

Inaugural Address

NADEEM UL HAQUE

My fellow social scientists, economists, scholars, thinkers, observers.

Welcome to the 26th Annual General Meeting and Conference of the Pakistan Society of Development Economists—a society that prides itself on being the only “professional association of economists and other social scientists” in the country.

This annual event serves many purposes: it is an intellectual exchange allowing a stock taking of research and ideas; it is a showcase of fresh understandings and analyses of the Pakistani economy and society; it is a place to review policy and develop constructive policy debates to improve economic management; and it is also a place to develop economists and prepare them to lead development thinking in the country. I was happy to see that the agenda contains a number of panels with leading Pakistani economists discussing a burning issue of the day—fiscal federalism which we are facing with the 18th amendment and the NFC award. We will all await ideas that are generated from the PSDE.

Most important of all conferences like the PSDE are for developing collegiality, intellectual networks, and idea and policy coalitions. Exchanges of ideas allow for civilised polemics to take place, allow policy and idea coalitions to develop and thus lead us all to deeper understanding of the complexities of society polity and the economy. So it is only fair to ask ourselves, how well *have* we taken care of the economy? How far have we progressed in these 26 years?

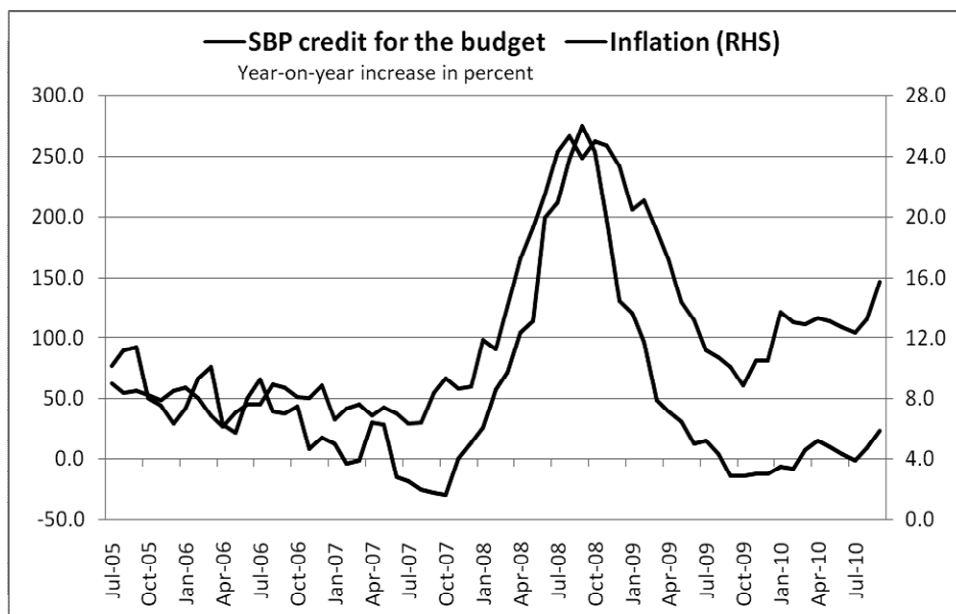
How much have we progressed in 26 years?

1. Of the 26 years that PSDE has been meeting we have been in a Fund programme for about 22 years.
2. Macroeconomic stability remains elusive. Inflation has now remained in double digits for about 4 years and threaten to slip beyond 15 percent (see Chart 3).
3. Despite efforts, the fiscal deficit remains beyond levels that would be considered sustainable. Not only is debt growing rapidly, SBP financing of the deficit is contributing to inflation. (see Chart 1).¹

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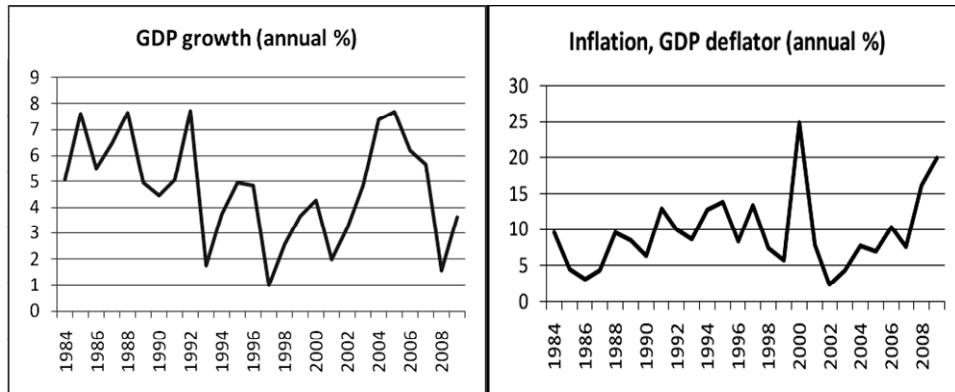
¹ Those who continue to doubt the money supply-inflation link see chart by Sakib Shirani in text.

4. Despite some privatisation and liberalisation, public sector and government continues to pervade markets through loss making public sector enterprises and excessive regulation at the cost of productivity, growth and employment. PSE losses are now dominating the budget.
5. Our growth remains volatile averaging about 5 percent per annum over the last 20 years. For Pakistan to become a middle income country we need a sustained growth of about 8 percent. (see Chart 2).



Source: Economic Advisor's Wing, Ministry of Finance, SBP.

6. Continual preoccupation with short term stabilisation along with an unstable political and security situation has kept policy and public attention crisis oriented at the expense of medium term thinking that is required for building institutions and the software for growth.
7. Internationally available indicators such as "competitiveness", "Investment Climate", "Enterprise Surveys" point to weaknesses in governance as major constraints to growth. Growth diagnostics [Qayyum and Khawaja, *et al.*] point to the same issue.
8. Without sustainable growth, continued fiscal crises, a bloated public sector that places pressure on the budget and lowers productivity and growth, welfare indicators such as poverty and the MDGs are not showing improvement. A large percentage of our population remains clustered around the poverty line swinging in and out of poverty with every dip and rise of the growth rates.
9. The regime of subsidies and protection leads to the structure of our industry remaining quite resilient to change. As a result our exports are confined to low value added items.

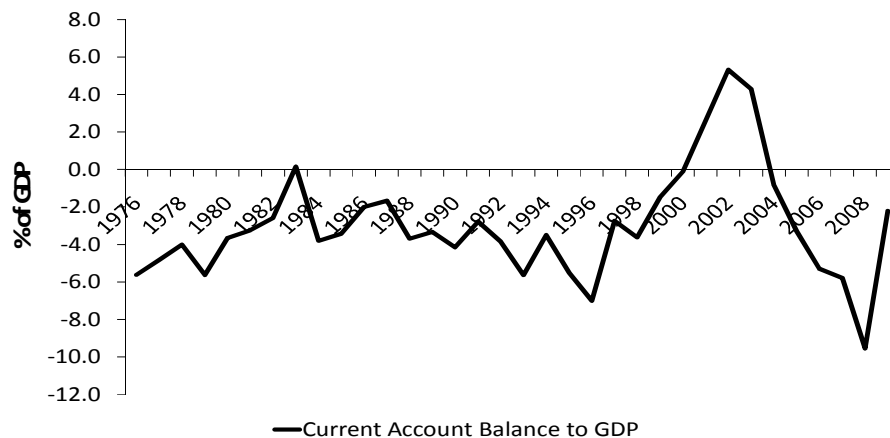


How have we contributed?

I hope you agree that it is worth asking, while all this has been happening how have the PSDE and its members (or the academic and research community at large) contributed to policy in this period?

- Are they complicit?
- Were they at the table of policy-making?
- Have they been an agency of restraint for overbearing government?
- Have they been measuring poor public service delivery?
- Have they been developing approaches to bettering our governance?
- Have they even contributed to the debate on the NFC or the 18th amendment?
- Have they any research or commentary on how government and its agencies are organised?
- How have they illuminated our view of the hemorrhaging PSEs?

**Current Account Balance to GDP
1976–2009**



In short were the development economists playing the role that was expected of them—that of keeping a focus on emerging issues in the economy and forming policy and idea coalitions around important issues? When society, parliament or government is looking for ideas for solutions they should be able to turn to a community of scholars for informed debates and analysis! I use three indicators to review this question.

- The newly uncaged media should be turning to this body of research for informed opinion. Unfortunately this is not happening!
- Recent policy initiative like the PRSP, the economic plans, the NFC and the 18th amendment too does not seem to be informed by domestic debates.
- The local government initiative was introduced and then vitiated without much analysis or commentary from the informed community.

I approached a few of our eminent economists to get more information on the role of our economists and policy thinkers. I am sad to report that the general feeling was that the community of economists was not exerting the sort of pressure that it is in other countries. Generally they felt that policy and idea communities do not exist in Pakistan and that research communities despite conferences have failed to affect the policy debate. Indeed some individuals well known to all of us have played a role but not the thinking community.

Meanwhile donor evaluation reports such as the IMF prolonged use and the World Bank OED reports have been self critical noting design flaws but most of all the need for *domestic policy development and ownership*! But how can we have *domestic policy development and ownership* without the development of a domestic research agenda led by domestic policy communities who are putting the microscope on local issues and problems.

It is commonly known that our development approach has been focused on aid led projects. Many projects later, development has been patchy and sporadic! Yet there are few analyses of this approach to growth policy. PIDE [Ghani and Musleh ud Din] does have a paper on the relationship between public and private investment but that can only be regarded as a beginning! There is a feeling that quick fixes were favoured over difficult and essential reforms for institution-building and developing better governance! Thus for example the pressure to fix the budget through temporary expenditure cuts and some tax reform leaving the structure of governance as inefficient as ever may be self defeating. A long lasting sustainable solution might require fixing governance structures from the foundation up. This would require a sustained debate to inform our understanding of the evolving role of government. It would mean going beyond the old “market vs. government” debate to how to build both better government and better markets.

Even though quality of our governance and institutions remains the major constraint on our growth, research and debate on these issues is lacking. We at PIDE and PSDE began this work but quickly lost focus. Why?

As Past President of the PSDE, I invite you PSDE members to review our responsibilities as social scientists of Pakistan!

Let me also say I appreciate the difficult role of an academic in this society.

Research is not highly valued here! But the researcher has not developed research on burning issues of the day to be relevant. Poor quality social science has also misinformed and reinforced hierarchy and the status quo. Research in Pakistan has become timid. It is contaminated by consulting. It does not respond to the key issues of the time such as governance, democracy, institution-building, entrepreneurship migration, cities and inclusion issues. It is not question driven. It is slavish to methodology and data. Why, for example, has the Pakistani economist not written papers on qabza, property rights, eminent domain, regulation, markets, governance? Why do we continue to run regressions on old issues and old question, and merely copying methodologies?

A Domestic Research Agenda and Debate

Pakistan is faced with several serious challenges. For our purposes the most important of these is our chronic fiscal problem that continually destabilises the macroeconomy and inability to achieve sustained high growth. Clearly our research efforts and our debates need to focus on these issues.

Even the Fund conceded in its prolonged use report that our fiscal problem may lie in the micro-structures of governance or our lack of quality fiscal institutions. For a longer term resolution of the fiscal problem, it seems that we may need to address issues such as the role of government, budgetary and expenditure control processes, the efficiency of government, the quality of public service delivery, the size and structure of government. The range of questions is large and could constitute a long term research agenda. But it is such research agenda that can act as check on government and articulate the reform that might be necessary for a longer term and lasting fiscal adjustment.

Pakistan's growth strategy has been put on the backburner by our continued preoccupation with crisis. The medium term is almost missing from our policy and debate. Yet almost all country experiences and what we learn from the new growth literature tells us that there is a need for a longer term focus to our policy. To develop this policy we need to understand what constrains our growth and then figure out the reforms that could remove these constraints. We have begun such an exercise at the Planning Commission and I will share that with you at the Quaid-i-Azam lecture. Briefly, it seems that the same issues that are leading to our fiscal problem are also holding back growth. The government has expanded its role into markets through inefficient PSEs and poor regulation to slow down exchange, innovation and entrepreneurship. Poor quality governance has reduced productivity and increased transactions costs everywhere. The incentive system that this poor quality governance system seeks to reinforce is for rent-seeking and not merit and entrepreneurship.

Consequently, it is our conclusion that reform of governance and markets needs to be very seriously mainstreamed for addressing both the macro and the growth problems. This reform must seek to modernise our outmoded systems of incentives, management, human capital, procedures and technology in the running of government. In addition this reform must seek to reduce the size of government eliminating agencies that are involved in the market.

This reform agenda requires a huge amount of research work, involving micro analysis, detailed measurement, learning from international research and experience, case studies and analysis of the current legal and regulatory frameworks.

For growth, we have to move beyond sector policies, PSDPs, ADPs, acronyms and metaphors. We need to think beyond 'brick and mortar'. A whole new intellectual endeavour has to take place.

Policy and Research Communities

As I mentioned in my farewell speech at the PIDE (Sad Plight...) it is not enough to develop research and put it out in some journal. Research is only noticed and taken seriously when it leads to policy and citation communities. Such communities form around ideas of mutual interest to discuss and debate competing hypotheses using the best evidence available to develop useful knowledge and actionable policy ideas. This requires teamwork, patience, focused discussion and gracious engagement. Most people I spoke to felt that these qualities our academics seriously needed to cultivate.

We are yet to develop effective policy and research communities around key issues of current concern. We are yet to promote the necessary citation culture. And we are yet to establish ourselves to holding debates which produce innovative solutions to our age old socio-economic problems.

Until the development economist does not address the real questions facing this society and does not do the hard work necessary to form the policy and citation communities why should it be taken seriously.

In conclusion, while discussing the important issue of fiscal federalism we need to keep the issue of the role of the research community on influencing policy and societal views in mind. Remember it is ideas that lead society! Research and writing has been a precursor of change and modernisation. It must be so in Pakistan too! For that you have a large role to play! I urge you to play it well!

Government Budget Deficit to GDP 1993–2010

