

Government as an enabler and regulator economics essay

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Markets, if they operate competitively, are good at allocating resources and producing efficient outcomes but it also creates inequity. If the government is benign, it can minimize these inequalities through rightful policies of investment and regulations. Since 2007, the middle class of Pakistan is a victim of high inflation, low purchasing power and reducing employment opportunities. What should therefore be the suitable association between Government and Private businesses in Pakistan?

Government as an Enabler and Regulator

The politicians and bureaucrats in Pakistan do not have the required ability for risk taking in running any businesses. The pitiable record of nationalized companies since 1973 corroborates this claim. It's sufficient to say that business activities should be carried out by the private sector only. What the Government can do is to ensure a level playing field for all market participants. If the market structure is imperfect, the welfare of the public will be hurt. The Government through the better use of its resources and oversight has to guard the consumers from the exploitation of market power.

Protector of Life and Property

Another important function of the government is to manage and uphold national defense. The threat to security had accentuated after September 2001 but an expanding market and a higher growth created generous returns in pre 2008 period, thus offsetting some of the security concerns.

Enforcer of Rule of Law and Contracts

Private markets cannot work efficiently if property rights are not cosseted, contracts are not privileged and disputes are not settled through the courts

of law. If land disputes loiter on for over decades in the courts, businesses will shy away from entering into long term investment contracts in the peninsula. Our country's rank in the World Bank's rule of Law Indicator has deteriorated from 65 to 81.

Provider of Infrastructure

The fourth key point of government duty is the proviso of physical infrastructure. These are public goods whose benefits cannot be appropriated to any one group of citizens. Other countries have successfully experimented with Public-Private Partnership to meet infrastructure deficiencies. In stark contrast, governments in Pakistan have only paid lip service to it and nothing of worth has come out of it. Even the operation in the private sector is sub-optimal due to the vicious circular debt problem created through irregular policies and lack of efficient investments.

Investing in Human Capital

The fifth area of responsibility for the Pakistani government is to invest in human development. Our adult literacy is low - 56 percent of the populace is uneducated. The private benefits from investment in human development leak out because of 'externalities'. Shockingly Government's focus for Education and Health is only 2 percent of GDP while the task of enlightening 50 percent of the population below the age of 19 is colossal. To be able to achieve the above mentioned roles there are two crucial nuts and bolts that the Government should possess. The bureaucracy should be competent, and free from massive corruption. Inefficiency and corruption cause heavy harm to the economy and asphyxiate growth of businesses. Pakistan's rank in

Transparency International Perception Survey has fallen below Bangladesh – once supposed to be the most corrupt country in the world. With every arriving government reversing the policies, projects and programs of its predecessor, questionability about the country's long term commitment has enhanced. On the flip side of the situation precipitated by the government, this paper would bicker that private sector should ensue as a good corporate citizen, back good corporate governance, invest in your own future, be equipped to face competition and pursue social mission.

Good Corporate Citizen

First, the private businesses have to assiduously and honestly apportion a part of their profits to the Government in shape of direct and indirect taxes. Lower Tax-GDP ratio clearly indicates the predisposition on part of our businesses to make boon profits at the cost of the government. Corporations constantly raising a voice against corruption are no substitute for the dishonest behavior on the part of some of our private businesses. For private businesses, both financial and environmental bottom lines should be desirable.

Corporate Governance

Second, transparent public exposé of their performance and financials would aid to bring in outside money into their businesses. This improved integrity in turn, will magnetize financing from wide variety of sources for the firm. The earlier the Pakistani firms set the right route; the more the benefits of corporate governance can be reaped at national level.

Competition

Third, our manufacturing industries have yet to understand that they are still operating behind tariff/non-tariff barriers. India lowered its high tariffs to 10 percent. East Asian countries and China have an average tariff rate of around 5 percent, give or take. Openness of the economy is important for raising growth and attracting technological innovations. Low or non-existent trade barriers create competition in domestic industries to develop into more efficient industries else they would not survive. Conducting business in domestic market under protectionist's policy is easy. Perpetuating this into the market of Pakistan would never allow our industries to go global and trade across borders.

Research and Development

Fourth, the private sector has been less focused in promoting Research and Development and investing in high quality manpower. Short term profit has blinded them to the good worth of investment in long term endurance. The future of the companies and Pakistan in the global market is exceedingly reliant upon the quality of human resources, leadership of its corporate and on its ability to adapt to changing global environments. Our government has not paid much attention to Human Development sadly but for the private sector, filling in the gap is indispensable for talent management. Private sector firms in R&D intensive businesses need to step up their R&D activities to reap long terms benefits.

Social Mission

Finally, there is a distinction to be made between Social Mission of the Corporate and the Corporate Social Responsibility. Companies, for example drilling or producing oil or gas in the backward areas of, let's say Baluchistan should help those communities by providing them with at least the basic necessities of education, health, drinking water, housing, employment opportunities, service contracts, etc. The challenge for corporate leaders is even more dreadful if the external environment is hazardous and the government policies and practices are unreliable and erratic.

Conclusion

To sum up, the apt form of Government Business Relations in any nation state has to surface from the country's individual historical, cultural, social and economic scene. If the Government manages things which no one else but the Government itself can only do and the private sector focuses on actions for which only it is prepared and capable, then the country can march onward. The level of interaction between the two is not so clear cut as described above. In India, the landscape has dramatically changed. They have realized the importance of private businesses in country's socio-economic development. Since 1991 the business has inundated the Government. Business leaders in India are spearheading India on the path of prosperity in the face of a bureaucracy that clings to its bequest.