Is growth the only economic indicator?

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MIGUEL LOUREIRO

Inflation is going up more than expected, especially regarding food items. Who are the people most affected by this? Those that spend most of their money on food — i.e. the poor. According to the State Bank, the purchasing power of the lowest income group has been eroded by 10.8 percent, as opposed to 8.6 percent of the higher income group

A COUNTRY'S ECONOMIC SUCCESS tends to be equated by many short-sighted pseudo-analysts solely with the growth rate. If the growth is above 6 percent the minister in charge of the economy is known as a wizard. Well, let me give you the years since 1950 when such a growth rate happened in Pakistan: 1953 (over 10 percent GDP growth); 1961 until 1969 (except 1966); 1972; 1973; 1977; 1979 until 1982; 1984; 1985; 1987; 1991; 1995; 2003; and 2004.

If a country's success can be judged from its economic growth rate, and this certainly is the mindset of the current government, then the fact that Pakistan has had an extremely impressive growth rate for 23 out of 54 years should make Pakistan one of the greatest developmental success stories of the last century. This, as we know, is not true, given its rank of 138 out of 177 countries on the Human Development Index. Should 54 years, then, not be enough to learn to prioritise something other than economic growth? Is growth really the only indicator?

Let's say we bring another economic indicator into the game: inflation.

What is inflation? Inflation is an increase in the price of goods and services resulting in a loss of purchasing power. In other words it is the it-costs-a-lot-more-to-buy-tomatoes-than-it-used-to. The problem with inflation is that on the one hand consumers need higher salaries to cover rising costs, and, on the other hand, producers tend to raise their prices to cover these increases, scale back production to check their costs (resulting in cutting jobs), and fail to invest in future production.

In Pakistan there are three indices used to measure inflation: these are the consumer price index (CPI), the sensitive price indicator (SPI) and the wholesale price index (WPI). The CPI measures changes in the cost of buying a certain basket of goods and services (the present basket covers 374 items) and tends to be the main indicator for the country's inflation. It comprises 71 markets in 35 urban centres of Pakistan, and categorises the population under four income groups (up to Rs 3,000; Rs 3,001 to Rs 5,000; Rs 5,001 to Rs 12,000; above Rs 12,000), as different income groups tend to have different consumption patterns. The SPI assesses the price movements of essential goods at short intervals (weekly) so as to review the price situation in the country, and is assessed in a similar way as the CPI. The WPI measures the movement of prices for a set of selected items (divided into five groups: food; raw materials; fuel, lighting and lubricants; manufacturing; building material) in the primary and wholesale markets.

Shall we look at CPI values? CPI food inflation reached as high as 14.9 percent in July 2004, the highest increase in food prices since 1997. It then went down until October 2004 but bounced back to 13.6 percent in November. As a consequence, food inflation contributed over 60 percent in the overall inflation in November 2004. Non-food inflation has also been steadily rising, mainly due to the increase of the house rent index. This made the total CPI reach 7.3 percent in November 2004 (as opposed to 2.7 percent in November 2003). In fact, CPI inflation has been rising almost uninterrupted since August 2003 (with a two-month pause in the beginning of 2004 and 2005). The State Bank of Pakistan now predicts that annual CPI inflation will fall in the range of 7.6-8.2 percent (as opposed to the previous 5 percent prediction).

Looking at recent SPI figures (remember it's a weekly index), we see that it has increased from 112.89 percent on January 6 to 127.51 percent on January 13, with vegetables being the goods for which prices have increased the most. Actually, during the last year (from January 13, 2004 to January 13, 2005) only local telephone calls and matchboxes remained stable, with the prices of 44 items increasing, and those of seven decreasing.

So we learn that inflation is going up (more than expected), especially regarding food items. Who are the main people affected by this inflation? These would be the people that spend the majority of their money on food — *i.e.* the poorer. According to the State Bank of Pakistan, CPI inflation has eroded the purchasing power of the lowest income group by 10.8 percent, as opposed to 8.6 percent of the higher income group. Now remember that the poverty status of about 85 percent of the total population is linked with economic shocks — such as inflation. This has been seen over the years, where increases in the prices of essential goods have directly affected the poorest and the more vulnerable.

Last year economic growth was 6.4 percent (against the initial target of 5.3 percent) and inflation rose to 4.57 percent (against the expected 3.9 percent). So if this year economic growth is predicted to be above 6.5 percent and inflation is predicted to be above 7.6 percent, do we still want to call this finance minister a wizard? What has happened is that while Pakistan's growth rate is once again impressive, poor Pakistanis will become even poorer this year.

PS — Next week we'll discuss another indicator to question the wizard's myth. It's called "external trade".

Miguel Loureiro is a lecturer in development studies at the Lahore University of Management Sciences