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Linking high economic growth with socio-economic development

Despite a number of economic reforms specific to tariff reduction, forex liberalisation, monetary and banking sector reforms, a number of grey areas of economy have remained starved of policy decisions and financial allocation

By M. Sharif

Economic development is a challenging job really for any government, managers of national economy, researchers and analysts. If it were not so, the global society would not have been so miserably divided between the rich and poor, not among the nations but within the nations as well. Global economic history interpreted through the blurred perceptions of communists and capitalists and supporters of latest paradigm of LPG (liberalisation, privatisation and globalisation), at best presents perceptions that are at variance and worst, they conflict with each other. But, as the saying goes, "nothing succeeds like success". LPG is engulfing the globe. No country including Pakistan has any other route to pursue economic policies that are at variance with its bottom lines. Pakistan has been pursuing LPG regime since early 90s without adhering to its basic requisites like political stability, strengthening institutionalised macro-economic stability and caring for social sector development. The consequences have been somewhat sour and bitter.

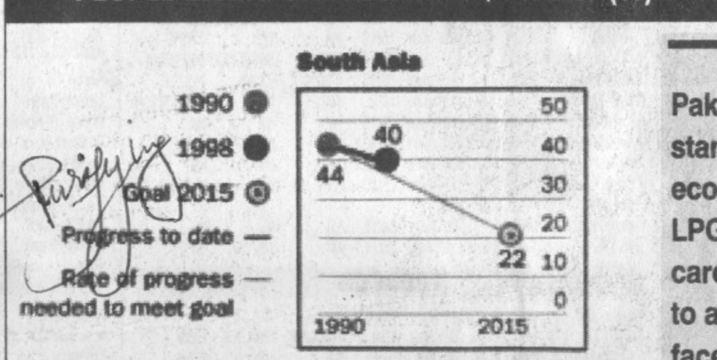
Over past more than five years, managers of national economy have succeeded to turnaround economy because of multiple factors that conspic- the midst of multiple fiscal and monetary objectives being pursued by the government and SBP. Whereas their efforts have created motivation as well as optimism for small percentage of population that is the direct beneficiary of LPG paradigm, the great mass of people live in a state of lingering economic uncertainty, high inflation particularly food inflation, money gimmicks and social distortions that are so much visible now in the society because of high consumption, skyrocketing rents and prices of real estate and record breaking stock exchange indices. There is hardly any doubt that there are the positive indicators showing new trends of

investment worth Rs1.2 trillion was made. Private sector borrowed Rs500 billion during first five months of current fiscal year.

The ministry is targeting to boost investment to 22 per cent of GDP by the end of FY-2007-08 against expected 19.5 per cent of GDP investment during current FY up from 18.1 per cent of GDP made during FY-2003-04.

The private sector borrowing, according to finance ministry officials is being spent on importing machinery, equipment and raw materials to boost industrial growth rate, which has increased to 15 per cent thus far. Notwithstanding government's focus to boost

PEOPLE LIVING ON LESS THAN $1 A DAY (%)



debt-burden, which is relatively high and increasing social sector development expenditure. IMF officials were of the view that rise in international oil prices should have been passed to domestic consumers to achieve fiscal targets.

The government did not do so till a few weeks earlier to counter rising inflation, which averaged to 9.1 per cent during first five months of current fiscal year against annual target of 5 per cent. It was an appropriate decision otherwise inflation would have ended up in two digits by now. Government is still to address the crucial issue of enhancing social sector development expenditure, which according to IMF of-

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achieved macro-economic stability and is struggling to develop infrastructure for high and sustained economic growth" but has still to cover substantial distance in this connection to meet one of the most important pre-requisites to attract FDI.

SPDC report, in order to substantiate the viewpoint that growth alone is insufficient to address poverty alleviation, argues that for every rupee increase in GDP, benefit of 34 paisa goes to the richest 10 per cent of population against benefit of three paisa to the poorest 10 per cent of population. The report concluded that poverty is likely to increase by 1.7 per cent points if unemployment remains static at 8.7 per cent. It was further argued that reduction in income inequalities is a more effective measure than growth because one per cent decrease in inequality is likely to reduce poverty by 8.5 per cent. The report is critical of country's taxation system that puts a lot of burden on poorest segments of society than on the rich. 10 per cent poorest families contribute 16 per cent of their income as indirect taxes compared to 10 per cent richest families who contribute 0.3 per cent of their income interns of income tax. These figures are revealing in their own way and highlight the need to evolve a strategy that should address the issue of income distribution among different strata of so-managers of national economy have succeeded to turnaround economy because of multiple factors that conspicuously include continuation in economic policies, adherence to IMF recipe, liberal aid and credit from US, western countries, IFIs and flow of remittances by expatriates after 9/11, non-institutionalised political stability and somewhat belated participation of trading and business community in the development of national economy. Despite a number of economic reforms specific to tariff reduction, forex liberalisation, monetary and banking sector reforms, a number of grey areas of economy have remained starved of policy decisions and financial allocation. They are social sector development including poverty alleviation, economic growth with greater employment opportunities, development of infrastructure, attracting financial direct investment (FDI) particularly foreign investment, law and order situation, national savings and investment as percentages of GDP and GDP itself that should have surged to 8 per cent by now.

Taking into consideration the balance sheet of gains made by the economy and the gains that it needs to make, at this point of its turning-around, the government is poised to achieve over eight per cent GDP growth by the end of FY-2007-08, in hardly any doubt that there are the positive indicators showing new trends of growth in economy but certainly they cannot be taken beyond their face value. The real challenge as it existed in the past, is of improving social sector and remains to be addressed. The fear is that it would remain partially unattended even after achieving and sustaining 8 per cent GDP growth rate. Reasons will be pinpointed as we proceed further. A number of economists are of the view that high economic growth alone cannot address the issue of poverty alleviation.

GDP growth target

Over 8 per cent GDP growth target is planned by the end of FY-2007-08. This should be achievable on two accounts. One, SBP's first quarterly report stated that economy might growth by 6.5 - 7.1 per cent against the initial target of 6.6 per cent of GDP.

Bank's assessment is based on the data of economic performance during fist quarter of current FY, 15 per cent increase in industrial sector and good cotton crop that is likely to yield 14 million bales against an estimated target of over 10 million bales.

Two, massive investment planned by public and private sectors amounting to Rs2.6 trillion (Rs2600 billion). The finance ministry senior officials are of the view that during past 18 months

far. Notwithstanding government's focus to boost investment to achieve higher growth, there is a word of caution stated by IMF and WB. The two views are at variance in certain important respects.

IMF views

Pakistan parted with IMF around two months earlier and did not draw the last tranche of $262 million in October 2004 because of strong macroeconomic indicators and stability. The last report released by IMF two weeks earlier commended government's fiscal and monetary policies and categorically stated that Pakistan was out of economic crises of 1998-99. This certainly is a credible achievement by any standards. Pakistan is now engaged with IMF to monitor her GDP growth on quarterly basis on technical grounds because IMF's 'good chit' is essential to keep donor IFIs like WB and ADB on track for financial assistance and to maintain credibility in international financial market.

IMF has stressed on a number of measures that the government should be executing. These measures include improving tax collection, enhancing number of taxpayers, reforming local administration and police, reducing

ficials was possible while lowering high debt-to-GDP ratio of around 85 per cent by increasing tax revenue-to-GDP ratio that remains around 14 per cent. Services and agriculture sectors income is still to be brought into tax-net and the government should have avoided granting tax exemptions and subsidies during current fiscal year's budget. IMF also wants reforms in energy sector that have been pending since long, she should make provincial, district and local government more efficient to deliver services to the people in social sector.

IMF also wants administrative and financial devolution, supported by measures to increase accountability at lower tiers and grassroots level. In nutshell, IMF is asking a lot to institutionalise and implement second-generation reforms.

Poverty alleviation and social sector development

IMF report stated that poverty was still widespread in the country and government needs to adopt new measures to address the issue. Contrary to this view, the government maintains that poverty is not widespread. Pakistan has

ciety and tax rationalisation.

The government's viewpoint that per capita income has increased to $600, unemployment is decreasing because of high industrial growth, and there is greater affluence among 30 million strong middle classes indicate that poverty is on the decrease. She still hopes that high economic growth will show trickle down effect that would address the issue of poverty alleviation. A concrete plan to link economic growth with poverty alleviation and social sector envelopment hardly exists on government's table and she needs to address this important problem by allocating higher financial allocation and improving grassroots governance.

Conclusion

Pakistani society currently stands on the threshold of socio-economic change unleashed by LPG regime. It needs to be carefully monitored and tailored to address socio-economic issues faced by majority of the population in rural and urban areas. They are not to be left at their own in a lurch as they were left after the decade of development of 60s. The consequence could be as fatal and unbearable as they were then.