

## **Macroeconomic Management in a Decentralised Set-up**

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I am thankful to PIDE for giving me the opportunity to be here and participate in this important discussion. It is always exciting to come back to this audience because this is where I started my career as an economist. We have with us Dr S. M. Naseem and Dr Nawab Haider Naqvi who guided me in my earlier years and I would like to thank them also.

I will try to restore some balance after Dr Ashfaque's alarming comments on the state of the economy, recognising well that we have challenges that need to be addressed. Mr Baldridge in his discussion has given us fifty questions that capture many of the challenges. But first let me say a few words about whether politics should triumph over economics or the other way around. Let's not forget that we have a democratically elected government that represents a delicate coalition of several political parties and competing political interests. In this setting, it is not at all surprising that technocratic economic solutions are secondary to the political ones, and that "economics does not triumph over politics" as lamented by the previous panelist. In a democratic framework, the economists' role is to ensure that political objectives are met without inflicting an unsustainable fiscal burden and sacrificing the long term development objectives.

A democratically elected government has to address the core political issue facing Pakistan, i.e., the dissatisfaction expressed by smaller provinces based on the perception that they do not get a fair share in the country's resources such as the central pool of revenues, water etc. This requires addressing the legal framework and the institutional mechanisms for sharing resources. To be helpful, economists can pose the question as to what would be the development outcomes associated with the 18th amendment of the Constitution and the 7th NFC award in the next 5 to 10 years.

A core outcome that would need to be assessed is whether the new arrangement improves overall economic management in the country enough to avoid the boom and bust cycles the economy is subjected to every four or five years. Underlying the boom and bust cycles are two critical issues. One, have we strengthened the fiscal side adequately which means both the revenue side as well as the expenditure side? And, two, have we addressed the international competitiveness of the economy to attract investment for increasing and diversifying our exports? The latter would also allow us to identify and address the factors that have held back industrialisation to create the kind of jobs a society needs in order to have continued improvement in standards of living.

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The other core development outcome to assess the new resource sharing and decision making arrangement is whether or not it will allow improved delivery of social services. Not all public sector delivery in Pakistan is bad. We do very well on infrastructure. But when it comes to health and education, we lag behind others at the same income level.

Economists need to debate whether amending the constitution and changing the NFC award will help in achieving these development outcomes. The way I look at it, the design of the new arrangement does not explicitly address the core development challenges adequately. That does not mean that the change was not needed but that it is a crucial first step that needs to be followed up with detailed technical work to ensure that the two key development outcomes I outlined earlier improve as a result of this major shift towards decentralisation. One wishes that the detailed technical input for making this assessment and therefore incorporating it in the design of the new NFC award had been taken earlier. But we are where we are. We should thus look at the award as an important step forward but one that will need continued fine tuning in order to improve development outcomes.

One example of where more work is needed is provincial revenue generation. We could have designed revenue sharing under the 7th NFC award to incentivise improvement in local tax collection such as the property tax, agricultural income tax and the value addition tax on services. Thus Punjab would get more from the central pool for improved collection of the property tax; Sindh would get more for delivering on the huge inequality in agricultural holdings via a highly progressive agricultural income tax. I do not know what the political imperatives were to announce the package when it was announced. Had we have more time, we could have built these revenue improving incentives into the design of the new award.

Anwar Shah is with us today and he will tell you that international experience shows that such incentives can also be built on the expenditure side. For example, the design of inter-state revenue sharing incentivises not only additional revenue collection but also can help improve expenditure management.

The design of the new NFC award could also have been more explicit on delivery of services to the citizens especially social services by being more specific on achieving, for example, improvement in enrolment at various levels of education, in the provision of primary health care and social protection.

All is not lost. The Council of Common Interests and the National Economic Council are strong institutions that will oversee implementation of the constitutional amendment and the NFC award. They are responsible for ensuring that the desired economic outcomes are achieved. To carry out this responsibility, CCI and the NEC need to strengthen capacity in three areas. They should help create an independent office of Statistics that collects timely and credible information on key aspects of the economy. Technical analytical capability is also needed to monitor and assess development outcomes associated with the decentralisation. A strengthened PIDE would be the right institution to do this. An institution akin to a leaner and more agile and technically capable Planning Commission would also be needed to assist the provinces in better design of projects that address the key development challenges efficiently. The NEC and the Council of Common Interests, working in tandem, should be able to say to the

provinces, “Look, we have given you a lot more money, are you using it sensibly to achieve your development goals? Are you collecting more of your own revenues? If you are, here is some more money from the central kitty; if not, let us help you collect more revenues and spend them better before you ask for more money”. Such a conversation is possible only if the NEC and the CCI have the backing of the three institutions I just mentioned. Without them the CCI and the NEC we will not have the ability to assess whether this monumental shift in the way moneys are to be allocated and spent will give us the desired results on critical aspects of economic management I outlined earlier.

The challenge for us economists in conversations when we appear on television, write columns in newspapers, participate in forums such as today’s conference, or when we undertake serious research is to hammer away at what the desired shape and capability of the supporting institutions would be to monitor, assess and design the key development challenges. The time for questioning the appropriateness of the 18th amendment and the supporting NFC award is now behind us. Instead, lets focus on getting better development outcomes from these important step towards decentralisation.