IPP | Policy Brief 07/2015

Regulation, Pakistani Style

Shahid Kardar

Institute of Public Policy
Beaconhouse National University

Getting the government to be an enabler rather than a disabler is the real challenge. The weaknesses of our economic system(s) can be traced to a deficiency of governance at one level or another, the most crucial of which was the desire of the state machinery to regulate most activities, a task that it carries out by creating visible and invisible roadblocks. Small enterprises, in view of their size and limited managerial resources, suffer more than larger enterprises from the cumbersome rules and regulations, their uncertain application and arbitrary amendments with little, if any, redress.

There is a need to reduce the footprint the State by dismantling the overextended regulatory framework and apparatus strangulating private activity, facilitating corruption and shackling the economy's growth prospects. A large part of the regulatory framework is structured around antiquated and superfluous laws and rules and exists because of lack of clarity on the role of government, in a world that has changed dramatically over time. In several instances, new products and instruments are available that are more effective mechanisms for achieving the objectives underlying the laws or administrative arrangements for their enforcement. For instance, there are Building and Electricity Inspectors to ensure the safety of private building used for public purposes. These services are not required if such buildings are comprehensively covered by insurance companies. Through this instrument the owners of such buildings can be spared the frequent visits of such government functionaries, who would be denied opportunities for extorting bribes, while assuring security and safety of the public using these buildings.

At times the regulations actually block private efforts to improve productivity, efficiency and sustainability of operations. For instance, the sugar industry needs restructuring to become viable, involving mergers and closures of a number of inefficient sugar mills with small capacities. Unfortunately, provincial government policies prohibit the relocation and consolidation of mills, required for achieving economies of scale and maintaining competitiveness, adversely impacting efficiency and productivity of investments.

The theological principle to regulate economic activity based on complete distrust of the market and a belief in the state's omnipotence has restricted the space for private sector operations. The role of markets is underestimated in the belief that the state is much more knowledgeable and objective and that markets are often rigged and imperfect and private behaviour shortsighted. Even civil society in Pakistan is suspicious of markets and provides the bureaucracy with an excuse to regulate. The bureaucracy opts for direct controls rather than market-friendly fiscal rewards and punishments not only because of powers that it gives them to extort money but also because they prefer certainty of command and understand little about subtlety of induced behaviour.

Owing partly to the nature and history of Pakistan's economic development, where even the middle class was not the product of a dynamic growth process but was created through public sector employment, we seemingly cannot visualize economic growth without support and patronage. Thus, civil society continues to view the state as an all-powerful paternal entity that is supposed to protect us against all risks and also provide for all occasions. Not surprisingly then that government continues to be large and unaccountable and rules rather than serve.

Flawed concepts drive us to mimic big countries in constructing complicated state apparatus. Unfortunately, donors also provide us uniform advice, persuading us to set up the same institutions as in developed countries. Resultantly, we have got regulators for each market, at times two for the same market-for example the State Bank and the SECP are simultaneously regulating financial institutions, and in the case of Modarabs there is the third regulator, the Religious/Shariah Board.

In several instances (e.g. NEPRA, OGRA, PTA, PEMRA, IPOP, etc) regulatory bodies have been created more to park retiring well-connected civil servants who clearly do not possess the skill set required to perform the job to which appointed The official concept of a typical regulator is the head of the agency, 2-3 assistants (called "Members"-again mostly retired bureaucrats), PAs and peons, office space and several cars and cell phones! How the government views their utility is evident from its insistence that their decisions be implemented only after review and notification by government! And without competent regulators privatization could result in a public sector monopoly being replaced with a private sector monopoly.

Every good organization makes periodical attempts to clean up its own house. All procedures and practices are subject to a fresh review. However, our governments hardly ever question their own mechanisms and practices, except to protect their interests and those that of the civil servants. Many agencies in the public sector are moribund with little or no accountability for the quality of their output, even for the delivery of services. Hence, there is a need to redefine its role and the way it carries out its business, which would involve a major reduction in the areas of its activity.