

# The common touch

BY SHAHWAR JUNAID

*Pak. Eco.  
The Nation  
29-5-03*

Governments derive their power from various sources and they have a number of constituencies that they must satisfy in order to remain in power. The tone of official policy makes it easy to see where the primary constituency of a government lies. For instance, if a government depends on the support of external powers it will formulate policies that promote the interests of those powers in various ways. If international capital provides various kinds of support to a government, official policies may decide to serve its interests at the cost of the domestic economy. If a government is dependent on the support of vested interest groups active in domestic business or, in specific state institutions, it will formulate policies to protect them, even at the cost of its larger constituency, which is the population of the country. The environment created as a result of such policies is not the result of interplay of economic forces, it is the result of political compulsions. When such compulsions are removed the real economy, with its weaknesses and strengths, and the real economic culture of a nation emerges. This is true not just for Pakistan, but for other countries as well.

Powerful domestic lobbies working for various sectors of the economy influence economic policy: in the United States the defence industry calls the shots now that the airlines have been practically de-commissioned as a result of the slump in travel and tourism after 9/11. In France the agriculture sector and transporters can bring life to a standstill. Where a large portion of the GDP (gross domestic product) is derived from the export of goods and commodities national governments work with private enterprise to secure overseas markets and influence international terms of trade. This places an additional responsibility on regulators of weaker economies that are at the



## The social, political and strategic cost of maintaining high foreign exchange reserves cannot be ignored.

aside-mini-budgets are presented throughout the year, at the convenience of the government. For instance, a single upward adjustment in the prices of petroleum goods, agriculture inputs and duties on raw materials used in various industries, import duties and export levies are the equivalent of a mini budget. Such mini budgets make industrial and agricultural cost projections redundant overnight and involve managements in a fruitless, never-ending cycle of revision of estimates, distracting investors from planning for the future.

A couple of decades ago the national budget was an important document. The policies that were outlined in it, the allocations, revenue targets and taxation proposals were considered sacrosanct and generally kept in place until the next budget was presented a year later. The government did not wish to inconvenience producers, consumers and tax payers. Although there was corruption, official culture tended to facilitate economic progress. This attitude produced a measure of stability not just in the national economy but also in the economy of households in the country. If people knew what they were expected to pay under various heads for utilities, transport, education, and other necessities of life they could plan ahead, regardless of how much or how little they had in hand. Similarly, the business community found it easier to plan production and price goods based on the estimated cost of inputs and projections of demand from consumers.

of fuel and transportation and so on, affect all categories of consumers, some more than others.

A deliberately simplistic approach to evaluating economic progress is likely to lead to incorrect conclusions about future trends in the economy. Such conclusions can divert attention from fault lines in the economic landscape. For instance, the social, political and strategic cost of maintaining high foreign exchange reserves cannot be ignored. The rescheduling of loans, which has helped increase its foreign exchange reserves, has cost Pakistan a fair amount in political and strategic terms. However, the economic benefits of rescheduling have yet to be passed on to the general public in the form of increased, and efficient, spending in the social sector. After 9/11, excess liquidity as a result of the inflow of remittances from Pakistanis working abroad has meant that government no longer needs to borrow from the domestic market. This has led to the withdrawal of generous interest rates for domestic investors in government securities. As a result of diminishing returns on popular government securities some investors from middle income groups have turned to the domestic stock market for lucrative investment opportunities. Investment opportunities in the stock market are limited. During the current fiscal year (2002-2003) no new issues were floated. The share of manufacturing in the GDP has declined steadily over the past three years and has now moved into negative territory. There has been no foreign direct investment in enterprises based in Pakistan. Basically this means that the boom in the domestic stock market is speculative and due to excess liquidity-if equally lucrative opportunities arise elsewhere in the world's stock markets this money would go there at the drop of a hat. This is the reality behind the declaration that the Karachi Stock Exchange has been voted the best in the world during 2002.

As the government presents its case for an extension of tenure for the military regime it is appropriate to use the performance of its economic ministries and its economic managers as a guide to its priorities and the direction of future official policy. There is no doubt

receiving end of the globalisation hard sell. And they do not always live up to their responsibilities. Under democratic dispensations unusually biased official policies can be challenged and changed by public representatives. Under non-representative political systems and in sham democracies this cannot happen.

When a government does not derive its power from the people and the national institutions through which public representatives work are weak compared to other state machinery, elected representatives are always under pressure to acquiesce to policies that are not in the interest of the general public. In such an environment official policy covering every sphere of national life is subject to peculiar domestic and international considerations that ignore the needs of the citizenry—the common touch is absent. Since the fundamental struggle in such an environment is for the control of resources the struggle for power tends to be obvious in the management of economic affairs.

In recent weeks there has been a great deal of discussion about the national economy in officially organized seminars and private sector meetings. This happens every year, prior to the presentation of a national budget although the national budget has become a meaningless document: for several years it could not be presented before an assembly of elected public representatives with the power to discuss it and vote changes in it, simply because no such assembly existed. While the budget is being prepared the government decides how, and when, its provisions will be set

consumers. Earlier a broad range of raw material and a number of agricultural inputs were imported and some fluctuation in prices due to changes in the foreign exchange rate were understandable. Most affected concerns provided for such fluctuations by factoring them into their estimates of the cost of production. Today, many raw materials and agricultural inputs are produced by the domestic private sector and there is less excuse for price fluctuations that make it difficult for manufacturers and producers to stay afloat without raising prices. Fancy fiscal management that adds a rupee to the price of petrol and diesel when shaving off ten paisas from the cost of electricity and adding twenty paisas to the cost of gas and another five rupees to the price of a bag of fertilizer, in order to meet some IFI (International Financial Institution) revenue target for the release of funds for poverty reduction, is not good for the economy. In fact such fancy footwork merely creates more poverty. Poverty is created when enterprises working on a small margin of profit cannot absorb additional costs of inputs and close shop, products become expensive and cannot compete in the wider national or international market with goods of a similar quality and goods are priced out of the reach of consumers who have to stop buying them. Unemployment stood at an estimated 6.8 percent in 1999 but today it stands at 9 percent. Fiscal policies, taxation measures, regulations that affect the availability of goods, including import policies, food distribution, subsidies, utility costs, the cost

direction of future official policy. There is no doubt any more that the military regime intended to place government at a distance from the general public, the population of the country, by privatising subsidised private enterprises and utility services being run by the public sector. By withdrawing subsidies it intended to leave them to their own devices, for better or for worse. This was supposed to free the top leadership of the regime from the responsibility of providing less advantaged economic groups in society with a bare minimum of subsidised services that were to help them move towards prosperity with the expansion of the national economy. One objective of privatising hitherto subsidised government health and education facilities was also an attempt to create a distance between government and the general public. The use of non-governmental agencies as vehicles of poverty reduction and alternatives to official welfare departments was an attempt to create intermediaries in transactions between the public and the state. The military regime has pursued a policy of disengagement from the public in a number of ways: several tiers of local government have been introduced and the population is managed through security agencies operating at several levels in society. This ensures that while the resources of the state are controlled by the regime at the highest level, the welfare of the public, good governance and the provision of services are no longer its direct responsibility.

E-mail queries and comments to:  
[shahwar@nation.com.pk](mailto:shahwar@nation.com.pk)