

Documentary on 22nd AGM and Conference of PSDE

Since 1984, PIDE hosts the Annual General Meeting & Conference of the Pakistan Society of Development Economists. PSDE is the only Pakistani association of economists that provides a forum for serious economic discourse. At PSDE we work with ideas to create a domestically owned research agenda based on global knowledge and standards.

The theme of the 22nd AGM & Conference was “Governance and Institutions”. As we are aware, over the last 60 years of post colonial development, Pakistan and other developing countries have followed many prescriptions that promised development. These countries went through phases of planning and control, nationalizations and socialism, industrialization strategies, the Washington consensus and other prescriptions. Billions of dollars in loans and aid have been consumed and yet poverty remains endemic. For the last two decades researchers have been tirelessly investigating this issue. From this research we have learned that weak missing, or perverse institutions lie at the heart of underdevelopment. PIDE, realizing the importance of this issue, decided to make it the subject of this conference. The documentary summarizes the broad ideas presented at the 22nd AGM.

Presenter: Ms. Zehra Aftab

Day/Date: Thursday, July 12, 2007

Time: 11:00 AM

Venue: PIDE-Conference Room

Reforming Institutions; From Where to begin: Lessons from Theory and History

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Theory of Institutions

- Individuals have preferences over economic institution:
 - Institutions influence distribution of resources
- institutions that promote efficiency may not essentially ensure better distribution
 - Groups with political power cannot credibly commit to take care of distribution
- Groups enjoying political power will have the ultimate say in choice of institutions

Theory of Institutions....

➤ Political power:

- De jure and De facto

➤ De jure political power:

- Determined by constitution:
 - Democratic, Semi-democratic, Authoritarian
 - Electoral rules:
 - Franchise:
 - All adults, Male adults, Lords
 - Equal/unequal opportunity of success in elections
- De facto political power
 - Ability to solve problems of collective interest
 - Sources:
 - Wealth, use of arms/military force, personal Charisma

Theory of Institutions...

- Political institutions are endogenous;
 - Allocate future de jure power (within the limits allowed by de facto power)
 - De facto power is transitory due to
 - Nature of collective interest problem
 - Groups with de facto power will attempt to alter political institutions to ensure de jure power in future

Endogeneity of institution

- Political inst → *De jure pol. power* }
- Eco. Inst.}
- Growth
&
Distribution
- Polt. inst.}
- Distribution → *De facto polt. power*}

Lesson from theory

- Institutions are (by & large) endogenous
- Political institutions are relatively more permanent
- The process of institutional reform should begin with political institutions.

Repression

- Given demand for democracy, elites face a trade-off:
 - Options:
 - (a) Democratize:
 - Loss of power
 - Redistribution unfavorable to elites
 - (b) Continue to repress:
 - Loss of physical and human assets
 - Loss greater under industrial economy relative to agrarian economy

Repression....

➤ Threat of revolt:

- Elite may make concessions to protect their power
 - So-called pro-poor policies/cosmetic changes
 - Events like floods/earthquake create an opportunity for elite to respond
 - Concessions lack credibility
 - When the opportunity disappears, sustaining collective action becomes difficult

Repression...

- Failure to make credible commitments:
 - democratization occurs:
 - *de jure* political power reallocated from elites to the masses

History:

Rise of Constitutional Monarchy in 17th century UK

- The process began as early as 1215 with signing of Magna Carta
 - Introduced concept of equality before Law
 - Increased the power of barons
 - Forced the King to consult barons

UK: Constitutional Monarchy...

➤ Stuart Kings:

- Success of Crown due to:
 - Executive, Legislative and Judicial power held by the Crown (explicitly or implicitly)
 - The king could frame laws
 - Power to remunerate and Hire/Fire judges rested with the king
- Increase in Atlantic trade
 - *De facto* power of Merchants increased
 - Merchants used the *de facto* power to block repression attempts by the Crown
 - Civil war (1641-51) and Glorious Revolution (1688) settled Constitutional monarchy

UK; After the Glorious Revolution

- Balance of power b/w King and Parliament
- King's right to dissolve Parliament withdrawn
- Judges could be removed only by both houses of Parliament
- Legislative powers of King withdrawn
- Prerogative courts (Star Chamber) abolished
- Procedure for removal of King laid down and two kings actually removed under the procedure
- Parliament being dominated by people with commercial interest, Parliament was politically constrained from intervention in courts
- If the king had a standing army at hand, forces of Parliament would not have been able to stage a revolution (North)

UK: Rise of Electoral Democracy

➤ Till around the middle of 19th century Britain

Was ruled by rich rural aristocracy.

➤ Series of concession to adult men:

- Aimed at incorporating the disenfranchised into politics to prevent social unrest/revolution
- Concessions were gradual and meant to buy off the middle class
- Main driver of democracy in UK:
 - Threat of social disorder following industrial revolution
 - Increase in *de facto* power of disenfranchised:
 - Economic/social changes caused by industrialization, for example income inequality and urbanization

Pakistan: Political institutions

- For half of its life Pakistan has been ruled by military regimes.
- For the remaining part democracy has not been inclusive.
- Electoral rules are such that poor/middle class does not enjoy access to power.
- Besides the executive power, head of govt. enjoys legislative power as well (issuance of ordinances)
- A significant percentage lives below the poverty line
- Middle also constitutes a sizable percentage (18%, Ishrat Hussain)

Pakistan: Political Institutions

- Discontent has risen during almost every government.
- Conditions are ripe for a revolution/threat of revolution.
- The alternate episodes of military and democratic regimes prevent revolution:
 - Each regime builds hope:
 - To correct for the excesses of the previous one and thus prevents a revolution

Conclusion

- In the institutional reform process, the first one to be reformed are the political institutions
- Lessons from History:
 - More often revolutions have triggered changes in political institutions
 - At times, mere threat of revolt may trigger changes in political institutions
- Transformation of political institution is a lengthy and costly process.
- Malthusian philosophy argues that if we do not correct on our own, nature will force correction upon us, causing huge resource destruction.
- Rather than waiting for the revolution, the mere threat of revolt should be taken seriously to initiate reform of political institutions ones own

We learn from history that we do not learn from history

