

# Too much ado

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Finance Minister Shaukat Aziz has been talking about how after achieving 'great' things at the macro level, the government is focusing on the micro level. And how the government will bring about the 'second-generation reforms' that will finally bring the benefits of macro stability (great things) to the public through employment and growth. But the statement did not reveal much about the government's plans for the second generation reforms and the growth strategy for the next few years.

If the government has a plan for revival and sustainable high growth, they should share it with the people. One would think the plan would need some critical thinking and evaluation before implementation. The government should also share it with Parliament. Its members have been clamouring that the government has not been doing much since last year. This will give them time to reflect. But the higher probability is that Mr Aziz is just using the proverbial lion, as a promise and maybe a threat.

The Minister did not say why we needed the second generation reforms. Is it that the micro-portion of the first generation reforms failed to deliver, or that the first-generation reform was never meant to tackle micro-issues? If the latter, the government has to answer why micro issues were not the focus for the government with the rest of the very successful first-generation reforms. If the former, the government has to understand and then explain to the people why the first-generation reforms' micro portion failed so miserably. It is unlikely the government will do either.

At all times, a failure to do one and how been an



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like the SECP and SBP, the reforms have not been very successful. This lack of success at institutional, organisational and structural reform, more than anything else, has been the main failure of the Musharraf government. This is what makes the sustainability of any revival suspect as well.

The case of the CBR is probably the most relevant example. After the takeover General Musharraf identified the CBR as one of the key institutions needing reform. The state needed more revenue, CBR was considered to be a very corrupt and inefficient organisation, and it was generally felt that the CBR could be restructured and reorganised to deliver more tax revenue, with fewer complaints and lesser resentment from the public at large and the corporate sector in particular. In the ensuing four years the government has had numerous studies conducted on or for the CBR, have had well-paid consultants working on the reform, have had various tax surveys, documentation drives and tax amnesty schemes. The reform efforts have been an amalgam of local Pakistani initiatives and World Bank/IMF supported and funded efforts.

Yet all this has failed to bring CBR to be a corrupt

efforts as well. Police reform has also been going on for some time, what has been achieved so far? Is the police department less corrupt, are the people more comfortable going to the police, has the incidence of crime gone down, has harassment of people diminished, have custodial deaths decreased and is the police now the model protective force that it is supposed to be? Read any newspaper and for almost any day of the week and you will have your answer. This story is true of almost every one of the institutions listed above. In light of the above, when the Finance Minister says that second-generation reforms are coming, one can only take that as a threat, or as a promise for 'more of the same'.

Why have reform efforts failed, and so consistently and across all sorts of institutions is a question that is important, but beyond the scope of this article. But one consequence of the failure is that any story of a revival seems premature. The arguments, made by the government, that this revival will be sustainable as well, seem even more exaggerated.

So how should one read the talk about the next generation of reforms? One way, and probably the right way, would be to just think that the Minister was letting off blanks. There is nothing substantive behind the claim and he is just using phrases loosely. Since nothing substantive has been presented to the Parliament, or to the media, this is probably the right interpretation. But the Minister should then just make the factual correction about lack of focus on micro issues. The focus was there, the reforms just failed.

The other, and more generous way of looking at things would be that the government is admitting that the micro part of its reforms failed the first time round, and having learnt valuable lessons from there, it is going to try a second time again. Hopefully, this time round the results will be better. If this is what the Minister meant, then it is not only welcome, the government should start work on it immediately. They should present their ideas to Parliament and through the media to the public. They should allow

ther.

Actually, micro reforms were and have been an integral part of Pakistan's 'and every other governments', (who have gone on structural adjustment programmes), reform programmes. From the very first day that we heard of structural adjustment programmes, we heard also from multilaterals, researchers and governments that apart from macro stability goals, it had micro-institutional reform goals as well. And the government has, over the last 12-odd years, tried out a large number of micro reforms. It is just that most have not been very successful, and some have been royal faux pas. In the light of this, the Minister's statement can indeed be taken either as a threat or a very long-odds promise.

The Musharraf government, when it took over in 1999, justified its move by arguing that the political government had allowed many institutions to deteriorate, and only a quasi-military government had the ability to reform them. The list of institutions and organizations included the justice system, CBR, WAPDA, KESC, Railways, the SECP, SBP, the overall regulatory framework for most industries, the political system, local governance, and even the 1973 Constitution of the country. The government was going to root out corruption from the society, and was going to create permanent bodies, like NAB and the NRB, that would ensure that institutional reforms get entrenched in the system of governance. But, apart from partial success in reforms in a couple of organisations

and funded efforts.

Yet all micro surveys still find CBR to be as corrupt and as inefficient, in the perception of the public, as before. The bureaucracy at the CBR has successfully resisted all reform efforts, and in fact, has induced such exhaustion in the government that talk of reform has also diminished. The failure of reform efforts is not costless though. Not only have we lost the opportunity to reform, we have wasted a lot of time and money on the effort, we have exhibited the inability of the government to manage institutional reform, and in the process, we have made the public more sceptical about 'reform rhetoric' as well. All of these will impose costs on future reform efforts too.

The other, pretty spectacular, reform failure has been WAPDA, the electricity provider, which has been in financial trouble for ages. Lack of market based prices, subsidies to domestic users and agriculture, corruption and colossal inefficiency have led to and exacerbated these problems. From the army taking over the running of WAPDA to privatisation, corporatisation, downsizing and even stronger legal action for bill recovery, everything has been tried. But WAPDA too continues to head the list of organisations that are thought of as amongst the most corrupt and inefficient organisations in Pakistan. It continues to provide poor service at very high cost, especially to industry and for commercial usage.

The basic story of failure that has been given for two institutions above is true for most other reform

efforts. They should present their ideas to Parliament and through the media to the public. They should allow space for and encourage debate on the new plans and then only should they implement anything. Debate, prior to implementation, is our best guarantee against repeating the mistakes of the past.

The other very important thing to note is that the depth of the 'great' macro reforms that the Minister keeps lauding is very suspect and shaky, especially given the failure of the attempts at micro reforms. The reserves that we have built, the stability of the exchange rate, the low rate of inflation, and the lower fiscal deficit level, could all change in a matter of months if the international scenario changes, or if the micro level problems continue to dog us like they have. In the ongoing euphoria the government very often forgets this fact.

We definitely need more reforms, And at the micro level in particular, whatever their generation. But this will not be the first attempt at micro level reforms. We did this and we failed. The Minister should bear that cross so that we can learn from our earlier mistakes. The acknowledgement should also be the starting point for further debate. The government should bring its ideas to the people and then listen to what they have to say. We cannot afford to fail again. The 'second generation reforms', borrowing the Minister's terminology, should get it right.

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