**Politics and the economy**

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Economic discourse in Pakistan has unfortunately become more polarised, toxic and partisan. Every single outcome, if it is favourable, is strongly defended by the government of the day but painted with a lot of scepticism and negativity by those in the opposition.

Several economic 'experts' and commentators have also, with few honourable exceptions, aligned themselves to one extreme or the other – white or black. Neutral and objective analysts are shunned because they do not create any sparks for the ratings. Only those who apply a political lens are frequent visitors. Social media, particularly vloggers and those on Twitter, has become a popular conduit for spreading contrived information that suits one or the other party.

In all this, viewers are left in daze as to what is in fact the real situation. This partial, inspired and at times confusing interpretation of the same set of facts affects market sentiments also in ways which are unpredictable and unfathomable.

It is hardly realised that economic outcomes at any particular point of time cannot be attributed to any political regime – whether in power or one that had held power previously. These outcomes are not the result of government policies alone but a product of complex interactions between global economic conditions, factor endowments, private-sector responses, momentum gained or depressed from past investments and past policy decisions, the quality of current public policies and management and, finally, unanticipated shocks – positive or negative.

The government at any given time directly controls no more than 20 percent of GDP while 80 percent is controlled by the private sector. Yes, it is true that the government does influence private-sector responses through its policy stances, regulations, taxation and provision of infrastructure and human capital. Except for state-owned enterprises (SOEs) most farms, firms and businesses belong to the private sector. Their ways of thinking and decision-making are, therefore, equally crucial.

External conditions are also important as imports and exports of goods and services, workers remittances, foreign direct investment, and net external financial flows account for more than half of GDP. Therefore, what happens to the global economy – international trade, financial markets, migration – makes a huge difference to domestic economic outcomes.

The state of the current stock of capital and its rate of utilisation along with labour force and its skill intensity play a large part in the maintenance, usage and augmentation of the productive capacity. If the country's main exports are textiles and we have relatively antiquated machinery and equipment and an ill-trained labour force, then it is hard to expect to compete with Vietnam and Bangladesh in third country import markets.

Flows from past investment and past policies can add, deplete, enable or handicap the factors of production. Had the problems of water losses from the irrigation system, transmission and distribution losses in the energy sector, low tax base and SOEs been resolved adequately, the output from the present factors of production would have been much higher.

Technological assimilation and application and managerial practices enhance, retard or stagnate levels of productivity. Had the average farmers been provided access to technical knowhow along with credit to use certified seeds, adequate doses of fertilizers, better quality pesticides, small tools and equipment, conserving water through rain harvesting, the country would not have faced food and cotton crises from time to time.

Quantitative and qualitative techniques are available to decompose the contribution of various factors to the economic outcomes – growth, inflation, debt etc. Of course, there are serious methodological and empirical difficulties such as availability of data, but sufficient information can be culled to form the basis for an objective assessment. Regrettably, even our research institutions have not carried out such rigorous work but resorted to generalised discussions where prior and strongly held opinions are regurgitated.

Despite the above catalogue of caveats and reservations we have noted that in Pakistan there exists a common tendency in the government of the day to declare 'victory' as soon as a high frequency short-term economic indicator moves up without analysing the underlying factors responsible for the movement. They soon end up losing credibility when the same indicator shifts in the opposite direction for reasons totally outside their control. Those in opposition seize this opportunity to discredit and blame the government for ‘incompetence' or ‘mismanagement'.

The lines are sharply drawn and used for political point-scoring rather than a dispassionate analysis of what happened and what can be done to avert the situation in the future. Under this scenario of uncertainty, the risk premium rises and the hurdle rate of return on investment becomes difficult to achieve, and several critical projects that would help in expanding the productive capacity – either through import substitution or increase in exportable surplus – are dropped or postponed. This vicious cycle widens the gap between aggregate demand and domestic capacity which then spills over in the form of rising volume of imports putting pressure on balance of payments, increasing external debt and rising inflation.

Alternatively, governments faced with such a crisis situation and severe shortages have to commit guaranteed rates of return, take-or-pay arrangements, heavy penal clauses, tax exemptions and other generous concessions to attract investment in those sectors. The saga of our energy policy since 1994 is a glowing testimony to this kind of policy intervention that has survived many successive regimes. The pernicious impact of such policies, whether in power generation or RLNG, on the economy is well documented.

The lesson from past cumulative experience should be taken seriously by our political leaders and their cadres. Economic outcomes, however well calibrated, are not always coterminous with electoral cycles. These are not discrete isolated events that begin and end during the period of a particular regime but are continuous processes that may emanate well before the tenure of an incumbent government and extend well beyond the completion of their tenure. Therefore, taking credit or placing blame for growth rates, poverty reduction, fiscal and current account deficits, and inflation on the government occupying office at that time may be politically convenient for both those who take credit or pass on the blame – but is conceptually and empirically flawed. The long-term damage to the national economy far outweighs any short-term political gains that may be perceived to have accrued to any of the parties.

The Green Revolution that transformed Pakistan from a chronic food importing country into a self-sufficient and exporting nation was started during Ayub Khan’s regime, but its full benefits were realised at least two decades later. Fortunately, the successive governments continued with the programme and did not discontinue it.

The Social Protection Program, initiated by the PPP government in the form of the Benazir Income Support Program (BISP) was supported by the subsequent PML-N government and came handy during the Covid-19 pandemic. Had this programme – with its grassroots presence, database, technological footprint not existed – it would have been difficult for the PTI government to disburse more than Rs200 billion in emergency cash assistance to 16 million households – or about 50 percent of the population – in such a short period of time in a transparent and targeted manner. Of course, the present government has conducted a new survey to update the National Registry – the database.

These two examples may be food for thought for our political parties: that continuity, consistency and predictability of economic policies pay much greater political dividends than scrapping and restarting from zero ground. A five-year electoral cycle is not an appropriate yardstick to measure economic outcomes and attribute them to a particular regime.