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Tough economic decisions

By Ishrat Husain
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PAKISTAN has never been hit by such adverse shocks as in the past few years. All of these have occurred in quick succession and their speed, intensity, duration and magnitude are unparalleled. The war on terrorism has caused enormous loss to life, property and order. It is still going on.

The bulk of the population was already suffering from diminished purchasing power due to high inflation, stagnating incomes and growing unemployment. The global economy has been in recession and has remained unhelpful in stimulating the domestic economy. There are few expectations of economic recovery at this stage.

On top of this the floods have affected some 20 million people, damaged or destroyed more than a million houses and infrastructure and played havoc with agricultural production over 10 per cent of the cultivable area. The cumulative effects of these shocks on the economy are likely to persist over a fairly long period of time. The way to tide over these extraordinary difficulties therefore requires some tough decisions on the part of our policymakers. It is not the time for business as usual.

First, we must reset our priorities regarding public-sector spending at the federal and provincial corporation level and eliminate wasteful expenditure in budgets at all levels. A clear link between public expenditure and the desired economic outcomes — incomes, output, prices and employment — should guide the screening of projects, programmes and policies for inclusion on the priority list.

Second, the domestic savings rate is dismal and has made us heavily dependent on foreign assistance. The savings rate has to be stepped up by providing incentives to households, corporate and small businesses and overseas workers through national saving schemes, mutual funds, bank liability products, insurance, etc.

The public sector as a whole has been a source of poor savings mainly because of losses by public corporations, low resource mobilisation arising from exemptions, evasion, waivers, weak compliance and indifferent enforcement. Studies have shown that at current rates, tax collection can be raised by four to five per cent of GDP while the plugging of leakages, waste and corruption in public corporations and development projects can provide an additional fiscal space of two to three per cent of GDP. An action plan should be implemented by the finance managers to capture public savings.

Third, the privatisation programme has been stalled for quite some time now and the loss-making public corporations are bleeding the exchequer. Not only is privatisation necessary for the health of public finances it will also contribute to the efficient allocation of resources, improvement in productivity, expansion of output and employment. Vested interests have so far prevailed upon decision-makers by perpetuating myths and falsehoods about privatisation. It is time to ignore them and proceed with privatisation in an open and transparent manner both by offloading limited shares of profit-making companies and disposing of loss-making corporations.

Fourth, the government by becoming too intrusive is now an impediment in the way of new enterprises, start-up companies and small businesses in the private sector. Entrepreneurship is discouraged by excessive rules and regulations. Too many agencies and departments are involved, often at cross purposes with each other, in cumbersome and long-drawn-out process of getting clearance, no-objection certificates and building permits, and acquiring land, utilities and infrastructure. A single building project requires the seal of more than two dozen government agencies and departments — connections and corruption are the main determinants. Successful examples should be replicated all over the country.

Fifth, decision-making at the government level is convoluted and complex because of the overlap, duplication and multiplicity of organisations, elongated hierarchal chains within organisations and a growing tendency for turf protection and inter-agency rivalry. Rules and procedures along with structural changes in the ministries/attached departments have to be drastically modified and powers delegated and accountability established to make room for fast-track decision-making. The enormous discretionary power enjoyed by poorly paid, ill-trained low-level functionaries such as the patwari and SHO have alienated ordinary citizens from the government and should be transferred to civil servants of high calibre.

Sixth, the gap between the capacity of the government to deliver public goods and services and the growing expectations of the public is getting wider. This can be filled by an empowered and well-functioning local government system. The Local Government System 2001 had rightly devolved powers, authority and resources for basic public service delivery to the union councils and district governments. This system, with some required changes, should be reinstated as soon as possible with the provincial governments responsible for policies, standards, ensuring quality and monitoring results. The Police Order 2002 with its built-in checks and balances should form the basis of citizen-police relations.

Seventh, investment decisions in energy, the rehabilitation of the irrigation system, education and health should be made on a medium-term basis. Parliament should discuss and approve the allocations which should remain unchanged at the time of the annual budget except where fine-tuning is required. This will ensure that some essential activities that will produce results in the medium to long term are not sacrificed at the altar of short-term expediency and arbitrary cuts in development projects.

Finally, the chief executives and the boards of directors for 100 key economic institutions, organisations and corporations should be appointed for a fixed tenure and not arbitrarily removed without cogent reasons. These appointments should be placed and endorsed by parliamentary committees. The removal should be challenged in court if done with mala fide intentions. These executives should be given specific targets and held accountable for results.

The political will to carry out these measures has been lacking so far. It is time that we mustered up the courage and rose above partisan interests to get the country out of the present crisis and cleared the general air of despondency by taking these decisions.

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