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The Political Economy of Reforms

Shahid Kardar



Institute of Public Policy
Beaconhouse National University

There is a perceptible gap between the recognition of the need for reforms and their actual implementation. Hence, the feeling that ‘verbal reforms’ outnumber actual reforms. Why is there this chasm between the rhetoric on policy reform and what is eventually implemented?

Part of the explanation lies in the lack of competence of the administrative machinery to design and implement reforms and the slow and steady deterioration of governance systems. There has been a long and continuing erosion of standards and practices in the institutions of governance. In an increasingly complex society the reasons are not just the rising tide of corruption and that bureaucrats individually or collectively benefit from maladministration. Modern governance systems require greater technical and global knowledge; this being the age of specialization. Our administrative structures have yet to adapt to this reality. Resultantly, the capacity to conceptualize, design and implement reforms is inadequate.

However, a key explanation for the gap between policy pronouncements and their implementation is that the decision making leadership is required to talk to two different audiences. The first are private domestic, foreign investors and the international community of multilateral and bilateral donors from whom investment funds and loans have to be raised. The other audience is the ‘political’ constituency whose interests have to be protected and concerns have to be addressed. The process of reform gets stalled, or even scuttled, when a set of policy reforms accepted by decision makers runs counter to the interests of their constituency, especially one which is vocal-even though it may not be large in absolute numbers..

Reforms mean different things to different people – i.e., they have different connotations for the bureaucrats or the technocrats in the international financial institutions who design or formulate them and for those, especially politicians, who are tasked to implement them.

The critical factors that undermine the acceptability of a reform package are its credibility and that of the implementers. This is largely because the deterioration in the governance systems has adversely affected the ability of governments to improve people’s lives compared with its capability to impose upon them greater harm through its coercive apparatus comprising the police, the judiciary, revenue authorities, etc. Bureaucratic inertia, the tendency of government officials and legislators to exaggerate the political resistance likely to be encountered in the field and the opposition, if not active resistance, of stakeholders who have a vested interest in the continuation of the structures and systems identified for reform, will all either block the reforms or make it exceedingly difficult for their objectives to be achieved.

The deficit of credibility renders it difficult to convince people of the necessity or need for reforms, especially if the benefits of reforms are not quick in coming, are not immediately visible and the gains are either smaller than the cost of reform (say involving the withdrawal of a subsidy) or the beneficiaries are uncertain about the quantum and timing of their benefits, or even whether they will ever benefit from the reforms or get compensated for the loss incurred. In such a case, it makes little sense for anyone to willingly give up existing benefits, systems and structures.

A significant proportion of tax payers or consumers of a service do not generally believe that reforms are designed to benefit them and are unconvinced that the eventual gains from reforms will be those being promised. Therefore, unless these beliefs and perceptions can be changed it will not be possible to create and nurture constituencies for reform. The task is compounded by Pakistan not being a country homogeneous in language and culture and does not have a particularly assertive civil society. All this requires better designs of reforms, a sensible sequencing, full government ownership of the proposed reforms and a strategy for managing expectations.

The purpose of the discussion above was not to suggest that the implementation of reforms in Pakistan has been a failure. Although the implementation has been half-hearted and the pace and the political resolve could have been better, much has been achieved since 1991 and some far reaching reforms have been made in external trade and in the financial and telecommunication sectors, etc.

Reforms have, understandably, proceeded at a quicker pace in the relatively 'easier' areas and sectors. Moreover, reform implementation has tended to be faster and more effective where most of the costs had to be borne by the less organized groups while the benefits accrued to those better organized. The obvious examples are that of the RPPs and K-Electric. Decision makers and the global power industry were touting these initiatives with no input from consumers (through their parliamentarians) and the regulator which had little competence and teeth. Not surprisingly, the constituency for reform tends to be narrowly based.

As it is, fundamental reforms (required for the long overdue need to overhaul the system) will be resisted, and successfully, by the elites while implementation of even other reforms is a slow and painful process, requiring a change of mindsets and attitudes. And technocratic solutions generally cannot carve out a reform programme that can be marketed politically. This is not only

because of the opposition of powerful interest groups but also because the implementation period (and the benefits that will flow from it) is out of sync with the time cycle of political governments or the legitimate concerns of those affected by them are not appropriately addressed in a transparent and consultative manner. Therefore, gradual and incremental reform by stealth or in a back-manner and the adoption of the path of compromise and least resistance will continue to be the hallmark of the future process of reform implementation in the country, especially a government weakened by dharnas. It should be apparent from the above discussion that that these reforms would be of minor or inconsequential nature