# INTERTWINING OF INSTITUTIONAL AND ECONOMIC REFORMS

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Empirical studies of determinants of growth and development carried out over the past seventy years have now clearly demonstrated that broad based socioeconomic development is determined, inter alia, by the quality of governance and institutions. An empirical study by the International Monetary Fund in 2003 found that governance has a statistically significant impact on GDP per capita across ninety-three countries and governance explains nearly 75 per cent of the cross country variations in income per head. An Asian Bank empirical study (2010) shows that developing Asian economies with government effectiveness, regulatory quality, and rule of law scoring above the global mean (after controlling for per capita income) grew faster on average during 1998-2008 than economies scoring below the global mean. The authors conclude that good governance is associated with both a higher level of per capita GDP as well as higher rates of GDP growth over time.

Numerous other studies have demonstrated the linkages between good governance and healthy economic growth. Daron Acemoglu and James Robinson in their book, Why Nations Fail, demonstrate that it is the institutions that determine the fate of nations. Success comes when political and economic institutions are 'inclusive' and pluralistic, creating incentives for everyone to invest in the future. Nations fail when institutions are 'extractive', protecting the political and economic power of only a small elite that takes income from everyone else. Institutions that promote good governance and facilitate broad based and inclusive growth have come to occupy the current consensus on development strategy. According to Acemoglu and Johnson (2003), good institutions ensure two desirable outcomes: relatively equal access to economic opportunity, i.e. a level playing field, and the likelihood that those who provide labour or capital are appropriately rewarded and their property rights are protected.

Rashida Haq and Uzma Zia have explored linkages between governance and pro-poor growth in Pakistan for the period 1996 to 2005. The analysis demonstrates that governance indicators have low scores and rank at the lowest possible percentile as compared to other countries. The results of their study show a strong link between governance indicators and pro-poor growth. In addition, their econometric analysis shows a strong relationship between good governance and reduction in poverty and income inequality.

Economic policies, however, sound or benign, can produce the desired outcomes only if the institutions intermediating those policies are strong, efficient and effective. It is the quality, robustness and responsiveness of these institutions that can transmit social and economic policies. In addition to the findings linking institutions with aggregate growth there is some association between the distribution of income and institutional quality with very unequal distribution of income being associated with a lower quality of institutional development.

The channel through which governance affects development is the quality of civil servants, the incentives facing them and the accountability for results. The key to quality and high performance lies in attracting, retaining and motivating civil servants of high professional calibre enjoying integrity. They should be allowed the authority and powers to act in the larger interests of the public while being held accountable if things go wrong such as nepotism, favouritism, corruption etc. This can be accomplished by introducing a merit-based recruitment system, continuous training and skill up-gradation, equality of opportunity in career progression, adequate compensation, proper performance evaluation, financial accountability and rule-based compliance.

In my book, Governing the Ungovernable, my research has led me to conclude that the impressive record of Pakistan's economy between 1950-90 could be ascribed to the well-functioning strong institutions of governance. Pakistan was one of the top ten economic performers among the developing countries in the world during the first forty years of its existence. These forty years were tumultuous in the history of the nation but the record of achievements was impressive. Starting with a very weak economic base at the time of independence in 1947, followed by building a new nation from zero point, continuing political instability in the aftermath of the death of its founder. It successfully absorbed and rehabilitated 8 million refugees or one fourth of the total population, fought a war with a much larger and powerful neighbour India in 1965, and went through a painful and traumatic dismemberment of the country in 1971. The emergence of a populist political regime that indulged in massive nationalization of private assets in the 1970s accompanied by an external shock of major oil price increases gave a big blow to business confidence and dislocation of the economy. Close involvement with the US in the Afghan War to oust the Soviet Union in the 1980s and the associated fall out in the form of sectarian violence, drugs and Kalashnikovs shook the social fabric of the country. Despite these and many other challenges, internal and external, the country was able to register 6 percent average annual growth rate during the first forty years of its existence. Pakistan was ahead of India and Bangladesh in all economic and social indicators. Civil servants who manned the institutions of governance in this period were committed, competent and possessing impeccable integrity.

Since 1990, the country has fallen behind its neighbouring countries and has had a decline in the growth rate from 6.5 percent to 4 percent with booms and busts. The booms were short lived and could not be sustained over extended periods of time. Political instability and frequent changes in governments in the 1990s may have created uncertainty for investors thus slowing down the pace of economic activity. While there has been smooth and orderly transitions of power from one elected government to another twice since 2008, economic and social indicators have not shown much improvement. Pakistan's lingering problem since the 1990s in ensuring macroeconomic stability, sustaining economic growth and delivering public services to ordinary citizens is primarily due to weak governance and perceptible decline in institutional capacity and state capture by a small elite. Chronic political instability and frequent changes in political regimes have also caused disastrous consequences for economic governance. Alesina et. al (2011) found that political instability and government fragility have a negative effect on growth.

An objective analysis of the multiple crises Pakistan is facing today – anaemic growth combined with high inflation, energy shortages and leakages, low tax revenues, losses of public enterprises, corruption, poor law and order, arms, drug smuggling, non-availability of land, housing and transport, 20 million children out of school, mafias controlling land, water transport, etc. – would reveal that the root cause can be found in governance deficit and institutional decay. Pakistan is full of well drafted plans, vision statements, strategy documents, diagnostic studies, solid prescriptions but most of them have never been implemented. The end result is gradual deterioration in the state of affairs and dissatisfaction of public at large with the delivery of essential public goods and services. The rising numbers of educated middle class and growing urbanisation, the intrusion of electronic and social media in daily life, the demonstration effect emanating from a globalised economy have raised the expectations of the society.

The capacity of the state to meet these expectations is becoming weaker every day. Implementation record is dismal. The elite capture of the state, excessive centralisation of power by both the elected and military rulers, chronic political instability, politicisation of the civil services and until recently collusion between the power structures – the politicians, the Army and the judiciary in addition to the widespread acceptance of patron-client culture in the society have been the main stumbling blocks in the implementation of policy. The conflicts that took place at times between these power structures were not rooted in benign balancing act for the larger collective good of the society but assertion of the authority by different actors for advancing their own parochial interests. Unlike other societies, the cost Pakistan is paying for poor governance and institutional decay is relatively very high and poses an existential threat.

Civil services have lost their dynamism, vigour and sense of mission. Parliament is not properly exercising vigilance over the Executive and holding them accountable for results, the court system is overloaded and congested with millions of cases that have been lingering for long periods of time. Institutions of restraint such as the Election Commission, Auditor General of Pakistan, Public Services Commissions etc. have become controversial.

The interaction between public policy, social norms and politics takes primacy as these are intertwined and determine the economic outcomes in a significant way. We tend to blame politicians particularly those in the Government but hardly realize what we ourselves are doing as members of this society. The political system in Pakistan has evolved around feudal, biradri and kinships, tribal affiliations, and ethnic groupings. Nepotism, favouritism and corruption have become entrenched social norms. Trust and social capital, on the other hand which play a positive role, are rapidly eroding. Social polarisation of 'US' versus 'THEY' has become part of our norms - reinforcing tendencies of adversity, confrontation and hostility.

These societal norms have become ingrained in the voters' psyche. As most of them do not have direct access to government services they deploy their elected representatives as their intermediaries for interface with the government departments for their daily chores and survival. They expect these MNAs, MPAs and party leaders to provide maximum benefits to them and their kith and kin in the form of jobs, livelihoods, admission to schools, healthcare, land and water. It does not matter to them whether the applicants are qualified for the jobs or not. Constituency politics forces the candidates to go out of the way to oblige their voters. This pressure rather than prudence results in unqualified and incompetent persons entering public services and public enterprises. Election manifestos of the political parties become subservient to the realities of constituency politics. The consequences of such behaviour on the part of the electorate are disastrous for the economy. The public sector expands in numbers with unproductive people on pay rolls and the budgetary ceilings are breached leading to increases in deficit financing. Public at large suffers at the hands of these functionaries in terms of low quality of delivery of goods and services. Absentee teachers and health workers, corrupt Revenues and Police Officials make lives miserable for a common citizen. Anatol Lieven aptly summarizes this phenomenon in his book, Pakistan: A Hard Country. He asserts that, "in so far as the political system runs on patronage and kinship and corruption is intertwined with patronage and kinship it would mean gutting Pakistan's society like a fish. Kinship plays a vital part in maintaining the dominance of the 'feudal elites and many of the urban bosses'".[1]

Why have these reforms aimed at improving governance and strengthening institutions failed to take off when their net benefits to the economy are so obvious? The unwillingness or resistance to implement these reforms stems from the fact that the proposed reforms attack the existing system based on patronage, loyalty, connections, mutually benefitting bargains and deals and promotion of narrow personal and parochial interests. The new system cannot replace the existing system overnight or even when it takes root after a few years lays down merit, hard work, ethical behaviour and reward for performance as the underlying principles. The benefits of this system will not accrue to the party in power during its tenure but the costs are upfront and would have to be borne by the party that initiates the reforms process. Under the reformed system the ordinary politician who has to face his constituency would not be able to place his supporters in lucrative government jobs, award juicy contracts to them, get officers loyal to him appointed as DC, SP, Tehsildar and SHO. From his viewpoint these reforms are an anathema because he loses all the levers of control which he exercises through this patronage system. This disconnect between the costs to be incurred by elected politicians in the form of losing their privileges, power and pelf immediately as a result of these reforms and the benefits that are invisible, diffused and uncertain occurring sometime in the distant future is the primary reason as to why no government has bitten the bullet and implemented the long term institutional reforms agenda.



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[1] Lieven, A. (2012). Pakistan: A hard country. PublicAffairs.