even accepted an assistant professor's position in Pakistan. Then followed two years of frustration. The hierarchy in the hospital was almost abusive. Senior doctors who had long ago ceased to be doctors and had specialized in full time intrigue and politics were bent on reserving hospital space and facilities for their own use. The younger doctor was expected to look after their patients as well as not point out life-threatening mistakes that they had made. Status was jealously guarded and merit was severely discounted. He was even told that he could not have a bigger car than the senior doctor. He was also expected to wait hand on foot on the various elites-the bureaucratic, political and the feudal. Eventually, these frustrations and his own inability to adapt to these difficulties of our society left him with only one choice to remain a doctor and return to the States.

Three academics- professors in electronics, economics and mathematics-argued that despite the ardent desire to return, there was no way that they could do so. All three of them had had experience of working in Pakistani universities or research institutions. All three had repeatedly tried to go for short professional visits to the country. One of them had also worked for a considerable period of time in one of the largest research institutes in the country. He was finally driven out (again another interesting story).

They argued that although the country has a large number of universities and research institutes which are consuming a large amount of our budgetary resources, yet there are no institutions of any repute or quality in the country. Thus any serious academic returning to the country cannot expect to operate in any serious

academic environment. Hence he can expect his productivity to decline rapidly upon his return. Moreover, they all agreed that it would be foolish to expect that any of them could expect to return and contribute in an effective manner to upgrade the quality of the academic institutions. These institutions were literally ruled by feudal landlords who brooked no new ideas. The feudal landlords who had been given these "jagirs" of universities and research institutions had either never had any contact with serious learning, or if they had, they had long forgotten whatever little rubbed off on them. Currently, they were interested in preserving their "jagirs" and keeping their few serfs in line. Any fool who returned with any serious ideas was taught quite quickly and effectively how to behave and tow the line in a manner quite reminiscent of the way in which "Kunta kinte" was beaten into submission in the television drama, "Roots".

I leave the readers to draw their own conclusions.

# 17

## Medical malpractice

We have all heard horrendous and heart-rending stories of the manner in which doctors mistreat and neglect their patients. Despite such stories, there is no code of conduct that we have imposed on doctors. Like all other civilized countries, we too, have a self-policing body of the medical profession -The Pakistan Medical Association (PMA). Unfortunately, it has never stepped forward to fulfil its primary function and police its own ranks to ensure that malpractice is eliminated. On the contrary, the PMA has only attempted to unify the ranks of the doctors and to impose their monopoly on medicine in general.

No doctor is prepared to testify against another no matter how clear the negligence. In fact, in our history, no doctor has testified or publicly spoken against another doctor's malpractice. Nor has the PMA said anything about the extent of negligence or malpractice in medicine. Could the doctors and the PMA be telling us that there is no malpractice in our country?

Despite this impression that the medical profession likes to give, the stories continue to be told in living rooms, on "charpoys" under trees and in tea houses. One hears of the child that develops physical or mental handicaps as result of being dropped immediately following a delivery; or of the heart attack that was mistaken for an asthma attack; or of the steadily declining blood pressure that was not diagnosed in time to be a silent heart attack; or of the refusal of the doctor to visit an immovable, terminally-ill patient; or of the over-drugging or the use of contraindicated drugs: or of the ignorance of the specialist with regard to the latest technique or research because of the "politicking" that is demanded of him. On the more dramatic side, one also hears of the doctor who refused to operate on an accident victim because of a social engagement, only to discover later that the victim was his son.

Whether these stories are all true or not is not important (although

I will point out that most of these are verifiable). What is important, however, is that such stories and the constant repetition of such stories does indicate that the people disagree with the doctors and the PMA and believe that malpractice is widespread. So does the established elite- the well-to-do doctors, the bureaucrats, the generals, politicians and the generally rich-- for they all vote with their feet when it comes to medical treatment. At the first sign of trouble, they rush overseas for treatment- often at considerable government expense.

Recently some of us had the chance to hear the views of a competent and rare doctor from Pakistan. Dr. Akhtar (because of his notable achievements in the area of public health) has been appointed the health commissioner of Washington. He has devoted himself to public health and recently spent 4 years in Pakistan as the principal of the College of Community Medicine. Both he and his wife, a gynecologist, quite commendably, spent a considerable time in Pakistan studying both public health issues and delivering medicine even into remote and poor rural areas of the country.

In Dr. Akhtar's view, malpractice and gross negligence is widespread in the practice of medicine in Pakistan. As an example, he quoted one of his studies where he found that in most cases a patient had not even had a routine blood test following his admission to a hospital. Patients were often found to be waiting for a number of days for urgently-needed operations because doctors were busy attending to other matters. Since there are very few specialists in the country, they have neither the time to devote to their patients, nor the time to devote to keep current with the profession. He also noted that the PMA cannot be compared to professional bodies in other countries. The PMA devotes no resources to studying, educating or developing policy related to health issues in Pakistan. It is singularly silent on health issues especially those relating to the health of the poor and uneducated. Perhaps the function that it performs the best is that of promoting its office-bearers. In that sense it is a very politicized body and perhaps more "self-serving" than "self-policing".

Unfortunately, no hard evidence has been collected on this important issue despite the stories that have become folklore at the household level. Of course, our intellectual elite is not concerned



with these trivial matters. Larger weighty environmental, participatory, poverty and governance issues preoccupy them and their funding agencies. This requires more simple but painstaking work to be done: a mere collection of all the malpractice stories and verification of them. All such an effort requires is an advertisement in the newspapers to collect all these stories and thereafter some effort to verify them. And then off to the printing press, we go.

Perhaps the mere fact that someone is watching them will make the doctors more circumspect and alert. Maybe, a little time away from the conference circuit will be well spent collecting such information and making it possible for us to go from anecdotes to hard data.

# 18

## Honor," izzat", "ghairat" and hypocrisy<sup>1</sup>

In Pakistan, we have always paid considerable homage to the notions of "honor", "Ghairat" or "Izzat". Various tribal and feudal notions of valor, honor, honesty, dedication to duty, asceticism and love of humanity adorn our literature, poetry and folklore. Our movies portray these concepts in the most melodramatic fashion. Our children's textbooks carry this to a nauseating extreme. If these textbooks are to be believed, evil does not exist in our society. We are all such "mujahideen" conducting continuous jihad. No wonder, that we give full priority to the rooting out of all evil form our society.

An outsider who views our society only through our books and our media probably develops an image of a very proud and just society that is intrinsically very good. Our own citizens are touched to the quick if any attempt is made to deny the finest qualities of honor, izzat, honesty, etc, that we hold so dear.

Does our society measure up to all these notions about ourselves that we have conjured up? This was a thought that recently preoccupied me after I attended a dinner party of the Lahore elite.

An old friend invited me to dinner one evening telling me that this was an occasion for me to meet a number of luminaries of our society. It was a pleasant evening with a number of people (some exceptions of course) who were very decent, well-read and very presentable.

The next day the host and I were together again and the conversation inevitably turned to the guests of the previous

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1 .The dinner party and the characters though fictional are based on observation of reality. However, any attempt to link the fictional characters with real people would be erroneous. If some individual feels that I have described him or her perfectly, let him question his conscience and not me.

evening. What I learnt about some of the people that I thought were the elite of our country made me wonder about the purity of our society and its so-called pillars. In brief, the distinguished guests are:

-the prominent industrialist who apparently acquired his initial capital by means of "pheras". He emphasized the vital service his industry was performing for the country. In recognition of this, the finance minister had more or less verbally agreed to further increase his already high. tariff protection in the coming weeks. He had many bad loans outstanding and had no intentions of returning them. Despite his high standard of living a Mercedes, large home and a mistress in every major city at home and in Europe- he paid no taxes in living memory. His tax · records of the last few decades have showed only losses.

- the real estate tycoon who had in his rise to the top indulged in several frauds. He had developed phony land development schemes which after more than a decade of promises had not materialized. He had also owned finance companies and cooperative banks the depositors of which are still waiting for the money. He had many successes at appropriating government• owned land. Because of these activities, he felt he was eminently qualified for a career in politics. He was confident that his wealth would get him elected relatively easily.

- The provincial minister who was well known for his cruelty to his serfs and his family in his feudal kingdom. He was enterprising for in his short stay in the provincial. cabinet, he had already acquired several key industries and while retaining a hand in the cooperative scandal. Many of his scandalous activities had been reported in the media. Far from being embarrassed by such publicity, our minister delighted in his public venality. During the evening, he insisted on being spokesman for the government by arguing very belligerently that the law and order situation was under control and that their government should be given more time. Needless to say, he could not define what the time was needed for other than the lining of his pockets.

-The senior bureaucrat, who though starting from relatively modest origins, had by now established a small industrial. and real. estate complex. By the grace of God, his son, now freshly educated from the US, was busy making the financial empire. In bureaucratic terms, he had apparently done it all- benefitted from all the

opportunities that came his way. He was adept at commission, bribes, influence-peddling, tax evasion, plot acquisitions, bad loans, industrial licenses, skimming the cream of government purchases among other things. Distant, withdrawn and polished, he was able to cultivate the others with considerable care.

- No decent party would be complete without representation from the West. Two minor diplomatic functionaries from the so called cultural centers in town were present. The US Consul General dropped in like a viceroy for a while and was treated as such. The white people were treated with a lot of respect despite their frequent sneering and patronizing comments regarding the country. Even when they were clearly on the wrong side of the argument they were treated deferentially. I finally understood the motivation behind the sycophancy of these minor diplomatic functionaries, when my friend, the host, pointed out that these functionaries provided several important services. They could make important introductions to various important development aid funds; they provided speedy visa services to otherwise dubious individuals; and they also provided prohibited substances the most important of these being alcohol.

- The gauche doctor who seemed to be out of his depth attempting to define a role for himself by means of his profession and newly acquired, though half-digested cultural pretensions. He had distinguished himself by a long career of cultivating the powers that be- both local and foreign. He had used the local influence that derived from sycophancy of the local politician and his dubious relationship with the State Department to effectively abuse and rob his siblings and his family. Through the evening he was sickeningly fawning over the minor embassy functionaries and sparing no effort to outline his long years of dubious service to the State Department.

- The young manager of a multinational enterprise, the new elite of Pakistan. His father served the British colonial administration, he serves the multinational. Well-educated and well-spoken, he has the power to bestow many a multinational favor. He combines this power very well with the social contacts that were left to him by the bureaucratic legacy of his father. He has used these advantages effectively to carve out a place for himself in society, both socially and economically. He is a well respected man and an honored servant of the multinational.

- Then there were those who were in the category of "they also serve who 'fawn' and 'suck up'". Several individuals who had obviously begged for an invitation and were prepared to serve hand on foot for their social contacts. They went out of their way to be as servile as possible addressing the VIP's with an emphatic "sir". They spent the evening trying so obviously to find a way to ensure that their new-found acquaintance with these "successful" individuals could somehow be cemented into a continuing contact in future.

I could not but help remark to my friend that these revelations make me wonder about the hypocrisy in our so-called honorable, "izzatdar", and "ghairatmand" society. I reminded him of the numerous references in our literature and folklore, as well as the teachings of our elders, regarding the kind of people that constituted an honorable gathering. In more or less every culture, those who committed acts that were regarded as immoral, were normally ostracized. Remember "Beau Geste": The threat of social ostracization because of a suspicion of an act that was considered immoral or unbecoming drove individuals to the foreign legion. It was hard to imagine how decent people would not only invite smugglers, corrupt politicians and bureaucrats, and abusers to their houses but also feel proud of such acquaintanceships. Did such people consider themselves honorable and respectable?

My friend listened to me very patiently, almost indulgently. He then reminded me that Pakistan was now a society where all institutions and laws had collapsed. There was only money and the power of money that now worked. It was no wonder then that people now had respect only for money no matter how it was acquired. Honor, "ghairat" and "izzat" were now commodities that were bought. To deny respect to the new honorable, "ghairatmand" and "izzatdar" wealthy would be both dangerous and suicidal. After all, Pakistan was a plutocracy, where the honorable rich were all created by the government which, then they, in turn, owned and controlled. How can we, lesser mortals, not worship the honorable plutocrats for our own survival? Hypocrisy, as always, is expedient and rhetoric only for fooling the uneducated and the illiterate!

# 19

## 'NGOs' for the elite

The Pakistani elite has been a wonderful survivor in Pakistan. It has adapted itself to changing incentives very well. No matter what government is in power or what the new thinking of the expatriate expert, you can be sure that members of our elite will be drawn to money, funding and power as honeybees are to honey. This class has through our brief history shown itself to be very agile in discovering the latest trend for acquiring fame and fortune. The middle classes that attempt to ape the elite, unfortunately, are always a little late in catching the trend and arrive largely after the elite has moved on. Or perhaps the elite moves on when the lesser classes arrive.

In the fifties, the civil service was the only game in town. It was the only way for any young man to achieve distinction, power and moderate wealth in the newly formed country. Young men from the elite would obtain the best of grooming and education at home and coast into the academy. All they had to do was look good, talk good and rule. No burden of serving the people was placed on them. The government was there to serve them and not the other way around.

By the late sixties, the lower classes had caught on and their young men, driven by ambition, and by the dint of effort began to compete for the civil service. Local institutions, that groomed the elite, became accessible to all and the relatively poor and less privileged began to flock to them. The distinction between the ruler and the ruled was being eroded.

This was an easy matter to deal with. The upper classes simply abandoned those institutions and started to send their children abroad. The result was fortunate for the upper classes in two respects. First, the polish added on by Oxbridge and the like maintained the distinction between the highborn and the lowborn.

Second, this distinction could be further sharpened by allowing the domestic institutions to fall into a state of rapid decline since the

elite needed them no longer.

However, the onslaught of the lower classes for some form of power sharing or democratization could be resisted no longer. Succumbing to this, Mr. Bhutto, in 1973 proceeded to reform the civil service in a manner that ended the eliteness of the club forever. The lower classes invaded the club in large numbers.

The elite responded by abandoning the civil service. It is interesting to observe that the socio-economic background, the education, as well as the extent of polish, of the average recruit changed dramatically during this period. The elite having abandoned the system allowed it again to deteriorate rapidly.

However, an alternative had to be found for the polished and educated young men of the elite. Fortunately, the multinational saw the opportunity as well as the tremendous economic advantage of exploiting the powerbase of the elite and its princes. Thus in the mid-seventies, we see that the elite children are employed by the multinational. Interestingly enough, the very same individuals who had been preparing almost their entire life for the big civil service exam, suddenly forgo the exam and start beating a path to the door of the BCCI's, Citibanks, Bank of Americas, ICI's etc. The multinational, in turn, hires them, treats them in a manner that is in keeping with their stature. Of course, these foreign firms exploited the contact base, elite position in society, as well as the better education, of their new hires from the elite classes for their own advantage in Pakistan. Consequently, we see unprecedented growth of these firms and their profits in Pakistan during the seventies and eighties.

Meanwhile during the roaring eighties, a new trend is setting in. The deterioration of the civil service and the public sector has reached an advanced stage. Public sector personnel are now both corrupt and incompetent. The government is now virtually paralyzed and has only one unabashed aim- to confer rents and benefits on the elite. The truly well-connected elite can now safely use the government institutions to its own advantage. The result is that a) rent-seeking which earlier was in its infant stages now is a growth industry and b) white collar crime is now in fashion. Distributer/agents of foreign companies specialize in selling any and all equipment to the government at highly inflated prices. Individuals from the elite classes now turn to obtaining loans from the nationalized financial institutions with every intention of not

returning the loan. Scams such as finance companies and the cooperatives are run with impunity and with absolutely no fear of retribution.

Unfortunately, the roaring eighties came to an end. The BCCI was caught out. The phenomenal pace of growth of the multinational firm could not be maintained forever. Petrodollars were gone and the bipolar world had made its way into history books. The government and borrowed too much and was being forced by international agencies to curb its spendthrift ways. This meant that multinational jobs were relatively scarce now, bank loans were more difficult to obtain, and selling worthless equipment to the government at inflated prices was now more difficult.

As luck would have it, an opportunity again presented itself to the elite. Donor agencies and the development-oriented "thinkers" (henceforth DOT) had long relied on the government for the development miracle. Frustrated with the dismal performance over the years, they were seeking an alternative approach but one that would still limit the role of the private sector (for the private sector and the DOT are mutually hostile). The new approach that they thought up was based on the notion of "participation" where citizens were only to be consulted in decision-making. Of course having consulted with the people, the government would continue to spend money on behalf of the people awarding the contracts to its favorites.

The modes of participation remained to be determined. Since the average DOT is suspicious of the private sector and profit, he dreamed up the nearest equivalent to the government- a nonprofit organization as his basic unit for this participation. A suitable name was coined- a non-government organization or commonly known as the NGO. As the DOT desired, the NGO like the government is responsible to no one. So long as funding is available, the NGO can continue to do as it pleases with absolutely no regard to private or social productivity.

Pleased with this line of reasoning, the donor agencies encouraged rapid growth of the NGOs. Funding was easy and the educated upper classes cashed in. The living rooms of almost every house in Gulberg, defence and the F's and G's of Islamabad were quickly converted to NGOs. Once a donor is convinced, there is no looking back. An NGO is born. Its health and growth is determined only by the glibness of its parent.



The decade of the NGOs is here. Expensive conferences are arranged all over the world on NGOs. Young men and women who look good and talk good are now seen in five star hotel lobbies talking participation with donors. Lengthy consulting reports at highly inflated rates are prepared on NGOs by NGOs. The upper class has shown its alacrity yet again. They are taking full advantage of the new and generous opportunity being offered by the NGO. Like before, the bill for this high living by means of the NGOs will be paid for by the people of Pakistan when the loans of the donors which are financing these organizations are called.

To me the only remaining question of interest is: after the NGOs, what will be the next goose that lays the golden eggs for the elite?

# 20

## How I have come to be an exile<sup>1</sup>

I was born in a new country in the post-war reconstruction era when the cold war was at its height.

I therefore grew up in a country that itself was growing up at the same time. During my childhood years, the newborn country was full of nationalism and idealism. It was as if independence had unleashed all that was good. Poets waxed eloquent on how we were going to build a new society better than any that man had known. Stories were developed of new national heroes - heroes who were genuinely larger than life, being full of good and totally dedicated to the fight against evil. In short my generation was being brought up on the extremely idealistic and moralistic rhetoric of a new country.

The post-war reconstruction era coincided with the rebuilding of my country. We were told to have faith in the government that could deliver us from all our problems. All we had to do was to dedicate ourselves to the service of the country. This spirit that we all attempted to cultivate was best encapsulated in that era by JFK as " Ask not what your country can do for you but what you can do for your country". Because of the rebuilding that was necessary, consumption was looked down upon and we were perennially asked to save more and more and give more and more to the government. We were taught to admire the virtues of thrift while our public sector and those that it favored bloated at our expense.

The cold war influenced me and my generation in two ways. First there was the perpetual fear of the end of the world. The media was full of the rhetoric of the two sides and that rhetoric was quite belligerent to my young mind. I remember wondering

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6. Written as an introduction of the author to a Canadian audience.

often if the world was going to last till I grew up. On occasion I gave up school work since I was going to die in a few days anyway. It took a long time for me to stop worrying about the bomb. Second, America was on a propaganda offensive during the cold war. And it was propaganda that the world had never seen before. At the same time this was the country that was at the pinnacle of human achievement and hence shone like a beacon anyway. Most affected by this propaganda and human achievement was an idealist and imaginative child. I grew up admiring Americana as I learnt it in the cold war- superman, lone ranger, kool aid mars bars etc. Unfortunately, at a distance and from a trickle of a literature that was allowed into the country and without any television, the impression that I formed about America was warped in many ways. In any case I grew up wishing I was in America and formed my own fantasy about it and to this day contrast it with what I see around me now that I am living in America. But that is another story.

The upshot of all these influences was that I, along with many of my generation, grew up with a number of false notions:

- we were idealists, hoping to change the world.
- we were moralists thinking that the high moral road was the best course in all circumstances.
- we believed in intellect and hence felt that solutions could be found to all problems. We further believed that the solving of the world's problems was best left to intellectuals.
- we developed a strong faith in the government which was leading the war against all evil at least in its rhetoric.
- Finally we developed a long and lasting fascination with the West and specifically America.

Like a clockwork toy, I was embarked on the path of idealistic morality. I believed in hard work and intellectual excellence during all of my adolescence and youth and never stopped to worry about how the world was changing around me. The cold war morality was fading as was the difference between right and wrong. The utopia that was to be created in the newly independent colony was not imminent any more. The government was now up for grabs

with dictators fighting each other for power, some times in the bloodiest of manners. The leaders and the various government functionaries who in the earlier period appeared to have a halo around their heads now seemed to be little more than common thugs and crooks. The symbol of morality and achievement• America - was in the midst of Vietnam and decay of every kind. My world of idealism and morality became a little murky.

I had been training to serve the people and the country as most of my generation. The glory, the power and the fame of it attracted most of my generation. While we were growing up educating ourselves for this task that we had set for ourselves, the role of the government had changed. Soon we found out that governments were not what we thought they were. They had degenerated into corrupt bureaucracies capable only of misusing power and public funds. The civil service which since the colonial days had been the principle means of justice, development, and good administration in general, had always attracted the best and the brightest and the morally upright. Unfortunately, it now appeared that it was not a goal for the moralist or the idealist or the best and the brightest.

Having acquired an education that was among the better ones that the world had to offer and unable to get rid of the notion of serving the people, many of my kind felt that we could still serve the country by devoting ourselves to academics and teaching. In a country where literacy rates are among the lowest in the world and academics have always been a low priority, we felt that perhaps the development of some competent research as well as the spread of education was very necessary. We also felt, perhaps naively, that this spread of education would ultimately catalyze change for the better -our eyes still sparkled with idealism.

What we had forgotten in our idealism was the truism that if degeneration had set into the system and the government, could the education system be any different. We found out soon enough. The education system would not allow us to enter. The various rulers of the education establishment felt very threatened by the knocking of the new young turks on their doors. I remember waiting to see a vice chancellor of Punjab University for weeks and finally when I got to see him it was only to be refused a job. And this is a university where there are still no serious economists and a large number of vacancies have persisted almost since independence. I remember remaining unemployed for a year.

The only teaching job that I found was a part-time lecturer at Rs. 120 per month or about \$ 5 at today's exchange rate.

Those of us who managed to break in eventually were in for another rude shock. Those who had control of the educational establishments did not wish any serious and new information to be conveyed to the students and would do anything to retain their hold on their institutions. In fact for all intents and purposes it appeared that all the corrupt forces in society were united in their efforts to ensure to prevent the youth of the country from gaining an education. It was almost a conspiracy. The campus was used for the purposes of generating active street-level political support. The campus was used as a means for appropriating funds from the budget for personal gain. What it was not used for was education.

The result of all this was that the students were involved in politics and had no interest whatsoever in education. Guns had been brought into the campus. Gun battles were common. Teachers were frequently threatened by guns and other forms of violence. Any attempts at upgrading standards were met with disdain and reproach from above and violence below. And all this while, some of us had dedicated ourselves to the task at a pittance. We were living miserably and frustrated every step of the way either by bureaucracy, religious obfuscation, violence and a virtual breakdown of the system. We were slowly turning into a depressed and cynical society.

As the realization hit each of us that this course was a waste of time one by one we began to leave the campus. There were only two options. One to live in the country but according to the dictum " In Rome do as the Romans do". This meant tum towards the activities that paid off in the country, such as obtaining a government job and then thriving on bribes. In general, this path meant becoming a part of the corrupt system. The second option was to retreat and live in some exile. That was the only way to retain some sanity as well as some of the ideals and morals that we grew up with. Of course, there are those who will say that another interpretation is that those who retreated had not the wherewithal to live in the rough and tumble of that society.

Take whatever interpretation you like. The fact remains that in my idealistic wanderings, my country and I, twins who were born virtually together, had grown in different directions. I, and many of my contemporaries, felt ourselves suddenly ill-equipped to walk the

path that we needed to, if we were to continue to live in our country. We had to leave, misfits as we had become.

I had to find new home. What could be better than my childhood dream- America. Where else could we go but to America that the cold war propaganda had made so dear to us. Perhaps, because of the Americana that I had imbibed as a child this would have happened any way even if decay had not set in my country.

# 21

## **Nationalism - a reconsideration**

With the demise of communism and the accompanying breakup of the Soviet Union, several new countries are coming into existence. In fact the rush to create new countries that the recent upsurge is creating in the Eastern European and Russian regions is quite reminiscent of pre-World War 1 days. And all this is happening in times when the cradle of nationalism-- Europe - is moving away from its own ideology and uniting into a single country purely for economic reasons.

### **The current definition**

While all international effort is being diverted towards helping with the birth of several new states simultaneously, perhaps it is time to reconsider our current notions of nationalism and what it is that we call a country. The current definition appears to be that any grouping, no matter how defined, if it can gain international acceptance and geographical territory, it can constitute a country. Once created, all countries are equal and subject to equal rights in international circles and fora. They have the right to sovereign lending like all sovereign borrowers.

Thus the Orange County in California is thus just another locality of the US and though it has a per-capita income and natural resource endowment that is substantially larger than many developing countries, it has less rights than those countries in international affairs. What is more, Orange County cannot borrow from international agencies, send a representative to the UN and other international bodies or have a national airline and money. Yet a small country like Tonga or the Maldives has the right to be counted among nations claiming all the rights of a sovereign nation.

## **Incentives to separation**

If international circles continue to hold to the current definition, then the incentive exists to separate current unions into smaller and smaller countries. Consider what the vested interests have to gain from a separation. The government of the new country can now buy more time by means of printing money and borrowing in international markets. It can distribute more of this newfound financing to buy itself more supporters and hence more time. At the same time, the leaders of the new country from being mere town councilors have moved up to being international leaders. While previously they were only able to visit the local metropolis on official visits and occasionally shake the hand of leaders of the country of which they were a part, now they jet about the world appearing on international media making powerful speeches of world import. Why should they not separate?

## **The costs of independence**

Leaving aside the patriotic fanfare associated with nationalism, people conglomerate into countries and cities primarily to produce and consume certain goods and services jointly. Thus for example most of us would choose to live in an area which was managed to be safe, beautiful and clean. We would also expect the managers of the area to provide us with good roads, schools, hospitals, universities and other such amenities. Unfortunately, what most of our nationalistic leaders attempt to leave out in their rhetoric is how we will get these amenities in smaller and smaller country units.

In some cases, say for a quality university or hospital, a certain population base is required. And a small country of only a few thousand people is just never going to be able to develop such facilities and perhaps they should recognize that. It almost becomes laughable when such a small country attempts to create such facilities by forcing people to use their own inferior national service rather than the quality service available internationally.

To indulge in the next grandiose hospital, university or power project in the name of the current dictator, the government is prepared to spend beyond the means of the country often only to support his



brother-in-law or crony. For that budgetary deficits are incurred. As the deficits grow, the country often responds by printing money at a more rapid pace and increasing its borrowing in international markets. The net result is that the people find that the domestic inflation rate is increasing and that they have to pay higher and higher taxes for meeting growing international debt servicing requirements.

### **An alternative definition**

Perhaps the time has come to rationalize the definition of a country to eliminate the incentive to fragment. Perhaps, participation in international markets, especially membership of international bodies, should be defined in terms of country size, quality of government and stage of economic and political development.

The quality of management of the country has to be an important variable that to date has received little or no attention. A country should not be seen as a mere geographical entity but as a set of institutions necessary to support a better life for its citizens. There should be some consensus on the institutions that are necessary for a country to have for this purpose. A government that is unable to say preserve and improve the quality of life of its citizens in a reasonable manner should not receive international support.

For example, a fascist dictator who is known for his domestic cruelty and for lining his pockets at taxpayer's expense, is unfortunately unlikely to be subject to any significant domestic opposition. The international community should, at the very least, ensure that there is some pressure on such dictators to make some necessary changes at home. And that can only be done if that government is subject to some international sanctions. Perhaps, countries that do not have periodic elections should be declared ineligible for international borrowing.

Many of the disenfranchised of the world, who have been oppressed for far too long at the hands of their governments, will be liberated by some form of international definition of good government and international surveillance of good government. Surely, if we can have surveillance over exchange rates we can have surveillance over corruption, mismanagement and dictatorship.

**C. Essays on economics  
and economic policy**

# 22

## A conversation with some expatriate Pakistani economists

At a recent gathering of some expatriate Pakistani economists in the US the issue under discussion was as usual, Pakistan. The gathering consisted of a number of our finest economists. It is therefore not surprising that before long opinions regarding the state of the economy and economic policy started flying around. As I have often sat through such discussions to watch pearls of wisdom go unrecorded and hence not benefit the country, I decided to become the informal recorder of the informal gathering.

Before long, I recognized that without a structure, or adequate secretarial help, my efforts would be wasted. I resolved, therefore to solicit some views from this eminent group (some of whom may be shaping our policy in the future) and to record these views for posterity. The following is derived from my sketchy notes from that evening. (I apologize to all the participants, who choose to remain nameless, if I am unable to do full justice to their views, and to the reader for not being able to present fully all the wisdom of the evening.)

**Q.** (After much effort to quieten the din.) How would you currently rate the overall performance of the Pakistani economy?

(For the record let me mention that there was considerable animated discussion on each question. At each step I struggled to derive a synthesis of views. It was like pulling teeth. The answers are basically the way I summed up the sense of the meeting).

**A.** There was a general feeling of satisfaction with the recent performance of the economy especially on account of growth and inflation. However, the current account and the fiscal deficits remain large and the reserve position of the country is not altogether

satisfactory. Two interesting stands of thought emerged from the discussion. First, there was a general feeling that there was little explanation for the largely favorable economic performance of the country. Recorded saving and investment rates were low compared to other similar countries yet growth was higher. On the other hand, inflation tended to be higher for countries with similar or even lower fiscal deficits.

Second, there was a general disbelief in the government figures. Based purely on individual observation, the group felt that actual growth in the economy could be much higher than that recorded. There was a feeling among the group that the black economy had grown at a fast pace in recent years and that if the figures of this economy could be combined with that of the official economy, even stronger growth than that suggested by official figures would be evidenced for the doughtiest Anecdotal evidence form individual observation during visits to Pakistan, was presented to substantiate this fact. Regarding inflation few believed those official figures. It was felt that more accurate measures, if derived, would suggest that the actual annual inflation rate in the economy was probably at the double digit levels in the eighties rather than below ten as the government calculations suggested.

**Q.** From this relatively sanguine picture, Pakistan appears to be doing well and has no problem. Are there any worrisome economic problems or trends looming on the horizon?

**A.** The unanimous view was that, recent experience notwithstanding, growth was not well founded. Domestic resource mobilization remained weak placing an excessive reliance on external financing. Recent geopolitical considerations have made considerable concessional financing available. But with the world demand for financing increasing rapidly in the near future with the dismantling of the iron curtain, external financing is going to be hard to come by. Moreover, the cost of such financing may also prove to be quite high. These developments in the international economy also suggest that survival in the post-communist world is going to depend more crucially on a rapid increase in productivity and competitiveness. Pakistan is too embroiled with its domestic political will to make the necessary changes, economic prospects may be seriously jeopardized.

**Q.** All right gentlemen, what practical suggestions do you have to give to the government?

**A.** There was general agreement that in order to deal with the existing problems and make Pakistan competitive the crucial first step was to define more clearly the role, and therefore the size, of the government. Currently, the government is over-extended, involved in virtually everything and therefore unable to do anything right. It needs to be brought home to the people that the costs of this over-extended and inefficient government are large and are being, and will continue to be borne by them.

**Q.** What suggestions do you have for redefining the role of government?

**A.** The government should be explicitly - perhaps by constitutional fiat- precluded from directly producing goods, a job which the government has been unable to do well in the past, and one that the private sector does better. According to this view, privatization of public enterprises was an urgent priority. In this regard, the government's recent efforts at privatizing at a rapid pace were welcomed and it was hoped would be maintained.

The government had not, however, closed down many of the inefficient departments, corporations or institutions. This was likely to be the politically more difficult task and it is hoped that the government would have the political will to carry it through. Thus far the profitable corporations or the ones with a significantly positive net asset value were sold to the private sector. But unless inefficiency was rapidly plugged, by means of closing down all the loss making enterprises and useless departments, government expenditures would continue to grow at the expense of our taxpayer.

The role of the government needed to be urgently redefined to a) providing modern infrastructure for the private sector, and b) adequate definition and enforcement of regulation or the rules of the game of competitive market. The government should, therefore, be striving to develop institutions for this purpose but with a strong emphasis on efficiency.

**Q.** What then is the role of government regulation?

**A.** Government regulation and reporting, though needed should be consciously and carefully scrutinized at all times with a strong

emphasis on productivity. Regulation should only serve to define the rules of competitive enterprise and not seek to curtail such enterprise. In addition, strict adherence to such rules should be rigidly enforced. The system should, however, retain the flexibility to reform itself as and when the need arises. Such flexibility, unfortunately, our system seriously lacks but that is a subject of a different discussion.

The current practice of licensing and rationing of government favors and credit which only serve to misallocate resources and lengthen gestation lags are counterproductive. An interesting experiment was suggested: to compare the time required to set up a project in Pakistan with the time required to set up the same project in, say the US. The hypothesis was that what would take a few days in the US would take a few years in Pakistan. The reason for this difference in time was suggested to be excessive regulation. However, Pakistan needed to recognize that such long gestation lags were not just costly to the entrepreneurs but also to the country at large.

There was also agreement on the difficulties of removing regulation. Over-regulation had not occurred by accident. It was benefitting those in power or those with influence. These individuals were basically living off the rents derived from government legislation, licenses, grants or access to rationed cheap credit etc. In other words their activity was not directly productive and had to be supported by means of taxing the masses. This "rent-seeking", as it is called in the literature, is therefore directly harmful to the economy. Furthermore, such rent-seeking activity also sets up incentives such that entrepreneurial talent is diverted from seeking profit from productive activity towards seeking "quick fixes", from their contact network in the government. The situation has reached a stage where the rent-seeking lobby is very powerful and will resist a change that seeks to remove their benefits.

**Q.** Surprisingly no mention has been made of monetary and fiscal policies?

**A.** While one of the important policy objectives of the government is to provide opportunities to people, it should only do so indirectly by ensuring stable and reliable policy environment to the private sector. In this view, the principal function of the government was to

maintain price and exchange rate stability while preventing excessive internal and external debt burdens. Consequently, it would be important to maintain a stable monetary policy and a fiscal policy that is easily financeable.

Large fiscal deficits such as those currently prevailing are unsustainable. The situation has been made more difficult by the structural rigidities in the budget that make it very difficult to achieve a rapid debt reduction. The three main categories of expenditure, defence, debt service, and administration currently make up virtually all of government expenditures. Achieving a reduction is therefore not going to be easy.

The danger is that the government is likely to find itself pushed into a corner where it is forced to print money for its budgetary needs. Excessive monetary growth would then translate into rapidly accelerating inflation. The country's competitiveness would then be affected, forcing a devaluation. Expectation of such inflationary trends and possibilities of a devaluation would trigger off capital flight, which, in turn, would result in a reduction of the country's reserves as well as the tax base of the economy. This spiral of monetary growth, inflation, devaluation, reserve loss, and increased deficits, reinforces itself and can lead to hyperinflation. Frequent references were made in this discussion to the Latin American experiences where such phenomena have frequently been observed in recent years.

**Q.** I gather that, in the view of this group the current fiscal deficit is unsustainable and should be reduced at as rapid a rate as possible. What does this mean, gentlemen, more taxation?

**A.** It must be clearly understood by the citizens of Pakistan that government debt can only be paid off by taxation when the debt matures. The tax can be collected directly or indirectly by inflation which results from the printing of money to repay the debt. In either case the people have to pay cash.

However, excessive tax burdens can be avoided by generating greater savings in the government operations, wherever possible. Casual observation suggests that there is considerable waste in the government. If quick action is taken to improve efficiency in government operations perhaps some gains can be made which will reduce the expected tax burden. Furthermore, the tax system needs considerable reform to induce people to pay taxes as well as

improve collection. A well designed tax reform could very possibly help increase government revenues. Thus, improved efficiency which prevents waste in expenditures as well as improves revenue collection could be a way of avoiding the tax burden that would otherwise be required.

(By now it was quite late and the group was getting restive. A number of interesting and important issues had been touched upon, each of which deserved considerable attention and study. Certainly, it was not possible to do justice to any of these issues that evening. There was a suggestion that, at some other date in the future, perhaps the eminent group will take up this discussion again. Maybe, some of these issues could even be studied in some depth. However, I insisted that one final question should be discussed to round off the discussion.)

**Q.** To sum up, it appears that despite the general air of prosperity in the country, there could be dark clouds looming on the horizon. There are a number of steps that can be taken to prevent an economic crisis and secure our future, but these steps represent hard choices. Are any of these choices likely to be made? Alternatively, are any of your suggestions likely to be pursued by the government?

**A.** Almost everybody answered in the negative. Moreover, they added that it was not a question of who was at the helm. At the moment there appears to be a) no informed discussion on these issues in the country, and b) no sign of the development of a strong, statesmanship like leadership. Politics has become a business out of which private profit is being derived with no regard for the social good. Furthermore, to stay in power, vested interests have to be cultivated and bribed in one form or another. Such interests are not going to allow the development of any leadership that might seek to cut of some of their rents.

The hard choices and reforms that need to be implemented are, as always, not without adverse consequences for certain powerful groups. Not the least of the difficult choices is for the policy makers - politicians, bureaucrats, and military leaders - to forsake their own personal aggrandizement. Such leadership, it is said, is not made of the sterner stuff required for the task at hand.



# 23

## The business expert's viewpoint

My friend, Malik Farid Mohammed, and I went to the same school in Hyderabad and later to the same college in Karachi. It was only when we came to the US that we went in different directions. Farid obtained a masters from a major business school and started a career in a leading consulting firm. He has now worked in that firm for some fifteen years and risen has to a fairly senior position. As a result he now has a vast experience in business consulting at almost all levels both in the domestic and international markets.

Farid saw the effort that I had made at recording the views of eminent economists and came up with some interesting views. In the course of our discussion it became very clear to both of us that people like Farid also had some very interesting thoughts on a subject so close to all our hearts. We, therefore, determined to hold a similar discussion but, this time, with a group of business professionals.

We collected a group of Pakistanis comprising of a) individuals who have had successful careers in large corporations, b) successful entrepreneurs and c) American businessmen who have had some exposure to developing countries.

Once again, I apologize to both the participants and the readers for not being able to do full justice to all the issues that were discussed. However, such are the hazards of individual and informal efforts at conducting research. But we are all agreed that imperfect though this effort might be it was useful in that it collected certain views that otherwise might never be aired. To this, I might add that, in my opinion, the views of such a competent group are undeniably of interest to the all who are involved with Pakistan- the people as well as the policymaker. With this apology, let me quickly proceed to summarizing the discussion as follows:

**Q.** What would you characterize to be the principal problem facing businessmen in Pakistan today?

**A.** Perhaps a distinction needs to be made between business and those involved in business. The system of patronage that has developed in Pakistan over the years has resulted in a lot of sleek businessmen but has done little to foster a business climate that is conducive to long run growth. Entrepreneurship or growth-oriented businesses are clearly stifled by the large government in many different ways. However, the rent-seekers, or the individuals who benefit from the system because of their contacts clearly benefit from this all-pervasive government that arbitrates in their favor. The result is that the rent-seekers seek alternatives for making easy money without considerations for the productivity of that activity. Hence you see that every individual is after plots or licenses- easy money in other words. The entrepreneur or the businessman who is capable of setting up a business that is productive and likely to contribute to the country's growth is often frustrated into inaction by the complicated government bureaucracy. Consequently, the short answer to this question is that the biggest impediment to the growth of the private sector is the all-pervasive role of the government - a role that seeks to confer rents rather than foster investment for longer run growth.

**Q.** Your argument presupposes that the private sector has a large role to play in the economy of this country. Would you say there is agreement on this in the country?

**A.** Certainly not. If anything even today the phrase, "private sector", is considered to be almost pornographic in all the influential circles. Perhaps because of our colonial heritage which cultivated the image of the state as that of the ultimate benefactor of the people, economists, bureaucrats, and policymakers in Pakistan are too quick in making the assumption that the state can and should have a large and positive role in the economy. These economists, many of whom are steeped in the tradition of the English Labour party philosophies of the mid-twentieth century, re perennially calling for a redistribution of income, land reform, nationalization, increased public sector, participation in production etc. The aims are all laudable. And no one can deny that these economists genuinely care and have hearts that bleed for the poor. or this they are occasionally rewarded with jobs and contracts by

the large and ever-growing government.

The eminent Pakistani economist sees the large and benevolent state as the ultimate salvation. He uses many arguments to support his case. The poor illiterate masses are incapable of helping themselves and therefore the government must provide for them. It needs to feed, clothe, educate, and look after the health of the poor. The rich are too rich and are overly fond of conspicuous consumption and therefore equity considerations require the government to step in. In their opinion the private sector is greedy and incompetent and has little, if anything to contribute to our economic development.

**Q.** Do you mean to argue that the private sector has contributed more significantly to our economic development than the public sector?

**A.** The question should really be turned around to ask whether the government has delivered all that it promised, or alternatively, can the government deliver all that the pundits seem to suggest that it should do. The answer on both these counts is a resounding no. Look at the mess that the government has made of our nationalized banks which have been made into institutions for delivering gifts to the rich and famous. The banking sector, which the private sector was managing rather efficiently, is now by all accounts virtually bankrupt and the poor citizens will have to pay for its losses by paying larger taxes. The rent-seekers who received those grants from the banking system will turn to conning the people in other ways. The rest of the nationalized industry is also run most inefficiently by the government. Large overheads, excessive employment, and incompetent management often precludes these industries from realizing their true potential. A good example is PIA, which with better management and more control over its overheads, could be highly profitable given its protected market and customer loyalty.

In contrast, consider the response of the private sector to increased profitability in the textile sector in recent years. Investment in this sector has expanded rapidly recently and is now beginning to show some export potential. Another interesting area where the private sector was able to do a considerable service to the national economy is that of education. For over thirty years, in keeping with the philosophies of the "learned", the government was the sole provider

of education. Despite many plans developed by the government and their resident economists/scholars and despite wasting considerable public funds on an overgrown education bureaucracy, neither the quality nor the extent of education improved. In the late seventies, the private sector was allowed to set up schools and an almost instantaneous and rapid growth in the number of schools was experienced in almost all urban centers thereafter. Although there is a large variation in quality among these new schools, it is fair to say that on balance these private schools have served to improve both the quality as well as the extent of education in the country.

**Q.** You seem to be overlooking the failures of the private sector, for example, the private sector finance companies that have now collapsed twice in our history.

**A.** Of course, private companies can and will fail all the time. The difference is that when they do, the public does not have to bear the loss. In the case of a government-run organization, the public does not find out the extent of the loss that is being incurred, and the fact that their taxes are paying for it. Moreover the losses persist for a far longer period than they would if the money were coming out of the owner's pocket. Consequently only a profitable and efficient private firm survives contributing to the economy and employment, while an inefficient government firm that continues to drain the budget is extremely hard to kill.

The failure of finance companies is often cited as an example of the failure of the private sector by both those who desire: and those who benefit from government regulation. But it is interesting to observe that no comprehensive public study has been done of the episode. Needless to say, as in every industry, some of those companies were badly run and would have collapsed. But is it possible that none of those companies would have liked to develop the business into a proper financial concern? After all that is how the Rothschilds and the Morgans started out and built themselves institutions that have longer histories than most countries. The proper course that should have been adopted then was to institute regulatory procedures that required both proper auditing and public reporting of the activities of such companies. Instead the course that the government chose was to discredit these companies which only served to shake the confidence

of the public in those companies and we all know that financial companies survive mainly on the confidence of their depositors. Not even the largest bank can survive a run once the confidence of its depositors has been shaken. Having driven the entrepreneur out of his business, the government proceeded to do what it does best- dole out licenses to its favorites. Large business houses who have thrived on government licenses through our history, and political allies have been awarded these licenses. For the last three or four years there has been a flurry of activity for these licenses among the rich and famous. Precious time has been wasted in the development of the nation's financial sector. Licenses have been awarded and then withdrawn with the vicissitudes of the concerned individuals' political fortunes. Let us be very clear the aim was not economic development but the conferring of rents. Further proof of this can be seen in the fact that some of these licenses are up for sale now. The rent-seekers do not wait, or toil, for their rents.

**Q.** What are your suggestions then for the respective roles of the private and public sectors?

**A.** The private sector does not operate in a vacuum. The rules under which the private sector can and should operate need to be a) clearly and simply specified and b) evenly and democratically enforced. The principal role of the government is to specify and constantly evolve such rules with only one end in mind that of promoting efficiency in the operations of the private sector. In designing such regulation, the government should seek to preserve simplicity and transparency. It should not tell the private sector how to do its business and what to do it in. Instead it should focus on developing a legal framework that ensures accountability of management at all levels, private and public. This would involve proper maintenance of records, public disclosure, and enforceability of contracts at all levels. Speedy dispensation of justice would be an important element of such a system. For example, shareholders should be able to bring to heel a recalcitrant or negligent management very quickly in an ordinary court of law and not have to bribe the local or other administration. Proper implementation of this would keep the government fully occupied for years leaving it little time to meddle in areas where it does harm. But then this is an area where political patronage cannot be dispensed and perhaps, more

than likely, some toes will be tread upon.

**Q.** In the discussion, thus far, no mention has been made of the resource constraint that we face in our countries. Is a large role of the government not required for the development of infrastructure that we so dearly lack? And for that purpose does the government not need to borrow heavily in external markets?

**A.** It is almost hypocritical the way we waste resources and then continuously use this rhetoric of a poor country lacking resources. The level of waste in our country, especially when it comes to resources that are wasted through rent-seeking activities, probably exceeds any calculations of wastage in Western Europe or the USA. The question that needs to be examined, therefore, is that, when measured on this scale, are we a poor country?

True we lack infrastructure and the government certainly has a role in providing us with infrastructure, or at least, having a hand in the development of infrastructure. But we must remain aware that the definition of infrastructure as well as perception of the role of the government in the development of infrastructure is continuously evolving. A few years ago, it was almost unthinkable that the private sector could participate in the development of utilities as these were decreasing cost industries and therefore were likely to be monopolized. Recent experience (such as the breakup of AT&T and the privatization of British Telecom) has, however, shown that the private sector can compete successfully in these areas. Roads and other communication facilities can all be developed with the help of the private sector.

Whether the government should borrow or not is a more difficult question to answer. One cannot disagree with the theoretical notion that judicious use of borrowed resources can enhance the growth prospects of a country. Unfortunately, too often borrowing is confused with grant aid. The public lacks the education and understanding to fully comprehend that borrowed resources are expensive and represent future taxation. On the other hand, the government, which is primarily concerned with prolonging its stay, regards external borrowing as a cheap means for dispensing patronage since, in all likelihood, the headache of returning the borrowed resources will fall on a successor government. For these reasons, many countries have over borrowed,

some to finance directly the corruption of their governments, others to finance the capital flight of their ruling oligarchies. It should be clearly recognized that given the closely interlinked international finance system, there is no possibility of a default as some politicians and economists naively believe in Pakistan. The borrowed resources have to be returned and in some cases at considerable domestic pain. Consequently, for securing the economic future of our country, the appropriate course would be to institutionalize a) some limits on borrowing and b) a monitoring procedure for the use of borrowed resources. For the first, a law, or perhaps even a constitutional amendment, could be devised, and for the second an open parliamentary committee could serve an important function. But these are large and important issues that cannot be discussed fully in this short session.

**Q.** On a more practical issue relating to the running of businesses, what is your opinion of the quality of business management in Pakistan?

**A.** With some apologies for not having any detailed or intimate knowledge of the subject and for relying mainly on casual observation, the answer can be summarized as follows. Some of the established business houses are reaching the mature stage of recognizing the value of managing their enterprises well. However, the issue is severely complicated by the many distortions that are prevailing. Rent-seekers, who rely on government licensing and the protection it offers, and on the availability of credit that is expected to be converted into a grant, are not often interested in operating a business enterprise over the long haul. Hence, such industries often are found to be "sick" quite soon. High rates of taxation and excessive import barriers result in considerable resources spent by enterprises in either bribery or evasion, both of which are wasteful activities.

These distortions, that have been induced by government policy, have served to create monopolies and preserve the wealth and privilege of the elite. But one important adverse side effect has been that this policy has helped stifle the financial markets in the country. An active stock market and an actively traded stock serves to exercise some discipline over the management of a business. Moreover a well-functioning stock market draws the savings of the small saver into

the most productive areas of the economy, thus enhancing economic growth. In Pakistan, because resources to the wealthy are transferred by means of government patronage, there is no need for businesses to approach financial markets for additional resources. It is interesting to note that although companies like IBM and GM occasional need to float new stock or bonds, most companies in Pakistan feel no such need for they can easily use the influence their local power-broker has with a publicly owned bank or financial institution. Consequently, businesses remain locked under the control of families. The stock market value of the company seldom reflects the true value of the company nor do the shareholders get their proper share. The result is that neither is the market able to exert its discipline on management, nor does the small saver invest fully in the development of business and industry.

The way the question was put reflects an important element of the mindset in Pakistan. Why is it that no one in Pakistan asks about the quality of the management of the government? In keeping with our colonial philosophy that the government can do no wrong, we feel that there is no reason to question how well or badly the government functions. At every level, the system of government is outmoded and not geared towards efficiency. The democratic system we have developed ensures only that privilege is rewarded and not that those interested in legislative issues are drawn into the system. The bureaucracy runs according to a system established in the nineteenth century, on pay scales that encourages corruption, and has no productivity or quality control. It is perhaps wise to remember that, given the extent of regulation, the government affects, very strongly, almost all facts of life in our country. Consequently, the inefficiency of the government tends to be compounded many times over, resulting in costs imposed on the country in terms of slower growth, greater wastage and higher taxation. Unfortunately, this is an area that the vested interests are least interested in touching for you don't bite the hand that feeds you!



# 24

## Economics and economic policy: a debate<sup>1</sup>

At a recent conference of the Pakistan Society for Development Economics an interesting and wide-ranging discussion on economics and economic policy took place between two Pakistani economists over dinner one evening. I found the discussion to be very informative and was fascinated by the widely differing positions that the two economists seemed to be taking. Consequently, I decided to record the discussion so that it could be made available to a wider audience.

Before presenting this record, however, let me introduce our two protagonists. Dr. Phannee Khan, a very sophisticated and charming man obviously belongs to upper crust of our society. He has been to all the right schools: starting off at Aitchison, going on to Cambridge and finally getting a Ph. D. at Oxford in development economics. Proud of his achievements and his contact base, he resents being addressed as anything but doctor (hence we refer to him as Dr. PK below) and wears his Oxbridge ties and accent with considerable aplomb. He remains loyal to the Fabian views that he learnt at Oxbridge and has spared no occasion to propagate those views through his articles in newspapers and his books on Pakistan. Being a loyal Pakistani academic he has published only in Pakistan and therefore has not published in academic journals nor is very well known outside Pakistan and the Pakistani development set. In Pakistan, however, he is widely regarded as one of our finest, always invited to seminars to deliver lectures and to government think-tank groups to contribute to policy.

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<sup>1</sup>. A fictitious debate that has been written only to make it more convenient for the reader to read certain important but more difficult or dry ideas. The economist frequently uses this technique for the same purpose.

In contrast to Dr. PK, Maskeen Shah, our other protagonist, is not very sophisticated, does not have the right contacts, and is not known in Pakistan as an economist. He too has a Ph.D. from one of the finest American universities but hesitates to use the title "doctor". He studied economic theory and not development economics which, though an advantage in the economics profession internationally was a mistake as far as Pakistan is concerned where the latter subject is better understood. Although he has published widely in respected academic journals abroad and is recognized as a fine young economist overseas, he has no connections with the economics establishment at home. His work is at the cutting edge and hence remains abstruse and inaccessible to the Pakistani economic establishment. Unfortunate for him, his preoccupation with international competition, has kept him from publishing articles in Pakistani newspapers or writing heartfelt discursive books on Pakistan. Consequently, while he is invited to international seminars, he is virtually ignored in Pakistan. While Dr. PK was an invitee to the conference, MS happened to be on vacation in Pakistan and decided to look in.

The conversation began after a lengthy lecture by Dr. PK on the current state of the economy which he essentially summed up as follows:

**Dr. PK:** The principal economic problem in Pakistan has been that we have had no sound and coherent planning framework in the country. The government has not put in place a set of policies that would foster strong growth, provide universal literacy, improve the role of women, reduce population growth, reduce inequality, maintain full employment, improve health care, and protect the environment.

**MS:** Perhaps you expect too much of the government! I am surprised at the patience of decent-minded, development-oriented thinkers (DOTs) like you who continue to hope and wish for a benign government that will deliver development to the country. You continue to define more and more tasks for the government, allowing it to grow limitlessly. Yet the government has yet to show itself capable of delivering on even very limited objectives. One would think that with all the evidence of government incompetence that has gathered to date, there would be a growing desire to define the role of the government more narrowly by setting objectives such that they are more easily

achievable as well as more easily monitorable. In this manner we could allow greater room for the private sector and market forces to operate.

**Dr. PK:** I think you go too far with your American love for free enterprise. I am sure even you free marketeers will concede that in poor, Third World countries like Pakistan, the private sector is incapable of responding to the needs of economic development. The large investment that is needed to generate long-term growth in the economy, and the mobilization of the funds needed for his investment, can only take place if government policy provides the right incentives. Economic growth will also not be well-founded without an adequate industrial and infrastructural base such as heavy industry and communications. So I do not see how you can prevent the government from taking a leading role in the economy. **MS:** The entire argument of DOTs like you stems from two basic premises: a) an inherent distrust of the private sector. and b) an implicit faith in the goodness and the wisdom of the government. Why do you assume that the private sector is incapable of responding to the needs of development? When have we given it a chance? Besides, you expect too much of the government. It should set all the right incentives for saving and investment and decide on all the priorities of industrial and infrastructural development as well as undertake much of this development. If we let you go on, you will probably add on the development of education, religion and culture to this list as well. You need a benign deity to do all this, not a government of mere mortals.

**Dr. PK:** It is not a question of the government being a benevolent deity, but a matter of practical development economics. We know from the literature on development economics that poor, low-income countries are caught in a poverty trap and require government intervention to pull themselves out of the trap.

**MS:** I don't know what development economics you are referring to. As far as I know, there is only one economic theory and that can be applied to all sorts of situations one of which is the problems of poorer or developing economies. However, so far you have not mentioned any reason for this grand leading role of the government that you mention other than pure suspicion of the private sector. I do not understand your faith in the government especially as we have had 45 years of rapid

government growth which was complemented only by a more rapid growth in government incompetence.

**Dr. PK:** I concede the fact that the government has grown more than it should and that it is largely inefficient. Yet I cannot help but think that your faith in the private sector is equally misplaced for the private sector is motivated by individual greed and cannot be induced to work for the social good. On the other hand, the government works for the social good.

**MS:** The flaw in this standard DOT argument is that you insist on the fact that the private sector is motivated by greed for profits, but aren't all human beings? Can we assume that the motivations of the government entirely pure? Is the government not comprised of individuals? Are those individuals not greedy exactly as their private sector brethren? Should we assume that these greedy, self-serving individuals can act in an altruistic manner, and in the public interest once they have acquired an official title?

**Dr. PK:** But you have to concede that you cannot allow market forces to operate unbridled. In countries such as ours, the private sector is very small and wealth tends to be concentrated in the hands of a few. The result is monopolies that as we are all aware result in a loss of social welfare.

**MS:** You assume that, if left uncontrolled, market forces will generate monopolies and a maldistribution of incomes. I submit that a monopoly cannot be created without government intervention. Policies such as licensing, protection and easy and discriminatory credit that lead to monopolies by limiting free entry in one way or another.

**Dr. PK:** I am sure you will agree that the private sector tends to be guided by their own profit motives and not by the needs of the society or the economy at large. For example, projects such as heavy engineering, have such long gestation periods that the private sector will not invest in them. Such projects are extremely crucial for longer-term economic growth. Only the government can see the social gains of such large projects and, therefore, such projects have to be conducted as a part of the longer-term government plan for the economy.

**MS:** The important question to ask when evaluating any project is whether the project is viable or profitable on purely economic grounds or not? If it is profitable, even though there is a gestation lag, I think the private sector will undertake the project. We have seen in the development process of the West, the private sector undertook projects that today are considered fit only for the public sector: prime examples are railways, roads, telephones and electricity - all of which were developed by the private sector in the USA. Unfortunately, the problem that we face is that the DOTs and the government feel that they know better than the market. Despite being repeatedly proven wrong, they continue to insist that only they know the path to economic development. In their mind exists this model where sound economic growth cannot take place without large steel and engineering works even if these works are unprofitable and unviable from any economic standpoint.

**Dr. PK:** Do you then feel that there is no place for planning in the country? Surely, given the extent of poverty in our resource-poor country, we would wish to speed up the development process. This can only be done if we can marshal our resources well in keeping with development priorities. The best way to achieve this is by means of the planning process and without succumbing ourselves completely to the vagaries of the marketplace.

**MS:** Somehow, the argument of all DOTs seems to be based on the perception that left to itself, our economy and society will fall into total despair. In fact, without some massive intervention from the governments and its DOTs, there was no hope. This is an egotistical and self-serving argument that has helped provide DOTs many government and international agency jobs. The insistence on a plan both for a short and the longer term implies that both the government and its resident DOTs know what needs to be done and how it should be done better than the rest of society. They know what goods should be produced, how they should be distributed, and at what price better than the consumers who demand, and the producers who produce, those goods. Because of superior knowledge, the government sets up licensing schemes, provides subsidies and other incentives and allocates preferential credit. I have never understood why you DOTs feel you have this Olympian vantage point?

Why is it that you know more about us and our desires than the rest of us?

In line with this thinking, the government has established a large number of research institutes to house the DOTs with cushy jobs. Each year we see the creation of a new institute for economic, sociological, rural development or other much needed development research. All we see is that a new DOT manages a large house, a car and a grant for building his own little empire. Little, if any useful work comes out. What have these so-called think-tanks done for us and why should we continue to provide them our tax money?

**Dr. PK:** Given recent developments in the world, all development economists have conceded the need for a much-reduced role for the public sector and an increased role for the private sector. Consequently, we can agree that the government should not be involved in directly producing goods or the manufacturing sector. I will even concede that the earlier models of development that considered it important that certain industries, such as steel and heavy engineering, were crucial to development have been proven to be incorrect. The theory of comparative advantage which suggests that countries should produce only those goods that they can produce cheaper than others, has been vindicated over most developing countries. Having said that, I do feel that the government still needs to take a lead in many sectors, especially in terms of providing basic needs if economic development is to take place.

**MS:** I think that now we have come to the primary issue that needs to be resolved: what should the role of the government be in the economy? In defining any role for the government, we must begin with an assessment of the current capabilities and quality of the government. As far as I can see, the government currently is in a state of crisis. It cannot even deliver on one of its most important and most fundamental functions, that of protecting life and property. This is a function of the government that has been understood since times immemorial, even in old tribal and feudal societies. Even in the provision of basic public goods such as sanitation, clean water, and other basic necessities, the government has not been able to keep up the earlier minimal standards that were set in colonial days. Thus, I, for one, do not expect much from the government!

Unfortunately for us, the growing ineptitude of the government has been combined with rapidly increasing levels of corruption and nepotism. The result is that the government is incapable of functioning according to any norm that we might consider desirable from the social standpoint. Before asking the government to set any policy goals or take on any new task, we must bear in mind this paralysis of the government.

**Dr. PK:** In order to develop there is an urgent need to make progress in two areas: a) the population growth rate has to be reduced, and b) the literacy rate has to be increased. I cannot see how anything can be achieved in these areas other than by means of increased government efforts and expenditures in these areas. **MS:** I am surprised at your faith in the government. Despite several government pronouncements in our history, and despite several budgetary and plan allocations, there has been no visible reduction in our population growth rate or any significant increase in our literacy rates. Yet, surprisingly DOTs keep asking the government to commit even larger amounts of resources to the achievement of such goals (or to the achievement of other bleeding heart goals such as basic needs).

**Dr. PK:** Your argument is convincing and I can sympathize with your pica that perhaps from now on the starting point of our analysis should be a re-evaluation of the role of the government. Certainly, in our history, the government has been unable to deliver much. I see your point about lowering our expectations of the government. Maybe we should from now on expect the worst from the government and not the best as we have done in the past. Unfortunately, we cannot advocate leaving all important development imperatives in the hands of the private sector! Perhaps, a better approach would be to create autonomous, public sector agencies that attempt to work towards very clearly defined economic objectives.

**MS:** The standard DOT prescription seems to be the creation of a new agency perhaps in the hope that the proposing DOT will be appointed. The standard government response is to make the budgetary allocations, create a new agency, and appoint some government favorite as a chairman. An organization is born, the chairman and his

favorites have perks and money to spend and no responsibilities or accountability. Years will go by and nothing would have been achieved except that the budgetary allocations for the new organization are increased each year. However, despite, the increase in expenditures, the organization has not increased its productivity. In fact, in most cases apart from broad guidelines laid out in its charter, no attempt is ever made to even define the productivity of such an organization.

Personally, I would urge all DOTs to be very careful about making any recommendations regarding the creation of new agencies. It is time for citizens, DOTs and others to unite and push for the establishment of very clear criteria to be fixed regarding a) the productivity and b) the budgetary claims, of government organizations. At the same time, there should be an insistence in all quarters for an adequate definition of how and when to close down a government agency. After all, when was the last time that a DOT recommended that it was time to close an institution either because it could not perform or because it had outlived its usefulness?

**Dr. PK:** Unfortunately, you are right. The evidence speaks against the government. The corruption and the waste in the government are indeed excessive. And yes, the government has really not been able to achieve many of the objectives that it set out for itself. You are right, the agencies that the government sets up, often directed at achieving a development imperative, ends up being a fiefdom of some influential individual. Nothing is achieved, except to create another bottomless pit for our budgetary resources to be thrown down.

I also agree with you that in the past, we, the development economists have placed too much faith in the government's ability to foster economic progress. This was born of the optimism of the newborn nations of the post-colonial era. The new countries wished to hasten progress. They were confident that, with proper direction, their economics could be developed, and the welfare of the people improved at a faster pace than if there was no direction. Because of the lack of institutions and the small size of the private sector, the most obvious agent for giving this direction was considered to be the government. The government took on this role cheered on by the DOTs, as you call us, and a growth



industry developed in thinking of new ways for the government to interfere and take charge of the economy. Later of course this becomes somewhat of a vicious cycle with the government expanding to provide jobs to DOTs who rationalized further increases in the government.

Consequently, you might see, though we started off in different schools of thought, with the availability of evidence, we do not differ much in our thinking today. Even we, the DOTs have changed substantially. We recognize that perhaps we have been putting too much in the plate of the government causing it to develop the indigestion of corruption, inefficiency and waste. We also realize the need to understand and develop a more pragmatic and realistic role for the government for the future. As I see it, this will involve that the government must privatize and deregulate and clean up its act in administration in general. At the same time, you will recognize that there is a role for government regulation as well as a policy that sets the right incentives for development priorities. Thus, for example, without policy skewing incentives in favor of labor, more capital intensive industry will develop, leading to higher unemployment.

**MS:** I am glad to know that there is a rethinking underway among the DOTs for as you can see evidence has piled up against the DOT thinking of the sixties and the seventies. Yet I feel a subtle difference in the two perspectives - DOT and the economists• continues to persist . While I think you have moved away from your earlier, deep-rooted Fabian notions of the state, you still expect the government to be able to lead development. Let me explain.

In defining the role for the government, I think it is time that we begin by expecting the worst of the government. This should be our starting assumption, at least until there is evidence to suggest that the message has been received by the government and that the government has shown a willingness to change. Our suspicion of the government should lead us to develop a consensus- to match the earlier consensus for increasing the size and scope of the government- that insists on the scaling down of size of the government and of the areas of involvement of the government. In the past, a lot of effort has been expended in dreaming up public sector marketing boards, government agricultural extension service organizations, and export promotion bureaus.

bureaus. Perhaps the time has come now to put in a commensurate effort in studying the departments of the government and other public sector institutions to identify those that need to be closed down.

I am deeply suspicious of any efforts to improve economic policy, the efficiency of the government, or regulation, unless such efforts are preceded, or at the very least, accompanied with measures to prune the government down to some desirable size. Thus for example, to put in place incentives for increasing labor intensiveness, I ask yet again: can we expect the government to honestly do the needful or will the government only create another distortion by providing a fresh rent-seeking alternative? In its current state of efficiency, and riddled as it is with corruption, the government is incapable of delivering on any front. That should be our fundamental premise until the government gets the message and reforms itself to a level where we see at least a mild consciousness of productivity in the minds of government officials.

# 25

## The implications of government debt

**Q.** How does our fiscal policy compare with that of other developing countries?

**A.** Through the last two decades, fiscal policy in Pakistan has been based on large deficits. We can compare our fiscal deficits with those of other countries by comparing the ratio of deficits to GDP. Using this method of comparison, our fiscal deficits prove to have been among the largest in the world.

**Q.** It is commonly believed that large fiscal deficits result in high inflation. Yet we, in Pakistan, have not had high inflation. With such large fiscal deficits, how were we able to avoid high inflation?

**A.** The financing of such large deficits has often led to considerable problems in many countries, including excessive rates of inflation. Fiscal deficits arise only because the government is unable to increase tax revenues or reduce expenditures for political reasons. Consequently, the government has only two options for financing the gap between expenditures and revenues: a) print additional money and b) borrow at home and abroad. The first option - that of printing money - results in an increase in inflation in the country. The second option- that of borrowing - means that the government has to find additional resources in the future to finance the interest on such debt and for the repayment of such debt. Increased debt financing results in increased debt• servicing expenditures in the future. Expenditure reduction, in the future, therefore, has to come from some other source.

Had the government used money creation as a means to finance our fiscal deficits, we would have experienced extremely high inflation rates. As it happened, the government chose to borrow to finance these deficits. Moreover, the government was able to borrow

at rates that were largely concessional both at home and abroad. Lenders essentially subsidized the government. This subsidy allowed the government to avoid printing money for the financing of its deficits. The result is that we were able to avoid the high inflation rates that normally accompany large fiscal deficits--- thanks to the generosity or naivete of lenders.

**Q.** So it seems that if we continue with *this* policy, we have nothing to worry about. We need not reduce expenditures or increase taxation, and can still enjoy a low rate of inflation?

**A.** There are several reasons why this policy may be extremely difficult to pursue over the coming years. In fact, perhaps it would be fair to say that increasing fiscal deficits may now represent one of the more important threats to our economy in the coming years. It is not going to be easy to reduce the deficit but, as things stand the alternative of not reducing the deficit may mean greater hardship. For example, if the deficit is now not reduced we may experience the excessive rates of inflation that other high deficit countries have experienced and that we have been lucky enough to avoid.

**Q.** But If I understood your earlier argument, inflation can be avoided if additional money is not printed to finance the deficit. The question then is: can we not continue to avoid printing money by borrowing as cheaply as we used to in the past?

**A.** Fiscal policy based on borrowing to finance the deficit has now been pursued for two decades. The result is that the government has now accumulated debt to a level that is high in relation to the size of the economy. The interesting question to consider is, can the government debt grow indefinitely? As the debt grows, debt-servicing obligations increase, increasing expenditures and the deficit in turn. It seems reasonable to assume that lenders will perceive the probability of a default to increase with increasing indebtedness. After all, it is not unknown for governments to default on debt. Countries have done it since times immemorial.

Being aware of the possibility of default, lenders will watch for signs of over indebtedness of the government. They will reduce their supply of debt if they feel that the government is approaching this level of over indebtedness. Even before this point

is reached, lenders will begin to show their reluctance to increase their exposure by demanding a higher interest rate on their lending to the government. Consequently, we cannot expect that cheap debt will always be available to the government.

I am not going to discuss changes in the geopolitical considerations which have resulted in the "West", specifically the USA, in looking at us less favorably than it did in the past. Of course, this factor has already contributed to reducing the supply of concessional external financing to us and will perhaps reduce it even further in the coming years. But I will not go into this here because our newspapers devote more than enough space to lamenting about the changing geopolitical environment. Suffice it to say that for the future, cheap external financing will not be easily available.

**Q.** What you are saying is perhaps true of foreign lenders who are sophisticated and have political considerations. Over the last few years, the government has relied more on domestic borrowing than on foreign borrowing. Surely, domestic lenders will continue to lend to the government and at the same rate.

**A.** Domestic debt grew rapidly during the eighties. This was a time when because of remittances and the growth of the black economy, people had a large amount of domestic liquidity available. Since it was illegal to export capital in those days or to hold accounts overseas, concealment of such holdings abroad represented some cost to the holder. As a result, domestic savings had to be largely invested at home. Of the investment choices at home government debt was made attractive by policy. It was tax free and paid a higher rate of interest than other forms of domestic deposits. There was a strong demand for government debt in those years and this debt grew rapidly.

This situation has now changed for two reasons. First, as discussed above the high level of indebtedness of the government could affect the government's ability to create additional debt. Second, the economy is now open and domestic residents can hold foreign currency deposits both at home or abroad. Consequently, for Pakistanis now the opportunity cost for holding money is going to be the interest rate on foreign currency holdings that prevails in international markets. Moreover, since this interest rate is collected in some foreign currency denomination, the holders of such deposits will

also be able to realize any gain that arises from any depreciation of the domestic currency. In order to make depositors indifferent between holding foreign currency deposits and domestic currency deposits, the yield on domestic currency deposits must be equivalent to the international interest rate plus the rate of depreciation that is expected on the rupee. Given past trends in exchange rate depreciation, and in domestic and foreign interest rates, it is reasonable to expect that the interest rate on government debt in the coming years will drift upwards.

Given the high level of indebtedness of the government, debt servicing already constitutes a significant proportion of government expenditures. Further increases in the interest costs of government debt will serve to further increase expenditures and hence contribute to further widening of the deficit. Consequently, in the absence of sincere deficit-reduction efforts, the problem may become more difficult to deal with because of the rising cost of government debt.

**Q.** If the government finds it increasingly difficult to borrow, and the cost of debt increases what are the options available to the government?

**A.** In the event that government finds itself unable to increase its borrowing, it can reduce its spending. If this is not possible for whatever reasons-- domestic political or external security - there are only two options: either to monetize the deficit or to increase revenues by means of taxation. At an intellectual level, the two are equivalent. Increase in the money supply leads to a higher rate of inflation given that there is now more money available to purchase the same amount of goods. A higher rate of inflation on the other hand reduces the purchasing power of money holders. In effect, therefore by monetizing the deficit and generating a higher rate of inflation, the government is able to tax money holders. In this sense economists argue that the government can collect two equivalent forms of tax revenues, from the inflation tax and from conventional taxes. The only difference is that the inflation tax requires no legislation or compliance by the citizenry whereas conventional taxes do. In other words, the inflation tax can be collected silently.

In our country, it appears that, of these two forms of taxation inflation tax and conventional taxes - the more likely outcome appears

to be reliance on the inflation tax. This is because, the government has been unable, despite attempts, to increase conventional tax revenues over the past years. There is also considerable political opposition to widening the tax base. Furthermore, the level of tax evasion in the country remains high. Consequently, when it comes to some kind of a financing crunch, it is easy to see that the preferred course for the government will be inflationary finance.

Inflationary finance will also have the additional advantage of reducing the value of government internal debt. Since such debt is denominated in rupees, any increase in the rate of inflation reduces the value of such debt making it easier for the government to repay it. With the rate of inflation running at high enough rates, the holders of such debt can be left holding worthless paper. Unfortunately, the downside of this is that several fixed-income individuals such as retirees, widows and orphans derive their income from interest on government paper. Their impression was that this is the safest form of investment. To their surprise, they learn otherwise. This has happened in a number of countries and could easily happen in Pakistan.

**Q.** Such high inflation rates are characteristic of Latin American countries. Pakistan has had a tradition of low inflation. It is hard to see how we could see any structural change in our economy that could result in very high inflation. What, if any, factors do you see that could lead to such high rates of inflation?

**A.** Let us analyze the current situation. I hope I can explain this well for this is not an easy line of argumentation. Note that domestic residents can hold foreign currency accounts at home and abroad freely. Domestic money holders will now be quite sensitive to the rate of return on domestic currency relative to that available on foreign currencies. Any expectation of the rate of return on foreign deposits being more attractive will lead to a reduction in the holding of domestic money and a commensurate increase in foreign currency holdings.

The perception that the service on the stock of government debt represents a severe drain on government resources, together with perceived structural rigidities in government expenditure, would lead economic agents to the recognition that the government will either increase tax revenues or money financing. In anticipation of taxation

of one sort or another, currency substitution would increase. People would move into the nontaxable foreign currency and domestic currency holdings would decline as a result. Money creation for the financing of the deficit will now lead to a higher rate of inflation than would have occurred if the domestic currency base had not shrunk by means of this currency substitution. It follows, therefore, that in the absence of deficit reduction, we may expect higher rates of inflation in the future than in the past.

**Q.** You have made a very effective case for reducing the fiscal deficit in the coming years. Perhaps you also have some thoughts on how to reduce the deficit.

**A.** For debt reduction the government has only two options, either to cut expenditures or to increase revenues. Let us look at each of these policies separately. Increasing taxes reduces the amount of money in the hands of the private sector and hence reduces private sector spending. This reduced demand in the economy eventually can lead to a reduction of supply and hence result in a reduction in growth. Relying purely on tax increases for deficit reduction would place an excessive hardship on the private sector and threatens to harm economic growth.

Turning to expenditures, perhaps the first principle that should be adopted is one that is alien to government in our country - eliminate waste and inefficiency. It is commonly believed in Pakistan that the government is extremely inefficient. It is time then to reduce government inefficiency and put the savings towards the realization of a reduction in government expenditures. The government is also involved in many areas that it has no business being in such as manufacturing, developing literary and cultural organizations and institutions. Savings could, therefore, be realized by moving the government out of many such areas where it is not needed.

Having said this and after having eliminated waste, the policy choice of where to cut expenditures can be made. Within expenditure reduction, there are two choices: reduction of current expenditures or a reduction of development expenditures. In the past, our policy for the containment of growth in expenditures has relied on the reduction of development or investment expenditures. Coupled with the inefficiency of the government. This policy has resulted in not only a



slow growth of our public infrastructure but also an erosion of the existing base due to inadequate maintenance. It would appear, therefore, that there is little room to reduce government investment expenditures further though there appears to be a lot of room for improving the efficiency of government investment expenditures.

Consequently, the best policy might be to reduce government current expenditures. A reduction of government current expenditures has the beneficial effect of actually making more of the output of the country available to the private sector. The private sector then disposes of this output according to market signals. Waste is, therefore, eliminated.

To sum up, deficit reduction policies should rely on eliminating government waste and reducing the size of government current expenditures. After this has been achieved and when the government is out of all unnecessary activities, then to the extent necessary, this policy could be supplemented by tax increases. Government investment expenditures should be maintained and allowed to grow but only to the extent that these expenditures are efficiently utilized.

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## **Rentseeking an industry in boom! What is "rentseeking"?**

Rent constitutes earnings made without any human effort such as labor. Alternatively, rent is the income that derives from the possession of an entitlement. The earliest examples of rents were where a title such as a "Duke" or a "Nawab" allowed the title holder to collect fees on the lands that were gifted to the individual along with the title. Even today, income from real estate holdings is referred to as rent.

The main aspect of rent is the fact that the mere possession of the title allowed non-labor income to be derived, ie., income has been obtained without the individual having actually putting in any work effort.

Ever since the creation of the state as form of organization of human society, people have recognized the ability of the state to confer rents on individuals. Romantic tales are full of heroic deeds, the rewards for which were castles and lands that allowed rent to be collected for a lavish lifestyle for the hero. As a result, many of these tales begin with the miller's son going to court to seek a way to perform a heroic deed and obtain his rents. This miller's son is the earliest form of the rentseeker.

As the name implies a rentseeker is someone whose efforts are all directed towards obtaining rents or non-labor income derived purely from entitlement. Since human effort is always directed towards building a nestegg for retirement, what distinguishes rentseeking from this normal behavior? A person could work and save for a considerable period of time to be able to build up some form of real estate or investment holdings to be able to collect non labor income that will allow him to retire.

A rentseeker is distinguished from this individual by the fact

that the rentseeker will not attempt to work for anything other than the creation of a rentseeking opportunity. All the rentseeker's efforts are directed towards the creation of a rentseeking opportunity for himself. These efforts are directed towards the government which by conferring some license or monopolistic advantage would allow rents to be collected. Consequently, the principal form of activity for the rentseeker is the cultivation of government officials who provide the information and the entitlement for rents.

Another important feature of rentseeking activity is that none of the rentseeker's activity is productive. In actual fact the creation of rentseeking opportunities could lead to counterproductive activities such as wasteful and inefficient use of resources. For example, useless and expensive government purchases may be one method for obtaining rents. Unfortunately, the byproduct of this approach would be an unnecessary increase in greater expenditures and eventually an increased tax burden for the people of the country.

### **Causes of rentseeking**

As developing countries gained independence, the state assumed a large role that included diverse activities such as leading development, eradicating poverty, and providing social benefits. Given this large role that had been defined for the government, the state acquired control of a large portion of the country's resources. Planning of development also provided it with a mandate for increased control of resources as well as large powers of directing resources within the country. For the latter task, licensing, credit controls and other regulatory and control procedures were set up.

The growing state was endorsed by all factions of society as a necessary means of achieving the promise of prosperity. In reality, it served to increase the rent conferring powers of the state. The state could take resources from the people in general, and provide them to its favorites. It could dole out licenses, or distribution agencies for publicly produced goods, or cheap and preferential credit and grants, or route permits ostensibly for development. In reality, however, these worked primarily as means for collecting rents for the few who could obtain such favors from the government.

## **Rentseeking activities**

Rentseekers are not necessarily idle. In actual fact a lot of them are expending a considerable effort in attempting to create a rentseeking opportunity for themselves. Networking or the cultivation of contacts to that effective rentseeking may ensue is, by now, a fine art. Children are taught at an early age that the mastery of this art is far more important than the gaining of education. Births, marriages, *eids*, *basants*, and funerals are all alike an opportunity for cultivating contacts, contacts that can be called upon when rentseeking opportunities arise.

Over the years, an important activity that has emerged among the class of those well-connected to the government, is that related to gaining wealth by means of those connections. These activities range from outright influence-peddling and corruption by government officials to selling goods to the government and obtaining government contracts at inflated prices.

Quite often, individuals are given monopolies by means of government licenses. Numerous individuals have collected titles to textile mills, sugar mills, oil mills, route permits, etc, by this means. In some cases the mere paper on which the permit was granted was sold at an enormous profit. The paper normally grants a monopolistic, or at the minimum an oligopolistic position, to the holder. By ensuring that potential entrants were precluded, the licensee was granted the right to earn large profits.

Cheap credit is made available on projects which have been inflated beyond reason. Often the project is abandoned and yet none of the arrears on the debt are ever collected. The banks that have been forced to promote such rentseeking activities will ultimately have to be shored up at the expense of the taxpayer.

Often, the licensee is provided tariff protection as well as cheap, preferential credit. By *this* means he is able to charge a still higher price to his captive market since external and internal competition is ruled out by fiat.

## **Costs of rentseeking**

The issue really is that no matter what the effort, such activity is unproductive and, quite possibly, costs the taxpayer. Stories of

tenders that have been fattened because of commissions of the various rentseekers are perennially making the rounds. Sleek consultants are lining the lobbies of donor agencies and planning commissions doing studies that never see the light of day. The indenters or the tender-makers are always living very ostentatiously and using all their wealth to cultivate government contracts. Some may not even fulfil their contracts. Others provide substandard service or manage to win a tender with the highest price. Yet they grow rich and the people are left holding the bill for a shoddy service.

Rentseeking has virtually paralysed the state. There are so many people out for rents that there seems no other activity in town. Work-ethic stands totally discredited for the fruits of a hard working life are by far outstripped by a short and successful rentsucking career. The signals that are, therefore, sent to the aspiring youth are to move towards the more productive career of rerusucking rather than a life of labor and toil.

### **Measures against rentseeking**

Most societies seek to limit rentseeking and other such unproductive activities by means of legislation and the enforcement of such legislation. In most developing economics it has been found to be very difficult to enforce existing laws especially against the elite. The state is unable to function against the excesses of the rentseeking elite. Consequently, legislation and the threat of enforcement of such legislation may not be an effective check to wasteful rentseeking activities.

What then, would be the approach to limiting rentseeking in the context of a developing economy where the state is in decline? To begin to answer this question, note that this activity is thriving mainly on the basis of the excessively large role of the government in the economy. Regulation, licensing, credit rationing, tariff protection, price setting, and other monopolistic titles are all being exploited for rents. The excessive expenditures of the government are being considered a fair game for either direct embezzlement or misuse by the rentseekers. An effective solution would, therefore, involve a redefinition of the role of the state.

A reduction in government controls, and a reduced role of the government in the production of goods and services and a greater

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reliance on market forces will place all individuals at the mercy of the market and hence force them to work for a living. Moreover, increased competitive forces in the domestic market, including subjecting the domestic industry to external competition would ensure efficiency in all economic transactions. In turn, the industrialists who are forced to compete at home and abroad, will demand an end to rentseeking since such unproductive activities serve to increase the tax burden, and hence the costs, of all producers.

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## What about "price"?

On my last visit to Pakistan, I attended a large, well organized and well-funded seminar on economic policy and economic development in Pakistan. Various luminaries attended this seminar• the finance minister opened it, various ministers and other notables chaired various sessions. The number of notables was large forcing the organizers to create more and more positions on the dais as well as official designations such as co-chairmen. To accommodate such VVIP's the proceedings were frequently interrupted for welcome addresses. All this was splashed on TV and in newspapers. The organizers and the participants were exceedingly happy with the media hype that the seminar generated. The purpose of the seminar had been served: projecting the organizers and participants and hence furthering their political or other career.

It did not matter that much of the discussion at the seminar revolved around platitudes. Issues were not researched, no evidence was presented, no fresh ideas or hypotheses were presented or researched. No discussion took place. Only a series of speeches were made. But all the organizers and participants were very happy with headlines and their picture in papers for that is what would lead to their career enhancements.

Surprisingly, the seminar was on economics which was not in any way constrained by economic thinking or theory. Throughout the proceedings the word "Price" was not mentioned once. Economics is all about "Price", yet the seminar did not mention the term "Price" through 3 days of deliberations. In economics prices are an important signal for suppliers to produce their output, investors to determine where to invest, consumers to make their consumption decisions. Prices respond to scarcity and ensure that market determined decisions are taken by all economic agents.

Economists all over the world recognize this important role of prices. Economists recognize that supply is increased and demand is reduced in response to an increase in price. Consumers attempt to

to increase the consumption of lower price goods and producers seek to invest in goods where prices are high and possibility of profit margins exist. Economists recognize that any factor that affects the relative price of goods will have an effect on consumer and producer decisions. Government intervention such as taxes which effect relative prices could therefore distort decisions of economic agents. Because of such interventions, economic decisions are not made by the market but by bureaucrats.

In view of this important role for "Prices", economists the world over weigh policy recommendation very carefully and especially the effect of such recommendation on the price structure in the economy. Good economics in fact attempts to leave the price structure unaffected by policy. Consequently emphasis is placed on measures such as value-added, and sales taxes that seek -to preserve market determined relative prices of goods. Measures such as large and arbitrary taxes such as the 60% excised duty on telephone calls, duties or cesses on particular goods purely for the purpose of raising revenues affect relative prices and are not papular with good economics and economists.

The recognition of the importance of the price structure gives us a framework to work within. Arbitrary policy recommendations are avoided if one retains the price theory framework. All recommendations have to pass the test of minimizing the tampering with the market and the price signals that the market attempts to give.

Unfortunately, the seminar participants refused to conform to the framework provided by price or economic theory. From the word go, lengthy speeches about the speaker's favorite subject were delivered and recommendation made without regard to any economic theory or framework. If the speaker felt strongly about his ability to get around the city he held forth about how the government should create a corporation for the provision of transport near his home. How should such a scheme be financed? Well, borrow or find revenues. It did not matter what got taxed and how it got taxed, only that revenue projections looked healthy. It did not even matter that revenue projections were incorrectly made and were based on recommendations that distorted the price structure totally arbitrarily.

Through the seminar the participants suggested perhaps some 65 proposals for arbitrary increases in taxes which whimsically



distorted the price structure away from that which the market sought to develop. Expenditure increasing measures at a rough calculation amounted to about a 10% increase in our expenditures. The creation of several new government organizations and departments were eagerly recommended. AU in all these learned individuals recommended that our debt-burdened economy be further overloaded with increasing deficits. And in doing so, they were completely oblivious of the adverse consequences of the increasing debt burden, such as increasing the likelihood of an inflationary spiral, and increasing current account and exchange rate difficulties.

They are also oblivious to the consequences of their price interventions. They remained oblivious to the disincentives to production that arise from the distortions in the price structure as a result of interventionist policies. They did not seem to care about the possibility that increases in taxes could result in disincentives to produce and work. As a result of such policies, a slowdown of growth could occur. Blissfully unaware of such possibilities that economic theory would suggest, the participants merrily recommended away in their lengthy and rhetorical speeches. They were truly free-free of any constraints of the discipline of the subject of economics or its theory.

I do hope that the seminar remained a media gimmick and a great profit item for the hotel in which it was held. I sincerely hope that our policymakers did not take the recommendations seriously for if such loud thinking free of the constraints of human knowledge or thought is taken seriously, I shudder to think about what would happen to our economy.

## **D. Approaches to reform**

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## **The need for an informed debate on reform**

### **A sad state of affairs**

The political system has come to a halt once again! We are all watching with bated breath as the drama of opportunism, power• plays, political horsetrading and bureaucratic intrigues is being played out once again by the same old set of opportunists, intriguers etc. What should we do? Continue to follow this soap as we have for the last 46 years or should we conclude that the current system is seriously flawed? If we think hard enough we might also conclude that without a deep-seated reform of our political system and all its constituent institutions, responsible and democratic government may not be a reality in Pakistan. This column is initiated for this reason to discuss and flush out such a reform.

While the politicians, bureaucrats and our other rulers continue to play their childish games, the economy is in a shambles. Growth is expected to slow down while inflation appears to be increasing rapidly. The debt burden of the government is high yet there appears to be little possibility of the reduction of the fiscal deficit. We have a rapidly growing population that is increasingly migrating into our dysfunctional mega-cities. We are unable to provide for this growing population and consequently remain plagued by increasing unemployment and a large and growing numbers of unskilled and illiterate workers. Bad policy and excesses of the past have caught up with us. The much-needed infrastructure for economic development is just not there. We have limited, and perhaps even very primitive communication facilities. Our facilities to develop human capital,

which we have found to be absolutely essential to economic development, are extremely poor. We have not one quality educational establishment in the country.

The state of the state is even worse. A general helplessness prevails as all political and social institutions operate at a level of near collapse. The state is unable to safeguard any of the rights of citizens or to provide any service to its members. We do not even enjoy safety of life and limb. Our courts, our cities, our traffic patterns, our water and electricity supply, all do not work. Yet our bureaucrats and all official office holders enjoy the power and privilege that their colonial masters did not have. By all accounts, the level of accountability and responsibility has sunk to abysmal depth. We live in a combination of petty bureaucratic authoritarianism and anarchy.

### **Preoccupation with inane politics**

Despite this unfortunate scenario, our politicians appear to be like little children at play. The president, a bureaucrat, who has controlled the economy for the last 25 years and has resisted all attempts at reform wishes to preserve the status quo but with a strongly central bureaucratic system. To his credit Nawaz Sharif had taken some much-needed and long-delayed economic initiatives, yet the political debate remains stunted at the level of personalities. Politicians are too preoccupied with attempting to get a ministry. They remain totally unaffected by the real issues that affect our economy or society. Their perennial positioning for cabinet positions and government patronage, leaves them no time for serious work. They are least interested in learning or developing positions that could become a manifesto and perhaps a mandate.

Unfortunately, we the people have reached a strange state where we are totally preoccupied with the political drama. Politicians hold silly and childish press conferences with little or no thought or preparation and newspapers which are run by friends/editors give them grand coverage complete with headlines and large photos. In some cases friends/editors are even willing to write editorials for their friends/politicians no matter how fatuous the friend/politician is. When the media operates in this corrupted fashion when headlines are not on the basis of merit of achievement but only on the social

standing of the individual concerned, there can be no debate.

Every morning, we are barraged by endless analyses of the "long march", "the eighth amendment", "choice of president" etc. I counted that perhaps some 187 editorial page articles were written on the "long march" in the English newspapers. It seems that the preoccupation of our leading intellectual is speculation regarding the childish antics of our politics. Unfortunately, the argumentation in these multitudes of opinion pieces is the same and the source of information is rumor, hearsay and speculation.

The politicians like nothing better. They bask in all the attention that they get. The attention that their inane statements receive makes them feel that they actually know all. They are under no pressure, therefore, to learn, investigate, read or research the problems facing our country. They prefer to lead our debates into totally irrelevant issues such as the power politics of the troika, external developments, Islamization, our national destiny. Never are we allowed to take on a serious debate on the key issues affecting the country such as those affecting our economy and society. The cycle of inanity is constantly reinforced by dance of the politicians, editors and our leading opinion writers to keep us out of the issues.

Given the myriad of problems that we face, this situation cannot continue. The cycle is rapidly leading us to disaster. As a state, we appear to be starved, dysfunctional and incapacitated at a crucial time when the rest of the world is ready to condemn us as a terrorist state. Internally, the state appears to have come to a standstill. The state seems unable to provide us with the most primitive of rights such as the right to safety of life and property as all semblance of law and order appears to be disappearing. Financial mismanagement is accepted to be a way of life in the government leading us to ever growing debt burdens and quite possibly now to hyperinflation.

### **The need for reform**

It seems quite evident that for progress we need to think of, reforms to the current system. We need to develop ideas on reforms for a responsible and responsive government. Reforms are needed for the provision of incentives to the media so that it

gives priority to debates on national issues and is not manipulated by individuals, politicians and office-bearers for personal gain. Reforms are needed to ensure that the government acknowledges the objective of improving the lot of the populace. For this, all of us, including the government, have to keep the entire socio political-economic system under constant review to make the adjustments that might occasionally be needed. There must be wide-ranging research and debate on these issues.

The intent of this column is to start a debate in the country if at all it is possible. It is time that thinkers, researchers and people who have developed thought and information through hard work, should step forward and present their ideas. For too long now we have allowed venal and inept politicians, bureaucrats, and other forms of government appointees determine the direction in which we should travel. Occasionally, these groups initiate rhetorical slogans, such as islamization, roti, kapra aur makan, basic needs, five points, as programs for action. These ideas are not properly researched or thought out by their proponents but yet the country is immersed in the debate on the proposed government initiative. Too often such initiatives involve large expenditures supposedly for economic development. Unfortunately, while many benefit from the patronage that such large expenditures entail, little development actually takes place. In fact in the process we ruin a few institutions and incur a large debt burden both of which cost the country.

We must stop tailing the government and its functionaries. It is clear that we need a widespread reform if we are to survive and progress into the 21st century. It is also clear that if we wait for the government and its functionaries to design and implement this reform, further waste of time and resources will occur. The only way out is for all those who have devoted some time and thought to the problems of the country to step forward and suggest and debate their ideas. Unfortunately, the lack of fora and the incentives created by official largesse for the lack of cooperation among such individuals prevents this debate from taking place. This column is designed to go some way towards solving that problem by inviting some serious academics, writers and researchers to write about their thoughts and findings on developments and reform in our society, economy and politics.

## **An agenda for research and reform**

Despite many conferences, discussions and writings, there is no concrete agenda for research and reform available. By concentrating the writings of several of the more important researchers in this column, it is hoped that a preliminary agenda for reform will be flushed out. This agenda will attempt to seek to be comprehensive in the issues that it raises. At the same time many of the proposed solutions and suggestions may not be fully developed and final. The record of all these thoughts and suggestions would serve as a useful set of hypotheses and research topics for future research. Among the many topics that will be discussed the following will receive especial attention:

### **1. Political and constitutional reform**

All political parties and politicians have clearly recognized the need for a political reform. There is a talk of a "new social contract", though without definition. Many politicians including the president have talked of the possibility of proportional representation. Surprisingly, the academic/intellectual community has not had any input in this debate.

Clearly, our politicians and political parties are not operating under a constraint that is incentive compatible with the rest of society. An incentive compatible constraint is one which mutually advantageous behavior is induced purely out of each party's self-interest. In the current system, parliamentarians, politicians and other important people are all involved in activities other than productive work and corruption and maladministration appears to rule.

### **2. Civil service reform**

Our resources are all managed mainly by bureaucrats who work in a system devised in colonial times and mutated by rentseeking needs. Almost all observers agree that the system is extremely inefficient. Yet there are very few discussions on the subject. A comprehensive review of the emoluments, incentives, mobility and responsibilities is needed. Recruitment to the civil service should attempt to match individual educational and job experience attainments with the requirements of a job. Moreover,

suggestions of public sector reform must take into account the compensation package (salaries, perks, and expected retirement packages) that are necessary to attract the requisite candidates.

Similarly, lateral entry, like democracy may only take root if we have more of it. Without threat of external competition, efficiency in the civil service cannot be increased. We need to ensure a higher degree of mobility into and out of public service. While asking for greater mobility, we must also ask for improved incentives. Translated this would mean faster promotions, higher salaries, and higher levels of entry for high achievers.

### **3. Legal reform**

The primary function of the state is to provide law and order and peaceful means for the resolution of individual disputes. In Pakistan, police and judicial systems are clearly outmoded and in need of reform. An independent and efficient judiciary, capable of delivering speedy justice, is important to underpin the entire system of individual transactions, economic and otherwise. Such a judiciary must also be backed by an efficient law-enforcement system.

### **4. Decentralization**

Decentralization is viewed by many to be an important element in any reform design for the country. However, despite a fair amount of lip service for decentralization, the term needs proper definition. Decentralization will only be achieved if the locally elected councils are actually given autonomy in their spending and planning decisions. Those decisions cannot be superseded by the provincial or federal departments as in the current system. In a fully decentralized system, the mere existence of ministries or departments on subjects of local government interest is either against decentralization or a waste of money.

In a decentralized system localities should also have the autonomy of determining their own comparative advantage and competitive edge in competing for resources. Locking all state employees in a national pay scales system which assumes a hierarchy of service with federal service at the top of the pyramid and local government service at the bottom, is obviously quite anti-decentralization. Similarly setting plan targets and priorities at the



federal or provincial level is not likely to help decentralized decision making.

## **5. Financial reform**

The financial sector is an important means for channelizing savings of small savers into investment activities that are productive and growth-inducing. Unfortunately, public sector domination of the financial markets has resulted in our nationalized banks and public sector-owned development finance institutions becoming a means of political patronage. Repeated financial scams have robbed the people without any indictments or convictions. Large industrial and financial houses refuse to act in the shareholder interest and continue to be protected by the government from international competition and domestic market discipline. Despite financial scams, these companies all continue to receive cheap credit so that they have no reason to be responsible to the shareholder. Clearly, financial market reform that places all agents under the discipline of the market is the only way to ensure that all interests are protected. A regulatory framework for this purpose needs to be discussed and debated.

## **6. Reform of education**

Our education system has meandered in an extremely confused manner attempting to fulfill a variety of objectives other than the provision of quality education. It has tried to breed patriotic and nationalistic Pakistanis, good Muslims, and Pan-Islamicists among other things. It has been used as a breeding ground for activists for various political parties. It is often thought to be a substitute for a youth unemployment policy.

Unfortunately, a pre-requisite for rapid economic development is the development of a modern education system that solely concentrates on provision of quality education. This is an area which seems to least concern us and where politicians and bureaucrats seem to have the least interest in making any changes. Unfortunately, unless our education system produces well educated individuals with high productivity, any effort at reform will lack the quality manpower that it needs to make itself sustaining.

## **Conclusion**

This column will record thoughts and suggestions of individuals who have studied Pakistan's economy, politics and society for a considerable period of time. The articles will be analytical and informed based on empirical evidence and practical suggestions. They will avoid topicality, conjecture, speculation and hearsay—cornerstones of journalistic and intellectual thinking in our country. Authors will attempt to limit their use of jargon and make their column accessible to the ordinary reader who hopefully will take an interest in this process. Unless, all of us including all the readers of this column take an active interest in reading, writing and discussing these issues, we will always be tailing our politicians, bureaucrats and leaders, corrupt, unskilled, uninformed and inefficient as they are.

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## Limit the size of the Cabinet<sup>1</sup>

Once again we see that the size of the cabinet expands as the tenure of the government increases. Fossils rear their heads again. Individuals who have shown no talent for, nor merit, in administration or in legislation are once again given portfolios. Time after time these individuals have been assigned portfolios more or less randomly for they have displayed no disposition for handling any portfolio well. And time after time these individuals have done no service to the country but a lot of service to their own well-being. Yet the game goes on.

Meanwhile the people of Pakistan continue to suffer mal-administration, injustice and instability. The law and order situation is at its worst. The social contract which enjoins the state to provide protection of life and property, had to all intents and purposes broken down. The state instead of being the protector has become the predator where the government functionaries instead of serving the people are actually preying on them. The police, the customs service, the tax collector and the judges are all finding new and ingenious methods to extort.

### **The cabinet still expands!**

Apparently, there are now 49 members in the cabinet. Are we to believe that they are there to correct the many injustices so that

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1. Written in 1990 on hearing of the expansion of the Benazir Cabinet to about 49 ministers. Now in 1992, when the Sharif government has also expanded the cabinet to large numbers. Distributing ministries remains the standard method for maintaining a government in power and preventing any accountability. Consequently, the need for some form of a constitutional limit on the size of the cabinet remains an important element in obtaining better government.

the state can begin to serve instead of prey? The answer can easily be found in an examination of the record of the ministers who have been appointed. Without going into specific names or doing an exhaustive study, all Pakistanis know that these familiar cabinet members for their names have appeared in cabinets of various shades and hues in the post. Yet despite being perennial cabinet members, none of these individuals have a) never improved the administration of a single department that they are supposed to have run or b) never enacted or even proposed any legislation in the area for which they are supposed to hold a portfolio.

Yet the wealth and political influence of the cabinet members and the politicians grows.

Why does the cabinet expand? The commonly-held belief is that the government has an automatic tendency to increase in size. MNAs, who have spent millions of rupees on their elections, have to recoup their gains. Without executive authority, they cannot amass wealth. There comes a point where the MNAs blackmail the government with defections if they are not made ministers. In order to maintain its parliamentary majority, the government must, therefore, dole out portfolios and expand the size of the cabinet.

## **The government survives by expanding the cabinet!**

Surprisingly, neither the people nor the media are interested in thinking their way out of this conundrum. The people cannot for they have no voice and are in any case so busy trying to survive. The media will not for it is so dependent on the system for its gains. There is little comment or debate even when a major portfolio is handed out to somebody who is barely literate. No journalist or editor will examine the minister's qualifications for the job or his record as a politician.

Perhaps it is time that we recognize the need for a good government or alternatively the costs of a bad government. Increasing cabinet sizes keep a) the venal practices of our politicians going, b) attract only those interested in corruption and not legislation into parliament, c) keep the government excessively large to function efficiently. Since politicians cannot behave responsibly, perhaps the time has come to force them to do so. Consequently,

perhaps the time has come to force them (Pakistani citizens) to agitate for limiting the size of the cabinet by a constitutional amendment!

Such an amendment will ensure that the executive only has a limited number of cabinet appointments that it can hand out. To increase the size of the cabinet must require more effort and more transparent action than conspiratorial deal-making. It will not ensure a clean government, but will go a long way in that direction.

# 30

## For stronger democratic foundations

Despite efforts to start up and maintain a democratic system, it is obvious that a working and a workable system has not been achieved for the following reasons:

1. The same families that have for generations represented the interests of, and thrived under, non-democratic forces, are returned. These are the idle rich who, strive for, and use political power for personal aggrandizement and not in the public interest. Invariably these families have a cousin in every political force in the country to ensure that every government will grant them political and other favors for their ability to work the system to their advantage.

2. Political parties consist only of an amorphous bunch of individuals and represent no viewpoint. No party has ever presented a coherent program that has generated any debate among the people or the media. As a result there is no mandate that is obtained in the election.

3. There is no cost to crossing the floor for outrageous personal gain. No method has, as yet, been found for inducing our politicians to begin to consider the public good. Stories about payoffs both in terms of monetary gain and in terms of a cabinet or ministerial position are commonplace. In fact the prime minister herself announced one such request of her by an MNA for voting

for her party. Surprisingly, no action was taken against that individual who despite the crime remains in parliament.

4. Although no evidence is accumulated, the impression is increasingly being reinforced that the elected representatives and their relatives are doing all that is illegal to further increase their personal fortunes. People have lost all respect for their elected representatives. Interestingly enough, despite stories of excessive corruption, influence peddling, and other malpractice, a review process or a committee

for investigating this behavior has yet to be established.

5. The government carries far too much power to dispense political and other favors. Cabinet and other positions can easily be dispensed without regard to the cost to the exchequer' or the abilities of the individual to deliver that which has been promised. There is nothing to stop the leader of a party from filling all cabinet positions with convicts and incompetents. Nor is there anything to stop the cabinet to be expanded to include all members of the assembly. The thought that a minister has to have some competence to deal with the highly technical nature of his ministry is not appreciated at all in our body politic.

6. There is no element of responsible government. Despite the breakdown of law and order, where decent citizens are now hiding behind closed doors and felons armed with guns are ruling the streets, the government has shown little concern. No ministerial or cabinet responsibility has been displayed. Apart from helicopter visits, no serious attempt to resolve the issue has been made by our elected leaders who, Nero-like quibble on childish sexual innuendoes, when Karachi is burning.

7. Our elected representatives have shown no comparative advantage in framing legislation, the principal task for which they have been chosen. In fact, despite the number of years we have had an assembly during the two Bhutto periods and the Zia period, there is little if any legislative work that has been completed. Either we have reached an advanced state of bliss where we require no new legislation for everything is working perfectly, or our elected representatives have been unable to come to grips with the task. The former cannot be true for even the US congress is continuously passing new laws such as a tax reform bill, clean air bill, banking legislation, congressional conduct legislation etc. We could do with our own laws on all of these issues. What has always surprised me is that whereas, in the established Western democracies, all elected representatives and aspirants to elected positions always display a deep interest in legislation and in issues that require legislation in the public interest, our MNAs, apart from showing an interest in holding office have never discussed any concrete legislation. What is even more surprising is the disinterest of the media in challenging politicians on their proposed legislative program, or the lack of it.

Perhaps we should on all occasions ask our politicians, and absolutely relentlessly pursue them for an answer to, the following three questions:

- a) What have you done so far in the public interest?
- b) What legislation did you propose when you were in office?
- c) What legislation will you propose if we elect you?

These problems are not going to go away unless we deal with them. Democracy will only be established in Pakistan if clear and enforceable rules, that induce responsible behavior on the part of the elected representatives, are put into place. It is naive to think that elections are the only means for enforcing responsibility. That is why along with elections, most governments have lengthy constitutional rules, as well as procedural and criminal laws, to ensure that the moral and political government will remain on course during the interim between elections. We must be prepared to change and evolve the rules of government as and when necessary to ensure we get the kind of government our society needs. This means that the issue of constitutional amendment needs to be widely discussed. However, it would be folly to rely on the constitution or elections alone. If we want the system to survive, we must all do our bit. Citizens must find a way to make their voices be heard and citizens' organizations such as pressure groups, interest groups and professional organizations must play a role. In this spirit, I am suggesting the following ideas:

1. In our initial phase, when we are trying to establish a democratic government, perhaps the parliament could be elected every year. This, along with other checks and balances, would ensure some rapid accountability. Politicians would have to pay closer attention to their constituencies and their politics knowing that they have to face the electorate in a year. The rent derivable from a seat in the assembly will also be reduced given that the time to extract the rent will be reduced. Perhaps such a scheme will bring out those more motivated by legislation into the electoral process and hence reduce the number of those seeking rents in politics.

2. The size of the cabinet and other positions that the government can dole out to the legislature should be limited by constitution. We must prevent the government from increasing the



number of ministers only because it needs to buy votes to remain in power. It should also be recognized that the efficiency of the cabinet is probably inversely affected by its size.

3. Ministerial and other appointments must be reviewed by the senate or open committee to ensure the fitness of a candidate for the position. Such a review process will ensure a) that the candidate is competent to handle the job and has had occasion to develop some thoughts and ideas that are in the public interest, and b) that the candidate has a moral character that is conducive to the job, i.e., he will not be preoccupied only with rent-seeking activities.

4. The term political party must be properly defined to prevent just any one from forming a party in his or her living room. Clearly a party must have a widely distributed program. Perhaps a requirement of a minimum voter support by some registration process would show that the party has broad support. At election time all parties should be required to pledge rather a large deposit which would be forfeit if a certain number of its candidates have not been successful in elections. Of course this would place some hardship on a party if it had membership mainly of the poor and dispossessed. But one has to only see that the current system too has ruled out the poor and dispossessed as election remains a game for the rich because of the prize of rents that the successful candidate collects.

5. All candidates and all parties should 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. This is the case in the US and a very good system. Candidates, especially the successful ones, must show an acceptable distance from any business interests that they might have. Recall that the US Secretary of State, James Baker, had to give up some share of a bank that he had inherited from his grandfather years ago because of a possible conflict of interest. Is there any reason that we do not require equally tough laws to constrain the avarice of our candidates?

6. The media, especially the government owned sections such as the radio and television, should be required to continuously present debates between parties and candidates and analyses of various candidates and parties. For this purpose, a number of different professional and other interest groups should be solicited for their

contributions.

7. The election commission could occasionally issue fresh guidelines, and perhaps, along with the office of the ombudsman, be required to present an occasional report on the state of democracy, issues related to the election process and democracy, and the conduct of the MNAs and other politicians. The report should be made available once every five years at the minimum. Less detailed reports especially ongoing analyses of individual MNAs could be made available at much shorter and regular intervals. In addition, the parliamentary secretariat could as a matter of routine put out the attendance and voting records of, and details of legislative proposals made by, individual MNAs.

8. The private sector, too, should play a role in watching over the democratic process signifying its stake in democracy. It could establish a standing committee for the review of democracy which would be funded and fully backed by the various professional and interest groups in the country but run independently of those groups. This committee could function as an independent watchdog for the democratic process.

9. Measures for making the judiciary fully independent and responsible for a speedy delivery of justice need to be very quickly put in place. The American system of a confirmation of supreme court judges by both the houses is an important idea that we should borrow from. An open review has the advantage of keeping the public fully informed, something that we direly need in our situation.

If we, the citizens of Pakistan, only stand and watch this political charade being played out, we can rest assured that we will not have responsible government for our elected representatives have, as yet. displayed neither any interest nor talent for what government entails. We cannot wake up once in live years to vote and expect that those who continue to show irresponsibility will be responsible while we hibernate. A working and live democracy is one where the citizens are perennially involved in some fashion for developing checks and balances to ensure that there representatives behave in a responsible manner and in the public interest.

# 31

## On efficient government

### 1. Why do we need efficient government?

At least two important reasons immediately come to mind. First, the government consumes a large proportion of all that is produced in the economy- about 25 percent of GDP. This means that a quarter of all that is produced in Pakistan is taken away and consumed by the government. Increases in government efficiency could, therefore, result in the government consuming less of the country's output than it currently does. In that happy event, more of the country's output would be available for the people of the country to dispose of as they see fit.

Second, the government plays a very important and significant role in our daily lives. Almost all our social and economic activity is in one way or another affected by government policy or intervention. The education that our children receive, the way we drive, the layout of our community as well as our houses, our water and electricity supply, price and availability of most goods are all in one way or another affected by the government. The government affects the environment in which we conduct the business of our daily living in an all pervasive way. Because of this large and important role of the government, it is perhaps fair to conclude that the manner in which, and the efficiency with which, the government conducts its business directly affects the productivity of the rest of society. We may therefore expect that an improvement in the productivity of the government will also improve the productivity of the private sector. Consequently, the gain will be larger than the mere savings that the government will generate as a result of cleaning its act.

## **2. What is efficient government'?**

An efficient government is one that in a the most direct, clear and simple manner seeks to achieve a small number of well• defined social objectives.

Translating this definition into operational terms: first the goals of the government which must be small in number, must be clear and preannounced; and second transparent mechanisms must be put in place for achieving these objectives. In other words, the departments of the government must be seen to be striving to achieve the announced objectives of the government in a very clear and direct manner. In order to achieve this, two principles must be followed by the government and its various organizations: a) their workings must be based on clear, well-stated, simple and pre• announced rules; and b) the layers of bureaucracy must be strictly limited so that senior managers of the government arc not prevented in any manner form inter-facing with those that they are supposed to serve.

The government must also be dynamically efficient by trying to continuously improve its productivity. In this connection, periodic reviews of the functioning of the government. i.e., of the objectives of the government and the means or achieving these objectives, should be conducted in an objective manner with collaboration of the citizenry. The reviews should be public and their results used to implement reforms that will increase the productivity and efficiency of the government.

## **3. How do we view the efficiency of the Pakistan government?**

Let us apply the above definition to the Pakistan government and draw our own conclusions. Regarding objectives, the government appears to have far too many objectives most of which are often not well defined. The government announcements are full of good intentions such as generating growth and increasing welfare. Such intentions arc perhaps deliberately kept vague to allow the government to widen the scope of its operations. The result is that the government ends up being a banker, producing goods, fixing prices, providing all manner of services including food,

housing, medicine, health and clothing. In fact it is probably fair to say that the government has injected itself into almost everything in the country.

Regarding the means for achieving the objectives of the government. Because of this large role, the government has ended up being a sprawling monster and appears to be incapable of delivering on any of its objectives. There are many stories of bureaucratic meanderings without any objectives or of individuals unable to get any action despite being shuffled from department to department. Seldom can you get clear rulings on any issue nor does the government base its working on clear, well-defined, pre-announced and simple rules. In fact most often it seems that the preferred course for the government is the preservation of bureaucratic discretion.

There does not appear to be any effort on the part of the government to limit the number of its departments or to make sure that they are very distinct in their functioning. In fact, there are probably too many government departments which are often duplicating each other's efforts. Furthermore, within each department, we have far too many layers: the federal minister, minister of state, secretary general, secretary, additional secretary, joint secretary, deputy secretary, section officer. It is not surprising that these eight layers of decision making serve only to isolate the senior managers- the ministers and the secretaries from the populace that they are supposed to serve.

#### **4. How can we make government more efficient?**

Perhaps the starting point should be a clear definition of the role of the government. Such a definition should be very conscious of the need to confine the government to the smallest number of activities that can be efficiently performed. Perhaps one has to go back to the origins of the government. In my opinion, the government should be confined to the following four activities:

##### **a. The provision of social contract goods and services**

The primary duty of the government is to preserve the social

contract by means providing all its citizens the wherewithal to live life to the fullest of their abilities. This would involve at the minimum the protection of life and property. Once this is achieved, then measures to improve the quality of life of all citizens could be adopted. However, the sequencing is important.

### **b. The provision of infrastructure and public goods**

Public goods are those goods that are commonly consumed by all citizens and hence cannot be produced privately. For example, the defence of the country is for the good of all of us and it cannot be left in private hands. Similarly, infrastructure such as communication networks or road networks are normally considered to be such huge investments and once developed likely to lead to private monopolies that they are normally considered to be best left in the hands of the government. In recent years, however, we have seen that the role of the private sector in developing infrastructure, too, has increased considerably. For example telephones, roads, and power-generation were till a few years ago considered to be activities that should be entirely concentrated in the public sector. But recently many countries have invited the private sector to participate in these activities. Argentina, for example, sold by international bid its telephone system.

The principal that should be adopted is that the government should only get into that public good or infrastructure-producing activity where it is absolutely certain that the private sector will not enter. Even in such an activity, if at a later stage, the private sector will take over, the government should withdraw in favor of the private sector. One should always bear in mind that the government in no country has proven itself to be a cost-conscious manager over the longer term.

### **c. Defining economic regulation**

For their daily living, citizens will indulge in economic transaction via contractual arrangements. These contracts and transactions must be conducted in a certain mutually agreeable legal framework if anarchy is to be avoided. In other words like in all other human endeavors, an umpire or outside referee is needed.

The government must be that referee. It must provide the frame work within which we, the citizens, can transact peacefully.

This task is performed by the government by developing a body of economic regulation and continuously updating it in the light of developments. The objective should be to develop, and then continuously update, a set of rules that facilitate private contracting and transactions. In order to maintain its credibility, as well as the credibility of the contract, the government must be seen to be developing fair and just regulation and legislation.

#### **d. Enforcing economic regulation**

Law and regulation would be entirely useless and so would the credibility of the government, if they are not backed up by an adequate enforcement system. Hence a judicial system that is capable of dispensing speedy justice is absolutely essential. Unless we have such a judicial system, we will all be appealing to some informal system such as thugs and protection rackets for the enforcement of our contracts. This is wasteful and inefficient. A credible and efficient judicial system is perhaps a matter of urgent priority in Pakistan. And perhaps one that we have long delayed.

If we accept these activities to define the role of the government, then by definition the government should get out of all other activities that it has got itself into. Then there would be no role for the government in the production of goods and services. Nor would the government be able to open a myriad different enterprises such as research institutes, retail shops, and gemstone trading shops. Instead the government effort would be better directed at maintaining law and order, providing efficient and cost-effective regulatory and judicial support to the economic enterprises of the citizens.

# 32

## **The role of the civil service in Pakistan's history**

The Pakistan economy has indeed performed beyond all expectations. Despite many doomsday prognostications, the economy has continued to grow and the lives of our population have continued to improve.

Pakistan's economic performance over its 45-year history has certainly been remarkable: with growth averaging about 5.5 percent and inflation averaging less than 10 percent. However, this performance belies all explanation. Growth is normally a direct result of the investment that a country makes in physical goods and in human capital. And these investments are determined by the savings of population. In Pakistan both our savings and investment rates are much lower than most developing countries yet our growth is much higher. Consequently, we observe growth in our economy but have no knowledge where this growth is coming from.

Historically, Pakistan has had a fiscal deficit that in relationship to GDP is among the highest in developing countries (our fiscal deficit has averaged over 6 percent of GDP over the last 20 years). The fiscal deficit indicates the additional resources the government needs. These additional resources are raised by means of borrowing or printing money. When the government borrows for meeting its deficit it impinges on the borrowing needs of the private sector. In this manner, some private sector investment plans could be affected. If this happens growth could be reduced. In case the government meets its deficit by means of printing money, inflationary pressures would build up in the economy. To see how note that inflation is a measure of how the value of money is falling relative to the value of goods. Alternatively, inflation occurs when money is being created faster than required by the productive potential in the economy.



The upshot of this discussion is that the large fiscal deficits that we have had should have resulted in either a slowing down of growth or high inflation. But from our data we observe neither. This remains an additional puzzle regarding our economy.

An explanation that is sometimes offered is that the success of Pakistan's economy can be attributed to the deft handling of country, its economy and its polity, by the bureaucracy. In this interpretation of our economic history, our progress was due entirely to certain key decisions or directions that our policy-makers took. Our exchange rate policy which has indeed been rather well managed is a principal example that is used. This argument is based on attributing certain key turning points which are then attributed to bureaucratic decisions.

An alternative explanation which would fit the same facts would be that there were underlying growth-inducing forces in place and that the civil service may have played the role of inhibiting those forces. First, much of Pakistan, especially the Punjab acted as the granary of the sub-continent prior to partition. This area also developed agricultural potential in the shape of an extensive irrigation network and extensive area that had as a result been brought under cultivation.

Second, for historical reasons a large segment of the population remained beyond bureaucratic and administrative control. The inability of the British to effectively bring the fringes of the empire under central rule led to the creation of the tribal territories. The legalized smuggling that this system allowed acted as an escape valve for the economy while also weakening bureaucratic controls. This market quickly created a black market in foreign exchange which worked so effectively that it can be virtually argued that the government was virtually forced to act as it did. Similarly, the large-scale smuggling that this market encouraged leads to the increasing ratification of an already open economy by the government.

Third, our physical and cultural proximity to the Middle East gave us a head start in exploiting the advantages of the oil booms. Our population which quite quickly took advantage of this situation and generated large amounts of remittances that alleviated the pressure on our balance of payments and hence our borrowing needs.

There was thus a considerable growth impetus deriving from within Pakistan which excessive bureaucratic controls perhaps stifled. The key turning points are said to be a result of bureaucratic decisions were perhaps forced upon the bureaucracy by the innovative private sector. For example, at the end of the Ayub era Pakistani laborers were denied passports yet they were finding ways and means of smuggling themselves into England and the Middle East. Faced with this growing desire of the labor force to migrate, the government made it easier to obtain a passport.

The legacy of our economic thinking was to maintain as many controls as possible. For decades exchange controls gave rise to considerable wasteful smuggling and foreign currency hoarding activity. Gradually, the illegal foreign currency market was so big that the government had to float first the FEBC's to ratify this market and then to formally legalize it by means of removing exchange controls. The point to note is that for decades the bureaucratic machinery told us that exchange controls had to be maintained to curb the hunger of the population for foreign currency and foreign luxury goods. Consequently, if these controls were given up, we would lose reserves rapidly leading us to increase our exposure in international debt and so on and so forth. Yet when exchange controls were given up, quite the opposite happened- reserve increased and there was no great rush for dollars. This line of reasoning begs the question: what has been the loss that we have incurred because of the refusal of policymakers to give up exchange controls any earlier than they did?

If we analyze the rationale on other government controls in a similar manner, we might perhaps reach the conclusion that these controls have stifled growth and investment in our country. Witness the licensing and credit procedures or the current privatization efforts. In each of these areas, the role of the government has not been the promotion of growth-generating activity, but merely the transfer of benefits to its favorites. Take, for example, the mushrooming of finance companies and cooperatives thrice in our history (1979, 1989 and 1990). In each case, the government attitude was to get rid of all such activity-both the charlatans and the honest entrepreneurs. No attempt to regulate or audit was made to separate the wheat from the chaff. Instead, the government killed these spontaneous organizations and distributed licenses to its old favorites who had always benefitted

from government benevolence. None of the entrepreneurs who had made the innovation were bestowed with a license.

Excessive government controls as well as the excessive growth of the government promoted a lot of wasteful activity. Many new departments have been created resulting in lengthy and complicated bureaucratic procedures. The government has become extremely inefficient and wasteful. What the government is supposed to do, such as provide health-care, education, roads, electricity etc., is now either not produced or is of such poor quality so as to be totally useless. Thus we suffer a double whammy-c-we pay more for poor quality goods that are not as durable as they should be.

Such a government has also led to the creation of a licensee private sector totally incapable of surviving competition and perennially whimpering for protection. Witness the latest round of APTMA campaign in the media. It seems that our huge textile investment was based not on the exploitation of comparative advantage but on the expectation of a continued subsidy. The claim that is being made is that unless raw cotton is subsidized, the spinning industry is not profitable. No matter that these individuals have always had licenses cheap credit on over leveraged projects and virtually tax-free operations. This is the creation of a system where bureaucratic, and not market, forces determined investment. Certainly this has taken its toll on our economic performance.

Excessive government has also promoted wasteful rent-seeking activities. A whole new group has emerged and grown richer by leaps and bounds - indenters and other agents of various multinationals whose only job is to entertain and bribe bureaucrats and politicians. Yet in their wake, they have left huge bills for equipment that is often useless and overpriced. Yet that is the easiest way to get rich and many a young man now instead of having the glint in his of building a future for himself, is now roaming the corridors of government scouring rent-seeking opportunities.

The large bureaucracy and its controls have been wasteful in yet another way. Businessmen have spent a considerable amount of time sucking up to government functionaries to ensure a network that would protect them from the predatory organization called the government. These individuals could have used their time far more productively in running their businesses rather than meandering

through government offices, pandering to limp bureaucratic egos.

My conclusion from all these observations would be that perhaps our growth performance has come about despite the government and the bureaucracy and not because of them. In fact given the impediments that the government has placed in the path of economic growth, it is indeed a wonder how we have performed so well. If the government had been more flexible and responsive to the needs of the country, we could have developed much faster.

# 33

## Human capital and reform of government

The most important need of the time is to concentrate on reforming the government. But in doing so, one should be as exact as possible and not leave any room for interpretation such that government expands. A look back into the past will show that each time we adopted a new idea such as "Islamic Socialism" and "basic needs", it only led to more planning, creation of new agencies and consequently more expenditure. Never was there any achievement of the stated aims or any thought given to why those aims had not been achieved. However, development banks planning and development institutes, extension services, NGOs and such like mushroomed. The net result of all these new and bright ideas was only the creation of jobs, Pajeros, houses and other privileges for already privileged. Nothing changed for the people except an increasing tax burden to finance these thinkers and increasing government intervention in their lives. This is why now many of us are very suspicious of a new jargon such as "enabling environment". Quite possibly, if it is not stopped now we might actually see the establishment of a new organization or at the very least a NGO called the "Pakistan Institute or the Enabling Environment" (PIEE) to further drain our budget. It is in this interest to be exact that I shall put forward concrete proposals.

**a. Professional management:** We begin by recognizing that the costs of maladministration and corruption and the failure of the our civil service system are indeed very high as outlined above. Perhaps it is appropriate to say that, given the current level of wastage, we have management problem and not a resource problem. In order to deal with this we must develop a system of professional management for the country and not an elitist civil service club which currently exists.

**i. Recruitment:** The current closed shop system should be closed down and replaced by a new system that relies on open recruitment of the best people from all over given the spread of Pakistanis in the world. Recruitment should be continuously conducted at all levels and not dependant on one exam only. As much as possible cross flow between private management from the private sector to the public sector should be encouraged. Conflict of interest issues will arise but they will be no worse than today where the system is rife with corruption.

The principle of recruitment should therefore be that all positions should be filled only by competent professionals from all sectors and not just those in the government. Such appointments should be subject to some form of scrutiny of the public. For example senior positions like secretaries could be confirmed by parliament or parliamentary committees after open hearings and expert witnesses.

**ii. Promotion and accountability:** Automatic promotions after time in grade with no evaluation of productivity should be abandoned. Clear well publicized productivity guidelines, which are easily monitorable, should be established for public positions. Periodic reports on progress should be made. Press conferences and the media should be involved in keeping the people informed on these activities. Individual and departmental responsibility could also be enforced with some citizen's or the elected representative's collaboration. For example, senior bureaucrats could present annual reports of their department activities to parliament or parliamentary committees allowing the media to inform all of us.

Job performance would be monitored by the mechanisms suggested above. However, they should be supplemented with regular and intensive training activities. Such an approach as well as offers from other sectors will automatically throw up the good officers who may or may not be promoted depending on external competition.

**iii. Pay for quality:** Our current system of remunerating government servants results in a) strong incentives to corruption and b) individuals with less education and more incentives to be corrupt opting for the service. Thus, for example, it is now widely rumored that the high scorers on the civil service are now opting for Customs Service as opposed to the traditional District Management Group or the Foreign Service.

What is needed is an analysis of the needs of the civil servant to see how much of these needs are met by the current system especially taking into account retirement benefits. The common hypothesis is that the government servant, in order to educate his children and have a reasonably happy retired life, needs considerably more than what he gets. Casual empiricism suggests that a civil servant is paid a cash salary that barely covers his children's school fees. Moreover he has no hope of sending his children to college overseas as required these days. He looks forward to a pension after retirement that will not even allow him to pay the rent of a house equivalent to what he is used to. Evidently, we are turning a blind eye to corruption for none of the bureaucrats can live according to these terms. What is worse, corruption acquires a certain acceptability while candidates with better educational background and consequently less prone to corruption are less likely to offer themselves for government service.

The only way out is to reform the system such that we abandon the system of power and privilege and attempt to recruit a better quality individual for public sector service. This can be done by paying the civil servant only cash—a good salary but cash. The government should not be in the business of managing houses and cars. These perks are often abused and consequently, impose a heavier burden on the budget than salaries alone would. Unfortunately, no study has been done of the cost to the taxpayer of maintaining these perks. Nevertheless, we can easily assume that cars are maintained by the government at greater expense and have a shorter life than those in the private sector.

Coupled with the productivity criteria laid out above and a more quality conscious recruitment, the policy of making a lucrative cash payment to public sector professionals will also attract some people who would like to pursue the career without indulging in corrupt practices.

**b. Reduce the size of the government:** The government has clearly grown excessively and developed a penchant for control and power. Plans have been made that have only created big government producing little in terms of concrete results for the people. Witness the static rate of literacy and the growth of our population both of which were supposed to be important plan goals. Yet we have many large education departments and numerous population cells.

We should, therefore, not only abandon planning altogether, but also do an immediate audit of government institutions with a view to drastically reduce the number of these institutions. For example, why do we have cultural and literary organizations sponsored by the government? Why do we have 40 extremely low quality universities? Why do we have a myriad of so-called research institutions that don't research? In addition to reducing the number of government agencies, the number of government employees too will need to be reduced substantially.

**c. Enforceable contracts:** A principal activity of the government that is currently relegated to the lowest priority, is that of ensuring an adequate framework within which we can transact our business. This would require at the very least a reasonably complete legal code which a working and learned judicial system will speedily enforce using a competent law enforcement system. Since much of economic activity is based on contracting, it is extremely important, that these contracts are enforceable by a working legal system.

Although we were fortunate in that we inherited a reasonably good legal system from the British, but we have let it degenerate. Now we have to try to reform it such that speedy justice is delivered and enforced. Needless to say this will involve much the same principles as outlined above to be applied in the recruitment and the management of the judiciary and the police.

However, a word of caution is in order here. A lot of emphasis is laid on the role of judiciary which though important is not nearly as important as the reduction of the role of government. Research has shown that reputation acts as an adequate policing mechanism for enforcing contracts in the private sector. As an example, take Bara which is a market that lies beyond the pale of all law and civilization in our terms. In that market, there has never been any evidence of an unfulfilled contract to date. The same is true of the Hundi markets (illegal foreign exchange markets) which again are beyond any legal jurisdiction. However, in our urban centers where the government provides most of the business of the private sector and protects criminals, reputation effects do not work and crooks roam the corridors of power.



### **Conclusion**

Much of current development thinking continues to rely on the government to meet the challenges of progress. They would still like to see the government play an important role in providing us a legal and regulatory system while also ensuring the development of our human resources by improving education and health. An important question that these people need to ask themselves is "whether the government in its current oversized and corrupt form capable of leading any development activity?" Or is it likely that assigning new roles to the government will lead only to the rapid development of further means of seeking rents? Should we accept the lead of a predator? For today we hire Brinks and other multinational and domestic security companies to protect us from the police that is the sponsor of thieves, burglars and the "qabza" group. Perhaps, the time has come to rely on ourselves and not on the government.

# 34

## **A plan reform: new for university notes for the VC of PU**

Punjab University (PU) may be at a crossroads. For a change, a prime minister has the inclination to be interested in making a change and has even expressed a desire to improve PU's quality. The search for a Vice Chancellor may result in an influential retired bureaucrat gaining control of the university. Such a position is normally reserved for an outstanding retiring academic in a well-established, quality university system. Unfortunately, in our university system degeneration has settled in at every level and individuals of such high caliber are difficult to find. Moreover, the new VC may need enormous levels of cooperation from the bureaucracy and the administration, that a retired bureaucrat with some influence may indeed be welcomed.

The reform of PU may be an important cornerstone of any plan to resuscitate education and research in this country. Unless we have one university that is competitive with the research and academic standards of the lowest level in industrial countries we cannot hope to produce the quality teachers and teaching material for the school and college levels that modern education requires. An examination of the evolution of the major education systems in Europe and America would show that quality research and teaching at the university level feeds back into all other levels of education thus improving the overall standard of education. And that is the key to economic and social progress.

The new VC of PU, if he wishes to leave a mark and not just enjoy power and privilege as his predecessors, should attempt to set a system of management in motion that ensures that PU rapidly becomes a center for learning similar to those that we see in the advanced industrial countries. If he studies the systems that are in practice in

major centers such as Harvard, Oxford, MIT etc., he will have to adopt the following principles for a meaningful reform of PU:

**1. Realistic and meaningful fee structure:** University education in every country is acquired by the relatively better off. Someone who can afford to remain out of the labor force in his or her late teens is by definition not a member of the poorest segment of our society. Many of those attending PU have paid large fees for private schools before joining PU. By keeping the university fee as low as we have, we are subsidizing the rich. PU fees should instantaneously be raised to realistic levels. This fee increase could be supplemented by a scholarship program for the deserving needy students.

A fee increase would have the additional advantage of making the students serious and the parents conscious of the need to get their money's worth. Today, parents, quite rationally, seem to believe in the two principles that, "you get what you pay for", and "if you want your child to have a future, you send that child overseas and not to PU". With a fee increase, parents and students would demand a quality education. They would be conscious of the wastage of time in terms of delayed examinations and long lags between exams and results. Teachers would have to recognize that they have to provide education programs that are worth their client's money.

**2. Quality and well-paid teaching staff:** The most important asset of any educational institution is a quality teacher. The whole university system in the all major universities is geared towards attracting the best professors and retaining them. Salaries, perks, positions and research grants are all negotiable when it comes to getting the best. In some cases universities have even been known to accommodate spouses to attract a real star to a department. Rapid promotion, early tenure are all available to the best and brightest. Noted professors are paid more than the VC and have an independent standing and are not answerable to the VC. Locking professors to grade 18 or 19 for a number of years with no hope of promotion without even the perks of the grades that the bureaucracy enjoys ensured that education is absolutely the last choice of the best and brightest. Is it not strange that we should expect a person to invest in a Ph.d and teach and research and yet have no hope of going beyond grade 20 while the students progress to grade 22 with only a BA and

an entry to a closed system?

Emulate the tenure rules of American universities. Young academics must fight for tenure by means of their peer-reviewed publications. However, the current system of faculty recruitment is clearly flawed since we lose academics every year to the Western world and hardly ever attract any back. Moreover, the current system provides no incentives for improved academic pursuits to those who gain tenured entry to it. Interestingly enough, no department in PU ever holds a seminar whereas, each department in the major universities overseas holds a large number of seminars a week. Again most departments in universities are teaching from early in the morning to late in the evening and students are in the library till the wee hours of the morning. PU is virtually asleep by noon and students have nothing better to do than look for trouble.

**3. Decentralized decision-making:** Most quality universities have decentralized decision-making vis-a-vis course selection, syllabi, appointments etc. This is the only rational approach given the nature of specialization required at this level. It is hard to imagine how the current centralized committees can assess and appoint professors in physics, sociology, economics, biology on the basis of interviews. How can one committee assess the academic worth of all these diverse areas? The new VC of PU must attempt to find a good faculty to man departments, give them stature equivalent to himself, and then hand over several of these key decisions to the faculty. Much of the current stock of human capital in PU must, however, be rapidly replaced in any reform to succeed. Fresh and vigorous academic blood will be needed.

**4. Emphasize research:** The current university system emphasizes administration if you look at the fact that some 80% of its expenditure is on administration and 95% of its staff is administration. Moreover, there are no research funds or incentives to research. Hardly any PU members have contributed to foreign journals or are on the editorial boards of such journals. Anecdotes abound about how the esteemed members of the ruling elite of the university are unaware of the importance of such academic pursuits as journal contributions and their worth. Research funds should be made available and rules

set such that the fate of the administrators of PU depends on the quality of academics and their research.

There are many ways to implement this plan. Perhaps PU should seek collaboration with some large university overseas. To begin with, the VC might wish to contract out to the collaborating university the recruitment, promotion, course-selection and syllabi decisions of departments. To give the university stature, aid agencies could be asked to devote some of their money to setting up prestigious high paying chairs at PU (the appointments to be made by major universities overseas). However, the government will still have to make the unpleasant decision of raising fees, removing the current vested interests, and signalling an earnestness of staying the course with the reform-a task no less than solving the lawlessness problem in Sind.

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## Let us rationalize agriculture!

Whether agriculture should be taxed or not still remains an issue for considerable emotional debate. Many an eminent economist as well as the landed lobby is quite emphatic about agriculture remaining beyond the pale of the taxman. Their thesis is that agriculture is already quite heavily taxed by means of the government controls on prices of agricultural outputs. These prices are often kept below market or international prices by means of administrative fiats. The loss to agricultural producers from this system of pricing is an implicit tax that they are paying. Such tax can be quite high - sometimes very high figures as much as 50 to 60 percent are quoted. Where these figured from we do not know. They certainly sensationalize the issue but is hardly believable.

### **Ill-effects of introducing taxation are also pointed**

**to:** farmers will have strong disincentives to produce and will therefore start reducing their output and start migrating to cities. However, if these farmers are being taxed at a high rate as normally claimed and are being so heavily discriminated against in terms of credit and expenditures, why are they not already giving up farming and running away? Will a little additional tax act like the proverbial last straw? Are they waiting for the institution of direct tax to leave agriculture? That hardly seems rational!

Furthermore, if agriculture is as heavily taxed as this sensational figure suggests, why have we had bumper wheat and cotton crops in recent years? Why would farmers not give up crops like wheat and cotton and plant more fruits and vegetables where there are no government price controls? These are questions that need to be carefully considered by the current agriculture lobbyists who wish to preserve the current system.

Casual empiricism also makes this figure quite unbelievable.

None of us really know of any large landowners starving and selling off their land at throwaway prices. On the contrary, they are sitting in lucrative parliamentary and extra-parliamentary positions, riding their Pajeros and totally free of paltry considerations such as working for "roti, kapra aur makan" that so preoccupy the rest of us. We all agree that prices of some agricultural products are kept below international prices while some farm inputs are subsidized. This system results in some indirect taxation of agriculture and a considerable fiscal burden on the poor taxpayer. The recent Pakistan Journal of Agricultural Economics (PJAgE) shows that this current system of indirect taxation draws only about of 5% of agricultural output and not the high figures that are normally quoted.

### **The ill-effects of the current policy**

While the current system may succeed in taxing farmers indirectly, it neither provides the tax revenues into government coffers nor does it allow the correct production decisions to be made. Farmers base their production decisions in anticipation of the profit, which is determined by the price, they are likely to get. In that sense, the price acts as a signal to the farmer on what to produce. If the price is determined by the market then it is the preferences of the consumers that are determining these decisions of farmers. If it is the government that is determining prices then production decisions are being determined by some bureaucrat who wishes to force his decisions on the consumers.

In recent years we have all witnessed the collapse of the USSR where bureaucrats wished to impose their desires on consumers. Perhaps, that episode should indicate to us that there are large costs associated with the government trying to maintain price controls. In the case of our agriculture, a prime example of the ill-effects of government intervention is the production of sugarcane which Pakistan is not competitive in and where a subsidy is being maintained only for the benefit of the large millowners.

## **The necessary reform**

Perhaps, the time has come for eminent economists to consider a total reform of our current agricultural policy. This would involve a simultaneous dismantling of the current system of controls on agriculture, including government price-setting, and the imposition of an agricultural income tax. Farmers would have the correct market signals thus removing current distortions. At the same time, direct taxation would allow revenue to be collected as opposed to the current system where the incidence of the subsidy because of the price differentials is unknown.

The dismantling of the current system has additional advantages. First, the budgetary cost that is currently incurred because of this system will be eliminated. Secondly if, as is commonly believed, market-determined prices increase beyond current support prices once the current system is dismantled, . output will, in all likelihood increase in response to that increase in prices. Without changing the current mix, if prices increase by 10% on average, output will increase by about 6% on average if the available estimates are to be believed (see recent PJAgE).

If we also remove the restriction on maximum landholding placing agriculture on par with industry where there is no restriction on the number of mills that an individual can own, the more an efficient farmer would be enabled to acquire as much land as he wants. Allowing the more efficient to expand would naturally allow output to be increased. Once again the effects of dismantling the current system are expected to be positive.

Another argument that is made against direct taxation of agriculture is that the expected revenue yield is calculated to be not very large. However, the higher output that is expected to occur because of the dismantling of the system, will result in higher farm incomes. Direct taxation of these higher agricultural incomes would result in higher tax revenues than simple estimates that are currently available.



# 36

## Civil Service reform

Ever since, I can remember, the need for a civil service reform has been discussed. I was a young boy when I first heard a case for a civil service reform being argued by an elder cousin who had freshly returned from Oxford. I was fascinated by all the argumentation and the display of sentiment for justice and economic efficiency. At about the same time, another learned individual, now a prominent PPP politician, stood first in the civil service exam but declined to join the service in a public statement which again focused on the need for a reform. Since then both these learned individuals have moved on and risen to respectable positions in society. On the other hand the civil service has not improved. If anything, I think I would not be far wrong if I claimed that a majority of Pakistanis actually feel that a decline in civil administration has taken place during our years of independence. Most people I talk to agree that the decline has been very severe indeed.

If I have given you the impression that civil service reform has preoccupied intellectual thinking for much of our history, I would be very remiss. In fact, if anything, that has not been on the agenda of any intellectual discourse in the country. Our intellectuals have had much to preoccupy themselves with issues of larger significance. If one were to judge from the point of view of what it is that receives media attention or which book sells, one has to conclude that poetry, commentaries on Iqbal and Faiz, foreign policy, the search for the right "ism" and the Afghan war are among far more important than the mere improvement of the administration that runs our lives for us.

I discovered as I grew up that all the intellectuals and politicians were interested in the topic only to the extent that it allowed them to gain an entry into the system. Their argumentation, though high sounding is quite facile. In any case, whenever the critics rose to positions of influence, they were so

busy playing politics that the improvement of public administration appeared too trivial. Foreign policy issues on Kashmir, Vietnam and the Afghan war were far more crucial and interesting.

### **The civil service reform dividend**

Whether or not we agree on the need for the improvement of the government, the government continues to consume a large proportion of all that is produced in the economy- about 25 percent of GDP. This means that a quarter of all that is produced in Pakistan is taken away and consumed by the government. It seems obvious that improving public administration could make the government more efficient. The efficiency gain could result in a reduction in the amount the government expenditures and consequently an increase in government savings. In that happy event, more of the country's output would be available for the people of the country to dispose of as they see fit. We may therefore be able to reap a civil service reform dividend like the West has reaped a peace dividend from the end of the cold war. (I use the term civil service and public administration interchangeably).

The government plays a very important and significant role in our daily lives. Almost all our social and economic activity is in one way or another affected by government policy or intervention. The education that our children receive, the way we drive, the layout of our community as well as our houses, our water and electricity supply, price and availability of most goods are all in one way or another affected by the government. The government affects the environment in which we conduct the business of our daily living in an all pervasive way. Because of this large and important role of the government, it is perhaps fair to conclude that the manner in which, and the efficiency with which, the government conducts its business directly affects the productivity of the rest of society. We may therefore expect that an improvement in the productivity of the government will also improve the productivity of the private sector. Consequently, the gain will be larger than the mere savings that the government will generate as a result of cleaning its act. This could be an additional civil service reform dividend.

## **Directions for reform**

Currently, the policymaker regards the civil or public service to be fulfilling the following two important political objectives:

- a. providing unemployment insurance scheme.
- b. a means of doling out political favors.

Given these objectives, there is little expectation of the civil service to perform for the people. The least important of all considerations is the extent to which a service has been provided to the taxpayer by the civil servant. After all, he was not appointed with that consideration in mind.

Given the above-mentioned objectives, it is not surprising that, in recent years, public sector wage has been falling relative to the rate of inflation while public sector employment has been increasing. The government has attempted to deliver the populist message of a benign yet frugal government one that seeks to employ all and yet in the interests of equality pays its employees very little. However, as with all that is government, behind the rhetoric and the propaganda, the government first dramatically increased perks to its employees and then relaxed the attitude towards corruption such that today corruption is open and fully accepted. In fact certain government positions (such as the police and customs) are auctioned to the highest bidder for him to extract as much revenue as he can from that job.

As the wage declined and as corruption increased, public sector management capability declined. The decline occurred because on the one hand, public servants were preoccupied with creating activities for generating personal fortunes and on the other, the more educated and professional individuals who because of their educational background had a greater aversion to corruption and ineptitude, moved away from public service. These factors served to reinforce each other. As the more corrupt moved into positions of control, they spooked the more capable and the less corruptible. What suffered most was the quality of service that the citizens received from these civil servants.

From this discussion it is clear that an important direction in which the civil service reform should move is obviously in the upgrading of its management systems and personnel.

For achieving this objective, such a reform must continuously learn from the private sector. The civil service must seek to attract the best professionals with the most impeccable moral characters. In order to do so it must be in competition with the private sector for these individuals of high quality. It must pay well and seek to attract individuals from the private sector as well as consciously watch if there is a demand for its professionals in the private sector.

The current barriers to entry into the civil service must be eliminated to ensure that there is open and competitive recruitment from all sectors of the economy. The civil service at all levels must offer a package of benefits that is competitive with the rest of the economy. However, remuneration must be cash-based. As far as possible perks such as housing, cars and utility bills must be eliminated.

Adequate remuneration and an active and exciting career which allows mobility between public service and the private sector will serve to upgrade the kind of individual that enters the civil service. But this must be matched by the introduction of a system that seeks to define and monitor the productivity of all levels of the civil service with a view to ensuring accountability of the strictest kind. At the time of a recruitment of an individual, some form of public or media scrutiny of the professional capabilities of the recruit could be used. For example, the appointment of the Deputy Commissioner or Commissioner could be examined in a public hearing a sub-committee of the provincial assembly. Similarly, commissioners and deputy commissioners could be asked to provide say, an annual report on the local law and order situation at an open press conference or public meeting which could allow him to obtain some feedback from those he is supposed to serve.

The most important manner in which the current system breeds corruption is by giving the civil servant control over a vast amount the country's resources as well as a considerable amount of arbitrary power over our lives. There must be a continuous effort at reducing this influence of the government and at handing over the control of their lives back to the citizens. The most important element in this aspect of the reform would be to reduce drastically the size of the government, eliminating both necessary departments and

autonomous bodies and unnecessary layers of bureaucracy.

The adoption of these simple principles could go a long way to improving the quality of public service in Pakistan. But in order to get quality, we must demand the best and settle for nothing less. Ultimately, there is no escape from the cliché "a people deserve the government they get".

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# 37

## A conversation with political scientists!

Having had some interesting conversations with economists and experts in business administration, I proceeded to ask other professionals in this endeavor which has by now become a small research project. Although I have had no feedback. I certainly hope that readers in Pakistan find these conversations as interesting, refreshing and thought-provoking as I do. In my mind, democracy is meaningless if we do not allow a number of different viewpoints to flower. The intermingling of different ideas and the widespread debate on them helps educate the population as well as generates new thinking on all issues. For keeping a society alive and for laying a strong foundation of democracy, we need to keep all issues under constant debate in the media and hence in the public eye.

For this reason, I decided to pursue some expatriate Pakistanis who had developed some expertise in the study of politics. Once again with the necessary apologies for any errors that I might have made in transcribing the views of these eminent folk, I present below a brief summary of the views expressed in the meeting of political scientists.

**Q.** Ladies and Gentlemen, you are all keen observers of the events of Pakistan and are all intimately aware of the difficulties that the country has been going through in terms of finding its own political identity. Let me begin by asking whether, in your opinion, we have made a successful transition to democracy?

**A.** The answer was a strong "no" for the following reasons. a) Although we have had an election, the results can hardly be considered to be satisfactory since our elected representatives remain the same old faces that have been thriving through democracy and dictatorship. A comparison of the names across

the Majlis-i-Shoora and the parliament of President Zia ul Haq, with the current Assembly will show that the names remain virtually the same. The oligarchy in Pakistan has ensured that some member of their family remains in power no matter which form of government prevails. No fresh blood, nor any new ideas, have been allowed to enter the election process.

b) The level of politics remains much the same. The political parties are little more than alliances of the oligarchy that have been formed for the sole purpose of retaining power in some form or the other. Issues and ideas are not discussed on any political platform nor is a division in the Assembly or among the parties along ideological or rational lines. Votes both inside and outside the legislatures are being bought. Allegiances continue to be switched not because a major issue of public interest is involved but only because of narrow self-interest. Cabinet and other positions are not being awarded according to merit or the ability of the individual to perform. These positions are rewards to be handed out by the government. The politicians appear to lack an understanding of the central concept of democracy that they have been elected for a reason- to run the country on behalf of the people as their representatives. The only purpose that the politicians appear to have is to make as large a personal fortune for themselves as possible. This is certainly not democracy.

**Q.** Your opinions appear to run contrary to all informed opinion in Pakistan in that you do consider democracy more than just the holding of election. In all the media debate that has taken place through much of our history, it has consistently been held that all we need is an election for democracy to arrive. Somehow elections are the ultimate solution. Why do you people disagree and how would you define democracy?

Elections are an integral part of democracy but by themselves they are not sufficient to bring about democracy. However, elections are but one element of democracy. Elections alone will not enforce a responsible government. To ensure a responsible, representative government that a country needs, constitutional and other legal provisions need to be put in place in the context of an institutional framework that will enforce these provisions. It must be remembered that democracy is the name given to a system where people elect representatives for the running of their affairs within a defined legal

and constitutional framework. The framework must, however, be clearly defined, and continuously evolved, to induce responsible behavior. Moreover, there must be a clear willingness on the part of the people to enforce the rules that have been laid down.

**Q.** Are you implying that the constitutional framework that we have is not adequate for inducing democracy?

**A.** It should be remembered that the mere aping of Westminster is not enough to ensure democracy. English parliamentary democracy evolved over a period of a few hundred years and had its own share of growing pains as is evidenced by the long struggles for the various reforms of parliament. It is deeply rooted in the English tradition which evolved alongside the parliamentary form of government. For example, crossing party lines in England is a matter of considerable social censure and voter approbation. Consequently, the framers of our constitution did us a considerable harm in merely copying Westminster without additional safeguards.

We have to arrive at a system of representative government where individuals best suited to, and most capable of, representing the interests of the people are elected. Moreover, we have to ensure that when elected, these representatives will act in a manner most suitable to the interests of the people. Consequently, rules have to be put in place that will allow a) capable people to come forward, and b) induce them to behave in a manner consistent with their mandate. Then we would have democracy.

**Q.** What additional rules would you suggest that would ensure democratic behavior?

**A.** (Since many different ideas were thrown up, I will only summarize the more important ones to give the reader a flavor of what the learned body considers is necessary for democracy to be well founded in Pakistan). These were:

**I. Limit the size of the cabinet:** The size of the cabinet and other positions that the government can dole out to the legislature should be limited by constitution. Experience has shown that the government uses its ability to expand the cabinet only to purchase votes. The creation of another minister's



position should require considerable parliamentary review as it requires expenditure of resources.

**2. Confirmation of appointments by parliament:**

Ministerial, judicial and senior civilian appointments must be reviewed by the senate or open committee to ensure the fitness of a candidate for the position. Such a review process will ensure a) that the candidate is competent to handle the job and has had occasion to develop some thoughts and ideas that are in the public interest, and b) that the candidate has a moral character that conducive to the job, i.e., he will not be preoccupied only with rent-seeking activities. The review will also reveal the ability of our representatives to research issues of policy importance.

**3. Definition of a political party:**

The term political party must be properly defined to prevent just any one from forming a party in his or her living room. Clearly a party must have a widely distributed program. Perhaps a requirement of a minimum voter support by some registration process would show that the party has broad support. At election time all parties should be required to pledge rather a large deposit which would be forfeit if a certain number of its candidates have not been successful in elections. Of course this would place some hardship on a party if it had membership mainly of the poor and dispossessed. But one has to only see that the current system too has ruled out the poor and dispossessed because election remains a game for the rich because of the prize of rents that the successful candidate collects.

**4. Public information on candidates and parties:**

All candidates and all parties should 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, This is the case in the US and a very good system. Candidates, especially the successful ones, must show an acceptable distance from any business interests that they might have. Recall that the US Secretary of State, James Baker, had to give up some share of a bank that he had inherited from his grandfather years ago because of a possible conflict of interest. We should also require equally tough laws to constrain the avarice of our candidates.

**5 Public debates:**

The media, especially the government owned sections such as the radio and television, should be required to continuously present debates between parties and candidates and

analyses of various candidates and parties. For this purpose, a number of different professional and other interest groups should be solicited for their contributions. The country must be weaned away from street politicking to more mature, issue-oriented media politics.

**6. Watchdogs of democracy:** The election commission could occasionally issue fresh guidelines, and perhaps, along with the office of the ombudsman, be required to present an occasional report on the state of democracy, issues related to the election process and democracy, and the conduct of the MNAs and other politicians. The report should be made available once every five years at the minimum. Less detailed reports especially ongoing analyses of individual MNAs (eg. their attendance and voting records) could be made available at much shorter and regular intervals. The private sector, too, should play a role in watching over the democratic process signifying its stake in democracy. It could establish a standing committee for the review of democracy which would be funded and fully backed by the various professional and interest groups in the country, but run independently of those groups. This committee could function as an independent watchdog for the democratic process.

# Appendix

## A glossary of terms: understanding complex jargon

There are many terms that the various individuals who express concern for the fate of Pakistan use to convey erudition and yet remain vague. In this appendix, I will attempt to decipher some of those terms and point out to the reader how such terms ought to be looked at with a certain degree of suspicion. Although jargon has been avoided in this book, I will, nevertheless, define certain terms that may appear to need some discussion.

**DOT:** Development oriented thinker, the reason for coining this term is that, in Pakistan, every one (lawyers, politicians, journalists, doctors, political activists, etc) is a political, economic and social thinker. Each of them will decry intellectuals and intellectual efforts while making a pitch with his personal solution which was arrived at after having read a daily newspaper and a few penguins. Each one while rejecting jargon almost instantaneously seeks refuge in jargon. In that manner all DOTs criticize professional economists and other social science academics. However, since the academic social scientists are in extreme short supply in the country, the pretentious DOT, who speaks well, relies on jargon and propounds vague notions and ideas, dominates thinking in our society. Beware his high sounding nonsense.

Another important characteristic of the DOT is that he is always in line for government and donor appointments or contracts. Perhaps tainted by this symbiotic relationship with the government and donor official agencies, the DOT is always seeking arguments for a new, more improved, but a bigger role for the government. They perennial call for the creation of a new government institution to put into practice the latest DOT idea. Perhaps, the hope is that the recommending DOT will be appointed managing director. Quite often, he is. In that sense, the DOT is no different from other rentseekers (see rentseekers). He/she too wishes a stake in the largesse of the government and to seek an income from unproductive activities.

**Empowerment:** When the state is unable to deliver on the promises of the social contract, survival depends on alternative structures and networks. These are developed informally by the people to perform those public functions which were expected of the state. In earlier times, these indigenous organizations were destroyed by government decree because they were not according to the plans of the DOTs. Since such informal structures have withstood the test of time and the DOT innovations, they must be dealt with.

Not quite ready to admit defeat and say that perhaps we should let people do what they can to help themselves, the DOT who likes to be in control wishes to take them over. The common jargon that is now being used is that the government should seek to empower these informal social structures. This strange thinking needs to confront the predatory nature of the government (see predatory government). For example, some questions that must be answered are:

Can the government (that is now so predatory) seek to empower any institution?

In seeking to empower, would the predatory government infect informal institutions that are functioning well with its own predatory nature?

More imaginatively, can Al Capone empower St. Peter? If so, for what? Crime or good?

Could it be that institutions that are currently working well and for the common weal would become predatory once the government enfolds them?

**Enabling environment:** This term that is supposed to catch all and sundry that will enable economic growth and the growth of the private sector. Somehow the government, that has to date hindered private sector development and fostered rentseeking at an accelerating rate, is expected to transform itself and become this wonderful choreographer of a brilliant production that enables private sector to perform its functions smoothly. What constitutes an enabling environment is anything and everything, as they say, including the kitchen sink. A great gimmick for lining consultants' pockets who spend a good deal of time writing lengthy reports and attending 5-star seminars on the enabling environment. For future watchers, watch

for the Pakistan Institute of Enabling Environment.

**Governance:** Everything to do with administration, and the art of government is thrown into this term. Most DOTs feel very happy at mouthing this word and feel that it is descriptive enough without further clarification. The most dangerous element of the term is that it assumes that all that is necessary is somehow to reform current structures and all will be well. Thus with improved administration and greater expenditure, 100 percent literacy will be achieved. What the DOT does not see is that we have wasted a lot of resources over the last 45 years in trying to get the education department to work, but it has not worked. Who mans the universities and the education establishments? Rentseekers or academics? Has the time come to disband the education department and seek other solutions?

As with all vague generalizations, it is hard to disagree with the need for improved governance. Similarly, all of us wish for "liberty, equality, fraternity" and "roti, kapra aur makan" The important and interesting questions are:

Can we improve governance with the current government structures?

Do we not need a sharp reduction in the size of the government before we can talk of improving governance?

Do we also not need to severely limit the activities of the government before we design an improvement in governance?

In seeking alternative structures for better governance, should we not try to ensure that rentseeking opportunities are very limited?

Should we not pay considerable attention to the human capital needs for better governance?

In that sense, is better governance not a management problem for which we should learn from the private sector?

**Human capital:** Human capital is the capital that an individual can acquire within himself in terms of improving his/her productivity. It therefore refers to the quality of available

manpower. Individuals can obtain an education to improve their human capital. Though literacy is an element of human capital, the term refers to an amalgam of the productivity of labor and the ability to manage the resources of the country and is therefore far broader than literacy.

In Pakistan, it is commonly recognized that a better machine serves to increase output. But there is little understanding of the notion of the quality of human capital. However, the world over this notion has been accepted. In fact it is now widely recognized that human capital, and especially the continuing improvement in the quality of human capital, is an important determination of economic growth and the sustenance of such growth. Consequently, most advanced countries are continually attempting to better the quality of their manpower by pushing educational and research standards higher and higher.

Pakistan remains the only country in the world where no effort is being made to improve the quality of human capital. In fact, policy has deliberately sought to sharply deteriorate educational standards because it was politically expedient. It would not be an unfair assessment to say that the quality of our aggregate human capital has declined sharply during the time we have been an independent country.

Many of our problems may be arising directly from the fact that we are living in an environment of declining human capital. The most important aspect of this phenomenon is that the quality of management at every level has declined sharply. While management in government has deteriorated, rentseeking opportunities and rentseeking have increased rapidly. The result is that we have unfettered rentseeking being complemented by deeprooted corruption and extremely poor management

Whatever design for our future is dreamed up by any thinker or politician must take into account the current state of government management. Such a design has to focus on obtaining the best possible human capital for managing a key sector such as the government if we even hope to improve governance. In doing so, such a design must contend with the dominant liberal philosophy in Pakistan that wishes to keep government salaries low.

Any new design must also focus on the state of the system of education and the quality of its product. Unless a reform is backed by a smooth functioning system of education which is producing quality and continuously upgrading quality, the reform will not be well founded.

NGOs: Non-government organizations are supposed to be the institutional base for participatory government. These institutions are supposed to interface on our behalf with the government and promote our participation with the government. As indicated above there are too many questions that remain unanswered in connection with NGOs.

What will these institutions do?

How are they to be run?

Are all the people who volunteer to run NGOs selfless individuals with no personal motives? Where have they been all this while? Did it take only the availability of funding and the announcement of the term NGO for them to come out of the woodwork?

How are they to be financed?

Who are they accountable to?

How is accountability to be enforced?

Will the government not control these institutions since they are setting them up?

If the donors are financing and setting up these NGOs, what is likely to happen once the donor funding is finished? Are they likely to be financed by the government then? If so, are NGOs a back door method for creating new government departments and hence a bigger government?

Given the experience with the government, and given the decay in the administrative set-up, we should be suspicious of any institution that the government is involved in setting up. At the very least, our assumption should be that such institutions will become a means for rentseeking quite rapidly. If such an assumption is made, we can at least attempt to take some counter-measures to prevent rentseekers from taking control of NGOs.

Participatory government: This is the vaguest term of all. We have observed the failure of government in all its forms. Rather than reduce the functions of the government, the DOT wants to increase

them by creating new participatory institutions. The government, I suppose, with the help of the DOTs is supposed to create these new institutions in which the people are supposed to participate. There are too many questions that remain unanswered in this context. (**See NGO**). Perhaps the most important of these is, how do you participate with a predator? (**see Predatory government**).

Proponents of participatory government suggest that in order for participatory government to work, we need village organizations. These village organizations are to be based on the participation of all the peasants and are to be initiated and established by an external animator. A number of very important and crucial questions are raised when one considers this argumentation:

Where to find this external animator who is so dedicated as to selflessly create these organizations? Is he a government servant?

What is the difference between the external animator and the old communist party member in the "East is Red"?

Are we in an era of direct democracy? Can we have direct democracy over 120 million people?

**Predatory government:** As per the social contract, a government generates resources by means of taxation for meeting its social contract obligations. Consequently, there should be an expectation on the part of the taxpayer that he will get a return on the taxes that he/she pays in the form of government services.

In Pakistan, as in most other developing countries, for various reasons the state thrives on the notion that the government can do what it likes with tax revenues and owes the people nothing in return. In fact, the government virtually provides no service in return for the taxes it collects. For some time now even the basic human right of the security of life and property has not been honored by the government. Witness the increase in crimes in recent years and the police connivance in such crimes.

Government functionaries at every level are now accumulating fortunes at a rapid rate using all government resources at their disposal. Witness the various financial scandals and the government involvement in them as well as the lack of will on the part of the government to bring anyone to justice.



In such a state, it appears that the government is preying on the people and the people are actually expending resources to escape the predator. The government is a predator in the sense that it is hungry for a share of our resources (eg. the 60 percent excise duty on telephone calls in summer of 1992). It also encourages its favorites to prey on us for a share of our incomes.

**Public goods:** Public goods are those goods that are jointly consumed by members of society. Common examples of such goods are defence or a park or a museum. These goods were expected to be provided by the government since it was considered difficult for the private sector to produce such goods and get paid for them. In a philosophical sense, it was expected that the government had a contract with each citizen to provide them with such public goods. In early society, individuals were provided the public good of security of life and property (**sec social contract**).

Over time, however, the definition of public goods has been evolving. Today, we expect that the government should, apart from the traditional areas of providing security of life and property and dispensing justice, also take on the task of providing us basic facilities such as basic health and education. However we have seen a dramatic shift in the emphasis on the role of the government. In the seventies, it was almost taken for granted that the government would provide all health care and education, develop and manage all communication networks such as roads, railroads, electricity, airlines and telephones. Twenty years of government mismanagement left many countries with huge debt burdens. After some resistance, country after country has surrendered many such activities to the private sector. For example many countries have surrendered the national airline, the national road, railroad, telephone and the electricity supply systems to the private sector. Countries have even invited foreign companies to manage government activities such as the collection of customs duties.

Whatever social contract we dream up for ourselves in Pakistan, it must contain an adequate definition of public goods.

**Rentseeking:** Rent constitutes earnings made without working. For example, you earn rents of real estate holdings without having to work. Primarily because of the large role

assigned to the government in most developing economies, it has managed to acquire control of a large portion of the country's resources. Over the years an important activity that has emerged among the class of those well-connected to the government, is that related to gaining wealth by means of those connections. These activities range from outright influence-peddling and corruption by government officials to selling goods to the government and obtaining government contracts at inflated prices. Quite often, individuals are given monopolies by means of government licenses.

Rentseekers are not necessarily idle. In fact, a lot of them are expending a considerable effort in attempting to create a rentseeking opportunity for themselves. The issue really is that no matter what the effort, such activity is unproductive and, quite possibly, costs the taxpayer.

**Social contract:** In a philosophical sense people constituted society in order to produce and consume goods that required joint effort. Such goods were called public goods (see public goods). Society, as a whole, was considered to have a contract with each of its individual members that it would provide common facilities or public goods such as security and defence. As civilization and the economy grew, more was expected of society, or the government which ran society. In that manner the definition of Public goods was extended (see **public goods**).

Today there is considerable talk of a new social contract. However, a lot of it has been just that talk. The basic point to remember is that a social contract must define the areas of responsibility of the government. In the last few decades, this list of governmental responsibilities has been expanded enormously. The expectation was strongly encouraged that the government should also take on the task of directly controlling the production of all goods in society. Experience, however, has shown that the government cannot successfully take on such an enormous task.

Any genuine attempt to redraft the new social contract must properly define the role of the government, or to be specific, severely limit the activities in which the government should engage in, and also define very stringently how the government will engage in those activities.