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| Think Tank | THE NEWS April 1, 2103 |
|  | **Reviving an ailing economy** |  |
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|  | **By Sanaa Ahmed** |  |
|  | Many hearts were broken the night Dr Ishrat Husain’s nomination for thehttp://magazine.thenews.com.pk/upload_image/10/4925_4-01-2013_1.jpgcaretaker prime minister failed. With long tenures in the civil service of Pakistan as well as the World Bank, his professional credentials were impeccable to begin with. That he managed to spearhead a series of critical reforms at the State Bank of Pakistan while he was governor was impressive but more so was the fact that his integrity remained free of the taint that came to be associated with military ruler Pervez Musharraf. Finally, Husain has been working on a plan for the economic revival of Pakistan for almost two years now. But it wasn’t to be.  And then Husain went ahead and refused to assume the finance portfolio for the caretaker government, for reasons that have to do with what he calls the witch-hunt of public officials. But that hasn’t stopped him from his characteristic forthright criticism of Pakistan’s economic problems and how to fix them. In a wide-ranging interview with Money Matters, he talks about governance, politics, and military adventurism and, of course, the economy.    Q. How dire are the economic straits we’re in?http://magazine.thenews.com.pk/upload_image/10/4925_4-01-2013_2.jpg  A. We need a paradigm shift to boost investors’ confidence regarding the economy. Economic markets work on sentiments and expectations – if they don’t have confidence in the economy, they’ll adopt a wait-and-see approach and there will be no investment or economic activity.  I used to think incremental changes would bring change and stability to the economy. But now I think we need a big bang approach: we need to handle the challenges facing the economy in a comprehensive, holistic manner so as to shift the mood and the confidence levels regarding the economy.  To this end, the government needs to carry out a few major reforms. Many of the studies and work required have already been done, which is why the next government can easily implement these in the next 60 to 90 days.    Q. So what are the top five challenges you see ahead?  A. The first major challenge is conducting governance reforms. The previous government has done well by delegating constitutional authority and powers to the provincial governments and by giving 60 percent of national resources to the provinces. But there’s no clarity as to how this money is to be used to the benefit of the common man. And that missing link between the provincial government and the common man is the local government. The next government needs to take [these improvements] to the next logical level by setting up local governments.  Most citizens come across the government functionaries because of land, water, health or education-related issues. Services need to be delivered at the grassroots level and the concentration of power at the provincial level is inimical to empowerment and the provision of access to basic services.  Second, there’s the law and order situation: we can’t pretend this is a 9/11 outcome. The poor security situation is creating disorder in our society; people who step out their homes for work fear they won’t come back alive. This is creating indifference and apathy towards economic activities and investment and must be addressed on a war footing. Security agencies have to work together on this agenda because this is not just lawlessness: we can’t seem to prevent crime, apprehend culprits, investigate the cases, prosecute them on the basis of that evidence and secure convictions from the courts. And then, taking it one step further, institute the prison reforms that will help rehabilitate criminals rather than produce more hardened breeds.  Third is the question of the management of our energy resources. I don’t think in terms of ‘shortages’ or ‘surpluses’; it’s how you manage your resources, be they coal, power, or water. At present, there’s too much posturing and innumerable turf wars among the 20-odd agencies. People keep talking about circular debt, about transmission and distribution losses and fuel oil – these are relevant but above all, we need a coherent and holistic management of our resources.  Then there’s the issue of fiscal management: our system of tax assessment and collection is both inefficient and inequitable. There are many studies now, which show that revenue collection can be improved by up to 50 percent by improving the tax administration and by widening the tax net. And any government that comes in needs to fix this, otherwise we’ll be back to double-digit inflation.  Fifth, the public sector enterprises (PSEs) need to be shed. The Rs400 billion spent on PSEs should be spent on education, health and targeted subsidies through the Benazir Income Support Programme; anything else is a waste of resources. [Our problem is that] development expenditure is allocated on political considerations, not economic. In fact, the only time the allocations were made on economic considerations was in the 1960s. But the Planning Commission seems to have lost the [vision] it used to have.  Finally, there’s the issue of continuity of policies. Every government starts from square one, forsaking all previous projects and policies.  Eventually, this translates to a situation whereby you’ve already incurred costs but never reap the benefit of those policies because you abandon them midway.  Significantly, the manifestos of all parties are identical; So new governments need to build on the good work done by previous governments; fix problems; fine-tune projects and policies. But they shouldn’t throw out the baby with the bathwater. Even the present caretaker government can present an actionable plan, which can be implemented by the new government.    Q. Even if the caretaker government were to do so, how ‘saleable’ would an ‘old’ plan be to a new government?  A. Many of the things I’ve suggested are just a question of implementation. Take the issue of resource management. Energy is a federal subject so it wouldn’t be liable to political contestation between the provinces and the federation. How difficult is it to replace 20 separate agencies with a Ministry of Energy? Empower this ministry and let them deal with the circular debt, the allocation of gas, the setting up of IPPs, coal substitution and the appointment of competent people on energy boards.    Q. So how would you translate the wide-ranging agenda you’ve outlined into an actionable plan?  A. You have to divide this agenda four-ways. The first category would be that of required legislative action, at the provincial or federal level, which would be driven by the chief whip of the party. So devolution, for example, would be slotted under this category.  The second would be policy decisions that require approval by the cabinets, the Economic Coordination Council and the provincial governments and that should be pushed by the cabinet secretary. The third category would be the strengthening of implementation capacity; the slotting of the right people in the right jobs, and the provincial chief secretaries would be best placed to drive this.  The fourth issue is that of monitoring at the highest level. I’ve worked on 50 countries around the world and the only ones where reform agendas materialize are those where the chief executive of the country – the president or the prime minister – had quarterly meetings to review progress and to remove bottlenecks. Unless the chief executive is involved in pushing through the agenda, nothing happens. Multinational corporations succeed because they have systems and procedures but also because they have a chief executive who will hold them accountable for failure to deliver on the agenda.  Our present problem is that of policy paralysis; we just waste time in consultations. Or decisions are taken and then not implemented, for example, the LNG issue. What people don’t realise is that there’s an economic cost associated with delayed or postponed decisions. A wrong decision taken on a Friday can be rectified on a Monday morning; the cost incurred by not taking a decision can never be recovered.    Q. Do the issues of institutional and human resource capacity worry you?  A. There are issues with both but if you make the process transparent and get the right people, they can be overcome. At present, people fear making even the right decisions because they’re scared of the witchhunting campaigns mounted by the National Accountability Bureau, the media, the Supreme Court and this has impaired the capacity of their institutions.    Q. But don’t you think this has more to do with the governance issues you identified earlier? That the media, the courts jumped in because there was no systematic accountability practiced by impartial institutions and that this witchhunting-enforced transparency is a process, which is evolutionary in character?  A. I agree with you partially, in the sense that there was a vacuum, and there must be accountability. However, it shouldn’t be as excessive as it is now. Just now, when I was nominated for caretaker PM, because they couldn’t find much else about me, the media started saying I was a dual national and then, that I had a green card. As a result of [such scrutiny], public office becomes less attractive to even people who’re sincere, principled and committed.  But I disagree with the notion that this is evolutionary: in the 1960s, you had fantastic civil servants [even though you didn’t have such scrutiny] and that excellence began fading when Zulfikar Ali Bhutto removed their job security and the civil servants were subjected to the two terms each of Benazir Bhutto and Nawaz Sharif…    Q. Given our balance of payments difficulties and the haemorrhaging of forex reserves, many analysts are giving the Pakistan economy till the end of the year, max, early next year and insist that resort to the IMF is the only option. Do you agree?  A. I don’t pay any attention to such end-of-year collapse timelines because we’re been hearing this for the last five years. Truth is we can survive without the IMF money.  If we have our own [reform] programme and complete agreement internally, external money will come eventually. We don’t need to run to them. If we increase revenue collection by even 30 percent, we can get rid of our budgetary, inflation-related and exchange rate-related problems. Our reserves are adequate to the task; our problem is that our ship is in turbulent waters and there’s no one to steer it. Since markets work on sentiments and expectations, we need to build confidence, especially in the first 90 days.    Q. So what it essentially boils down to whether the mainstream political parties have true recognition of what ails the economy, the maturity to put aside their differences and push ahead with a reform agenda, regardless of who comes to power…  A. They don’t have the maturity to do much but point scoring. In 2011, the Pakistan Business Council got all the major political parties together but the outcome was just lip service, nothing tangible. Everyone’s talking about economic problems. The first step has to be realization, then diagnosis and finally, prescription. But I’m not sure whether the diagnosis is commonly shared by the major parties.  The big worry is that the transition from one elected government to the next is a huge step for us and we need to use it to set out a tough political and economic agenda. Once political stability is ensured, political parties will have no option but to deliver.    Q. The fear is that another adventurer may use the economy as a pretext to ‘rescue’ Pakistan all over again…  A. I’m not worried about [the economy being used as justification for] extra-constitutional steps because we need to take tough economic steps. A backdoor government won’t have the legitimacy or the mandate to conduct reforms.  The writer is Business Editor, The News. |  |