**THE NEWS**

**January 9, 2012**

**The way out**

*By Dr Ishrat Husain*

There is a great deal of fear and apprehension that loose economic policies and an intensified patron-client based resource allocation would put the economy at risk in 2012. To avoid this risk, it is imperative that alternative solutions should be presented that not just stop the economic rot, but also make the ruling parties look better in the eyes of the electorate. Sifting through a large number of policy measures and screening them against the criteria of economic viability and political feasibility, the following nine priorities have been identified and recommended for serious consideration and implementation:  
(1) Energy shortages can be minimised even in the short term by resolving the circular debt issue through a combination of five measures (i) finance the stock of the debt by issuing 10-year Pakistan Investment Bonds. Full pricing consisting of amount recovered from the end users and the subsidy by the government should form the basis of all future inter-company transactions which should take place through dedicated escrow accounts; (ii) allocate natural gas and coal to power stations so that the fuel mix is changed and low-cost power can be generated from the existing plants. Bringing down unaccounted for gas (UAF) losses from 13 percent to 4.0 percent will make available 300 mmcfd for power and industry. Efforts should be accelerated to implement LNG/LPG projects underway; (iii) rationalise price distortions by removing differential pricing for example CNG consumption should be curtailed by raising its price equivalent to that of motor spirit. New exploration should be encouraged by raising the gas wellhead prices to the international level; (iv) restructure four electricity distribution companies that are way off in recovery of bills and line losses by appointing boards of directors and chief executives on merit, assign them targets for line losses and recovery, give them full operational autonomy and hold them accountable for results; (v) target energy subsidies only to those below the poverty line and channel thems through the Benazir Income Support Programme (BISP). The burden on the exchequer can be reduced substantially as in-kind subsidy to the employees of Water & Power Development Authority (WAPDA), other power distribution and gas companies and to other life-line consumers are being misused.  
(2) Tax authorities should be given all possible assistance in identifying, assessing, recovering taxes from the existing payers, who conceal, misstate and under report their incomes, sales and imports. Powers should be decentralised to the field offices for enforcement, take penal actions and they must be assigned targets for bringing in new tax payers. The computerisation of tax records and data bases containing information about the assets, ownerships, expenditures would help in the audit and recovery of taxes. Ad hoc measures such as surcharges on income tax on existing tax payers are counterproductive and should be avoided.  
(3) Restructuring of the loss-making public enterprises should be completed by appointing right caliber persons to the board of directors and as chief executives. Time-bound operational goals, revenue and profit targets and other key performance indicators should be given to chief executives. Thereafter, politicians and ministries should not interfere in their day-to-day operations. Only monthly monitoring of their performance by the prime minister and remedial actions to overcome problems should become the norm.   
(4) Controls on wasteful public expenditures should be effectively implemented by imposing a complete freeze on all new recruitment, appointments, new motor vehicles, unnecessary travel and other non-productive expenditure. Effective use of resources can be ensured if the provincial governments devolve authority and powers such as education, health, drinking water and others to the elected local governments.   
(5) Allocations of development funds should be channelised only to those projects which are near completion and seen beneficial for production, employment creation and infrastructure availability. Education and health expenditures should be raised with proper checks and balances in place to ensure effective utilisation.  
(6) Rehabilitation of existing power generating stations, transmission and distribution systems, railway engines, locomotives, rolling stock, grounded airplanes, repairs and maintenance of core production facilities of Pakistan Steel should be financed through public-private partnership with management contracts.  
(7) Inter-governmental fiscal relations should operate under the overall umbrella of the Council of Common Interests (CCI). The federal and provincial budgets should be formulated under a consistent framework and priorities should be discussed, agreed and regularly monitored. The National Finance Commission should reward provinces for their own tax and revenue mobilisation efforts.   
(8) Provincial governments should facilitate new private businesses by setting transparent land allocation policies in industrial zones and for supporting service industries. Small, medium and micro enterprises in semi-urban and rural areas that can generate employment and technical and vocational training through private sector participation can play a critical role in this respect.  
(9) Greater attention should be paid by the provincial and local governments to agro processing and linkages with large retail and wholesale distributors particularly in milk, meat, fruits, vegetables, fish and marine products and oil seeds. The incomes and jobs created through the whole chain of procurement, processing, transportation, storage and chilling, wholesale and retail distribution would give a big boost to the economy. The producers will get higher returns and consumers lower prices if these linkages and value chains are strengthened.  
The conventional wisdom espoused by political leaders is that they would win popular support by providing public sector employment to supporters and allowing lawmakers to spend public money liberally in their constituencies. The realities are different. The powerful media is consistently painting a grim picture about the performance of the ruling coalition and the common voter finds a resonance and validation in this picture because of his own day-to-day miserable experiences. He is unable to get basic daily services for survival – education for his children, healthcare for family, employment for grown up educated son, reliable electricity supply and even clean drinking water. He has to travel through time consuming expensive modes of public transport daily to earn livelihood. If a crime takes place against his property or person, he is unable to lodge an FIR with the police or get access to the judiciary without incurring huge expenses on lawyer's legal fees and bribes. These realities form his perception about the ruling party.   
At the time of the election, it is this picture of his daily struggle that grips the common voter's mind. That is why very few incumbent parties in South Asia find their way back to power. It is unreasonable to expect that in the last year of its incumbency the government will have the will to take all the actions outlined above. But at least by taking some of the steps, the downward spiral of the economy can be arrested and some of the elements of this grim picture of their performance can dissipate.  
The writer is Dean and Director Institute of   
Business Administration and former governor,

State Bank of Pakistan.