

Are we near take-off stage?

17.4.03 Pak. eco Dawn By Sultan Ahmed

PRESIDENT Pervez Musharraf has been stressing in recent weeks that as a result of the macro-economic stability Pakistan has come to the take-off stage. That means the country can sustain its economic growth largely through its own momentum, and not through continuous inflow of external aid with varied stipulations.

But that seems to be an exaggeration of the actual state of the economy, even judging by what the experts of the IMF and the World Bank have recently been saying. In fact, they are now considering to treat Pakistan more like a highly indebted poor country which, like African countries, qualifies for a write-off of much of its heavy debt and rescheduling of the rest of the debt, and deserves more loans for poverty reduction and social sector development.

Earlier in the 1990s we had tried to claim a HIPC status when over 20 African countries, ravaged by civil war and AIDS, were classified in that category. But their external debt was small compared to Pakistan's larger debt. And we were told that we were more developed than the African countries living in abject poverty. But now because of our large population of whom around 40 per cent live below the poverty line the low economic growth in the 1990s and our falling per capita income, the joint staff of the IMF and World Bank evaluating our poverty reduction programme is inclined to consider Pakistan for the unenviable HIPC status.

But that is not what can attract foreign investors to Pakistan at a time when we have a target of 1.5 billion dollars of direct foreign

about 40 per cent of the tax revenues of the country. And yet the heavy domestic borrowing continues unabated as such loans are treated as unfunded or floating loans, repaid at one end and borrowed more at the other end.

A recent book "The Exclusive Quest for Growth" by William Easterly, who had been with the World Bank for 16 years, says foreign aid, foreign investment, education, family planning, big infrastructure, projects, conditional aid, debt forgiveness, etc. have not worked to produce what they had sought. All those activities are futile, he says, as long as a particular requirement is not met: definite political institutions are needed for development to be possible institutions such as rule of law and corruption-free government. It has been stressed what we need is not only macro-economic stability but also macro-political stability, which has always been the missing element in Pakistan.

Look at the might of tribal power or feudal fury as evidenced by the manner the gas mains were blown up again and again in Rajanpur and later in Bahawalpur. The imbecility of the government is demonstrated by the fact that even when the culprits

money paid by the people to the taxation officers. But fighting corruption among the taxation officials is an uphill task. So the IMF urges the government to come up with new taxes or spread the 15 per cent sales tax to new areas. It also wants about 55 tax exemptions given to various sectors of the economy to be withdrawn so that more revenues could be collected.

But if the taxes were not too many in number, and if there was less corruption among the CBR officials, and if the people were getting real returns for the taxes they pay, they may be willing to pay higher taxes or larger revenues. But these expectations are not being fulfilled by the government. Instead we have a bloated government with more of its officials behaving like "Bara Sahebs" and elected representatives are now paid double of what their predecessors were paid and have brand new cars. So the people are not willing to pay more taxes. The moral basis for higher taxation is not there after the elections as well as before that.

The right approach to pricing electric power is to cut the 40 per cent theft and loss of power in KESC and to a lower extent in the WAPDA region. But four years of military management of both the utilities has not resulted in notable reduction of the theft while the world oil prices kept on soaring. Hence the IMF and the World Bank keep on pressing both the utilities to raise their power rates and reduce their large deficits, which meets with resistance from the people. Hence Prime Minister Zafarullah Jamali is reported to have cancelled the orders of 12 to 18 paisa rise in the power rates, which will incense the IMF.

In such an environment there cannot be continuity in major policies that directly impinge on the people. In

Musharraf's statement that the economy is near the take-off stage seems to be an exaggeration of the actual state of affairs, even judging by what the experts of the IMF and the World Bank have recently been saying. In fact, these experts are now considering treating Pakistan more like a highly indebted poor country which, like African countries, now qualifies for a write-off of much of its heavy debt and rescheduling of the rest of the debt.

have a target of 1.5 billion dollars of direct foreign investment next year following almost one billion dollar largely in the oil and gas sector as FDI this year. They want a fast growing economy to profit from and not an economy which goes in reverse direction to profit from debt write-off and cheaper loans. We should know what we want and move in that direction purposefully, instead of being tempted by any kind of relief offer from anywhere.

Prof. W.W. Rostow came up in 1960 with his book "The stages of Economic Growth" which he called a Non-Communist Manifesto and spoke of the five stages of economic growth beginning with the traditional society and ending with the take-off stage, as had happened in many western countries led by the US. The take-off stage can't be a stop-go process but a self-fuelling steady one with self-correcting mechanisms. We are far from that stage now. We are a large traditional society economically, politically and socially with pockets of modernism or progress. Our vast tribal areas and feudal society testify to that. Our major industries are frequently facing a crisis. Take the textile industry, sugar industry, the engineering industry minus the automobile makers and our cement industry. Exceptions apart, most of such units appear to be in a crisis, with about 4,000 sick industrial units plaguing the economy most of the time. This is the reverse of the take-off stage.

We do not come to the take off stage when our national debt is 100 per cent of the GDP. At the moment the focus is more on reducing foreign debt which was earlier 61 per cent of the budget. Now it has come down to 46 per cent, says Gen. Musharraf and he hopes to bring that down to 30 per cent in two years. That is what will take us to the take off stage and not the heavy debt of 100 per cent of the GDP even after much of the foreign debt is re-scheduled.

Even now the focus is on external debt and not on the domestic debt which is about 50 per cent of the GDP. And we are not paying the domestic loans. Instead we are slashing the interest rates to the despair of the public or the savers. Even now the interest on domestic debt is Rs. 192 billion which is

are identified or their sponsors established they cannot be punished, and they and others prevented from repeating the same.

Without good governance, which means integrity of rulers, efficient administration and peace and justice for all, the best development schemes cannot be a success. That is what Gunnar Myrdal spoke of in 1985 when he defined the "soft state," which in our case is too soft at one end and violent at the other, while the new democratic structure has become a farce incapable of delivering anything to the masses and truly accelerating economic growth.

Palliatives like not increasing electric power rates at a time of falling world oil prices, or not retiring civilians from service while recruiting retired military officials for top jobs, or the Prime Minister asking senior officers not to behave like "Bara Sahabs" will not do. We need radical solutions for our endemic problems and the distress of the poor. The World Bank has mentioned how vulnerable are the poor in countries like Pakistan in its report on "Poverty and Vulnerability in South Asia." Our rulers should make it their handbook if they really want to reduce the perennial distress of the poor and the new problems which confront them day after day.

The joint staff of the IMF and World Bank have identified four roadblocks to faster economic growth and reduction of poverty. They are political opposition to economic reforms, lack of continuity in economic policies and programmes, insufficient institutional capacity or exogenous or external shocks.

Centre-piece of the reforms is tax reforms which means higher taxes and larger tax collection and fewer or no tax exemptions, higher electricity rates and higher prices for gas and no or low support price for agricultural products. All that will add to the hardships of the poor by making the cost of living higher. Instead the people expect relief from the elected rulers, and not add to the levies of the military government.

Tax revenues can be increased by eliminating corruption from the ranks of the CBR which comes to about 40 per cent of the

addition, we had four long periods of military rule in between political intervals. Political leaders too have tried to be different from each other in policy formulation and execution. Even change of ministers seems to make a difference in policies. Sometimes change of secretaries to the government also results in different policies.

When the rulers try to do too much with too little, the net result is bound to be confusion or stagnation. The political immaturity of political leaders and the large promises they make before the elections despite the scant resources are responsible for our political failures or later popular rejection of their leaders.

Insufficient institutional capacity is also held responsible for our economic setbacks. When the wrong men are heading the departments or they know too little about the intricacies of administration, or if the secretaries to the government get changed as frequently as they do in Sindh insufficient institutional capacity is inevitable.

In addition there is the pervasive corruption, political as well as bureaucratic, which results in the squandering of the scarce resources. This is all the more so in respect of funds spent on the agricultural sector, including irrigation. When youngsters are made ministers and the utterly inexperienced are made chief ministers without the requisite education or expertise the institutions they head are bound to be ineffective and replete with corruption. To add to that, there is the over-staffing in many departments which results in red tape or larger corruption.

The exogenous shocks of which IMF and World Bank staff talk have been plenty. In 1998 there were the nuclear explosions followed by economic sanctions, in 1999 the Kargil episode and then the military take-over and the sanctions, in 2001 the September 11 tragedy and then the fall of the Taliban regime in Kabul, in 2002 concentration of troops by India on our borders, and in 2003 the war on Iraq. All these events had their major impact on us and affected our economic growth and poverty reduction.