

Editors' Introduction

The Sixth Annual Conference on the Management of the Pakistan Economy was hosted by the Center for Research in Economics and Business (CREB) of the Lahore School of Economics from April 22nd to April 23rd, 2010 and the annual Special Edition of the Lahore Journal of Economics contains the Papers and Proceedings of this conference. The objective of the conference was to promote discussion on economic management and strategic issues facing Pakistan today, because if the country can successfully deal with key challenges, it can make the transition to a middle income country by 2020. These challenges include addressing the recurrent energy crises, overcoming the persistent poor government revenue mobilization effort and bridging the growing regional disparities and lack of trust between the four provinces.

The conference consisted of a mix of paper and panel sessions. In the inaugural session, Dr. Rashid Amjad, Chief Economist of the Planning Commission and Vice Chancellor, Pakistan Institute of Development Economics (PIDE) and Dr. Sartaj Aziz, Vice Chancellor, Beaconhouse National University delivered the keynote addresses, which focused on the major planning and development challenges faced by Pakistan. After this session, eminent economists presented papers or participated in the panel sessions.

The topics and papers covered in the individual sessions were:

Session 2 – Bridging the Provincial Divide

The excessive centralization of resources in Pakistan has its roots in history and the institutional set-up of the country. The imbalance of power between the center and the provinces has long been a point of contention between the provinces. Furthermore, provincial disparities in the economic and social indicators add to the trust deficit. Thus all economic policies and development efforts are seen in the smaller provinces through this lens and are undermining the ability of Pakistan to function effectively as a federation. The lack of trust amongst the provinces is at the root of the failure to adopt policies of national importance such as optimal use of water and other natural resources, or achieving consensus on issues as fundamental as revenue sharing and distribution. The recent agreement on the 7th NFC Award and passing of the 18th Constitutional Amendment, however, represent major progress in this regard implications of which need to be discussed.

The first paper in this session was presented by Shahid Javed Burki on “Provincial Rights and Responsibilities.” This paper focused on why Pakistan requires a different development paradigm. The author began by

giving a quick overview of some of the larger economies of the region and assessed the divisions that have developed between the people as a result of national strategies. The author went on to present a brief history of the previous attempts at decentralization in Pakistan and a discussion of how these were thwarted. The author concluded with a discussion of how decentralization can be successful in Pakistan after the 18th Amendment and the 7th NFC Award.

The second paper in this session was presented by Raza Ahmad on "The Endemic Crisis of Federalism in Pakistan." This paper looked at the issue of federalism in Pakistan and began with an analysis of the conceptual paradigms of federalism and went on to examine the history of federalism in Pakistan. The paper also discussed the reasons for the failure to develop an organic federal covenant as well as discussing how the 7th NFC Award and the 18th Amendment may be indicative of a paradigm shift. The paper concluded by presenting the way forward for federalism in Pakistan.

Session 3 – Addressing the Energy Crisis

Pakistan is currently facing one of the worst energy crises in its history. The impact of this crisis has been multidimensional affecting everyone from households to industries to trade. Given the severe consequences of the energy crisis and that Pakistan experienced a similar crisis in the 1990s, it is important to understand the factors underlying these periodic crises. In this regard, issues such as corruption, inefficient management of the energy sector, the lack of political will and planning failures need to be discussed.

The first paper in this session was presented by Tariq Husain on "Pakistan's Energy Sector Issues: Energy Efficiency and Energy Environmental Links." This paper analyzed Pakistan's energy sector issues and highlighted: (i) the importance of the link between energy and the environment, and (ii) the central importance of energy efficiency for high return demand-side solutions to meet the country's energy needs. The paper argued that energy planning should integrate the external cost of energy use in deciding about the composition of supply: coal, oil, gas, hydropower, renewable, nuclear, and solar. The paper estimated the total cost ranking of primary energy resources for Pakistan and found that the estimate is at the low end of the cost spectrum because classic pollutants—sulfur dioxide, nitrogen oxides, carbon monoxide—in Pakistan are significantly higher than in Europe or the US. A central message emerging from the analysis is that Pakistan will have to significantly increase its energy-related research and development expenditure in order to adequately address its energy sector issues.

The second paper in the session was presented by Syed Sajjid Ali and Sadia Badar on “Dynamics of Circular Debt in Pakistan and Its Resolution.” This paper examined the circular debt problem in the Pakistani energy sector and explained why circular debt has emerged in the sector. Two principal reasons were discussed for the circular debt problem: First, consumer tariffs were insufficient to recover the rising costs of power generation and the government (due to fiscal constraints) was not compensating Pakistan Electric Power Company (Private) Limited (PEPCO) for the resulting losses. Second, PEPCO has faced significant problems in recovering dues from consumers. In order to resolve the circular debt problem, the author discussed how sharp adjustments in power tariffs may be required combined with the need by the government to explicitly recognize the costs of power subsidies in the budget.

The third paper in the session was presented by Azam Amjad Chaudhry on “A Panel Data Analysis of Electricity Demand in Pakistan.” This paper looked at the economy-wide demand for electricity in Pakistan and found that the elasticity of demand for electricity with respect to per capita income is approximately 0.69, which implies that a 1% increase in Pakistani per capita income will lead to a 0.69% increase in the demand for electricity. A firm level analysis found that the price elasticity of demand for electricity across all Pakistani firms is approximately -0.57, which implies that a 1% increase in electricity prices will lead to a 0.57% decrease in electricity demand across firms. Across sectors, the textile sector had the highest price elasticity of demand (-0.81) while the price elasticity of demand for firms in the electricity and electronics sector was the smallest (-0.31). Finally, firm level data was also used to estimate production functions in order to estimate the impact of electricity shortages on manufacturing output.

The fourth paper in the session was presented by Theresa Thompson Chaudhry on “Estimating Residential Electricity Demand Responses in Pakistan’s Punjab.” In this paper, the author estimated residential electricity demand responses to changes in income, in order to assist policymakers in managing demand for electricity and evaluating tariff increases associated with proposed projects for increasing supply, while minimizing the impact on poverty.

Session 4 – Overcoming the Revenue Deficit

Currently, Pakistan’s tax-to-GDP ratio is amongst the lowest in the world. This is a chronic problem and repeated reforms to improve the situation have been tried without success. Important tax bases such agriculture incomes, property ownership and personal, non-salary, incomes are largely outside the tax net and most of the revenues are collected from indirect taxes.

The consequence of the failure to improve tax revenue mobilization is shortages in infrastructure, inadequate investment in social sectors, inability to transfer resources to poor provinces, periodic fiscal and balance of payments crises and a persistent, excessive reliance on foreign assistance. These costs are large and dealing with this problem is almost a precondition for solving many of the other problems Pakistan is faced with today.

The first paper presented in this session was by Ehtisham Ahmad on "Why is it so Difficult to Implement a GST in Pakistan?" This paper discussed the efforts by the Government of Pakistan to implement a General Sales Tax (GST). First, a history of Pakistani tax reform efforts was presented along with the reforms recommended by the National Taxation Reforms Commission. After this, the design and implementation of the GST was discussed followed by an analysis of political economy and provincial issues that arise in the process of implementing the GST. Finally, the paper discussed various proposals regarding the determination of the base for the GST. The paper concluded that the splitting of the GST by sectors, given the perspective of the 1930's style sales tax was not sensible and the Pakistani formulation was more unstable than the assignment of the GST on goods.

The second paper in this session was presented by Aisha Ghaus Pasha on "Can Pakistan Get Out of the Low Tax-to-GDP Trap?" This paper explores how Pakistan can get out of the low-tax-to-GDP trap. Examining the factors influencing the tax-to-GDP ratio over a period of twenty years, the paper concludes that partially successful and/or inappropriate tax reforms have put Pakistan in this trap. While highlighting that a period of economic slowdown may not be the best time to make a big push on resource mobilization, the paper presents a strategy which aims at not only enhancing tax revenues but also making the taxation structure more progressive, broad based and balanced.

Session 5 – Managing the Scarce Water Resources

Pakistan is highly water-stressed and its dependence on a single river system makes availability of water highly vulnerable. From a long term perspective Pakistan's water resources are faced with three major challenges. These include: 1) Building a knowledge-based capacity to nurture Pakistan's scarce water resource. 2) Maintaining, rehabilitating and expanding infrastructure for managing Pakistan's water resource. The foremost task to overcome this challenge is developing a consensus among provinces on water entitlements as well as effective implementation of such an accord. 3) Creating a modern institutional framework that employs international best practices of water management which ensures sustainability and enhances efficiency of water use.

The principal paper in this session was presented by Shahid Amjad Chaudhry on “Pakistan: Indus Basin Water Strategy – Past, Present and Future.” This paper looked at the Indus Basin Water Strategy for Pakistan, beginning with a historical overview of the Indus Basin Irrigation System (IBIS), the Indus Basin Replacement Works (1960-1980), the Indus Basin Salinity Control Efforts (1960-2000) and the IBIS irrigation and salinity control investments that have taken place over the last decade (2000-2010). The paper went on to look at the present situation of the IBIS and also discussed an IBIS strategy for the next decade. Finally, the paper discussed supply side and demand management strategies for IBIS. Overall, the paper concluded that Pakistan should focus on (1) Creating Additional Surface Storage, (2) Preserving surface water (particularly through lining canals), (3) Controlling Groundwater and controlling salinity (by discouraging excessive tube-well use), (4) Encouraging general efficiency of irrigation water use (through improved land management techniques), (5) Enhancing yields through improved farming practices, and (6) Fully meeting the environmental concerns of the Indus Delta, river systems and wetlands.

During the sessions, a special presentation was made by Sirmal Abeyratne¹ on “How Sri Lanka Faced the Global Financial Crisis,” and after the completion of the sessions, a roundtable discussion was held, which focused on Development Challenges and Alternative Perspectives. The session was chaired by Shahid Amjad Chaudhry² and the discussants included Mushtaq Khan³, Shahid Kardar⁴, Matthew McCartney⁵, Ijaz Nabi⁶, Naved Hamid⁷, and Paul Ross⁸.

To conclude, we, the editors, hope that this Special Edition of the *Lahore Journal of Economics* can help to inform the policy debates taking place nationally and internationally regarding economic planning and development in Pakistan.

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