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| **Politics versus economics** |

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| **By Dr Ishrat Husain** |
| A question often asked is that when current economic ills have been diagnosed and we know what needs to be done, why doesn’t it happen? The reason is the inherent disjuncture between the political risks a ruling party is willing to take and the economic rewards accruing through prudent economic management that will take care of these economic ills.  This asymmetry between the incurrence of the costs and the appropriation of benefits lies at the heart of the non-reformist stance of democratically elected governments. India – the largest democracy in the world – has recently been faced with a similar dilemma. The Coalition UPA Government was – and is still – under serious threat of rupture because of the courageous economic reforms recently initiated by Prime Minister Manmohan Singh.  Prudent economic management requires control on public expenditures, raising unpopular taxes, removing subsidies, stripping off public sector corporations, restraining non-productive job creation in the government departments/ agencies, tackling corruption and waste and appointing the right person to the right job. The rewards of this prudence will appear in the form of reduction in fiscal deficit, lower inflation, monetary and exchange rate stability, resurgence of growth and decline in indebtedness.  Further, economic rewards usually become available with the passage of time when the ruling party or the coalition may no longer be at the helm of the affairs and the credit may be claimed by their opponents. Furthermore, the benefits are spread widely and diffused over a large segment of population – not necessarily among the supporters of the ruling party that has taken unpopular decisions to set the economy on the right path. As a matter of fact some of the supporters of the ruling party or coalition may actually be deprived of their privileges and pelf as a result of these reforms.  What are the immediate or short term political costs? In a constituency-based electoral system, the sitting elected representative has to satisfy the expectations of the people at the local level. These people are least concerned with larger macroeconomic issues but are preoccupied with their own bread and butter issues. They want roads, electricity, drinking water, schools, clinics, fertiliser, cooking gas in their areas, whether these are economically justified or not. They want subsidies on irrigation water, electricity, gas, seeds, fertilizer and tractors. They want jobs for their sons and daughters and do not care if the latter are qualified for the position or not.  The aggregation of these local demands at the national level creates a catastrophe for the fiscal and macroeconomic situation. The public sector is overstaffed to accommodate the constituents’ demands. Subsidies are administered without any targeting and wreck fiscal accounts. Development expenditure on unviable projects and at inflated contract prices is made liberally, forcing the government to borrow while funds are siphoned off as kickbacks, commissions, payoffs by the politicians to build the war chest for election expenses.  Further, when jobs are dispensed on the basis of connections rather than merit, performance is unlikely to be stellar. If the SHO, tehsildar, Irrigation SDO, teachers and other officials are posted at the recommendation of the local member of assembly, they have no choice but to oblige him and his supporters and harass and harm opponents. It doesn’t matter if the law and order situation deteriorates, crimes rises, revenue collection declines, water is wasted.  The constraints of constituency politics are exacerbated by the dynamics of coalition politics. As Pakistan is likely to be governed by a coalition in the future, minority partners will extract a price in return for providing support to the government. Threats to quit the government on one pretext or another weaken the resolve of the majority party to take tough but right economic decisions. The resistance against the General Sales Tax by one of the components parties in 2010 ultimately led to the breakdown of the agreement with the IMF, causing irreparable harm to the economy. The majority party could not do very much as its very survival was at stake.  The compulsions of political expediency are at loggerheads with the dictates of good governance and prudent economic management. If a well-meaning finance minister, worried about the economic decline and dysfunctional economic institutions, sticks his neck out with corrective measures, he is vehemently opposed by his cabinet colleagues. He is accused of sabotaging their chances of victory at the hustings, alienating their voters and eroding popular support. Insinuations and false allegations are hurled about in the media to weaken his resolve. The collective wrath, outrage and intrigues against him become so ferocious that he has either to backtrack, soft pedal or put his proposals on the back burner. Those who resist the pressure and persist with their views are shown the door.  How can this in-built tension between political risks and economic rewards be resolved?  The point to remember is that this tension is not unique to Pakistan but is commonplace among most democratic countries. Those who succeeded in resolving this tension were visionary leaders with a sense of history and their place therein. They had foresight, which extended beyond the next electoral cycle. They chose competent persons to head key institutions, gave them power and held them accountable for results without interfering in day-to-day affairs. They selected and retained ministers who could deliver on the goals assigned to them – fix energy shortages, build sound infrastructure, increase educational enrolment etc.  This type of visionary leader realized that he and his party would ultimately look good if the benefits of his policy and management are widely and evenly distributed across the various segments of population. The local politician would derive support in this constituency on the basis of this general boost in economic growth, employment opportunities, higher incomes, access to education, health and drinking water; he can bask in the glory of achievements of his party in power.  The visionary leader made his party realize that the game they were playing – selective benefits to a few – was fraught with greater political risk. With a vocal media and a vigilant civil society at hand, the tales of their corruption, nepotism and misuse of power are exaggerated by their opponents and disseminated widely bringing them and their party a bad name. But if the country and its people enjoy the fruits of economic development and prosperity, the party can use this track record to convince the electorate to vote them back into power. The chances they would are quite high. In this scenario, the political risks are minimal and economic rewards are maximized.  The writer is a former governor of the SBP. |