

Wanted: innovative thinkers

The not-so-new government in Islamabad has done absolutely nothing interesting in the economic sphere since it has taken over. The Prime Minister's speech was a non-speech, we do not have a finance minister as yet, and the new government has not even moved forward to fill in some of the key posts like the chairpersonship of the Securities and Exchange Commission of Pakistan. The government has not had any interesting debate on the state of the economy in either the National Assembly or the Senate. The only rhetoric we have heard so far, on the economic front, is that the government has again and again said it will continue the policies of the previous regime. If indeed this is all the new government is going to do, how is the 'people's' government any different from the earlier dictatorship?

But then maybe a government that has been spending all of its energy managing to stay alive and together, and has had to cobble a coalition by working with all sorts of characters, can only manage as much. If this is indeed the case, then we are in for a continuation of the difficult period that we have been living with.

The real problem is coming from the point that the present government does not realise that the previous regimes policies were nothing to write home about. It was just the standard Washington Consensus faire, and these we have been trying on for size for too long. Pakistani economy has been in trouble for a good 15 years now, and the last 10 odd have been quite bad. All indicators, despite government efforts to massage some of them, show that. Poverty levels have gone up, growth rates have faltered, industrial growth, for both the large-scale as well as the small and medium scale, has been low and pretty dismal, investment rates have been too low, saving rates have not budged from their traditional low levels, unemployment has increased, and social indicators have shown no signs of improvement either. Why should a continuation of current policies be taken to be a good thing? And this is indeed why we find that a lot of people, who had had some hopes from the political government, have so far been feeling letdown and quite morose.

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were in as precarious a position as ever. The three years under Musharraf have changed some of the things for the better, but it is important to note that these changes have largely been due to the changes at the international level. September 11th, the war on terror, the war in Afghanistan, and the changes still going on in US have allowed us to achieve some measure of stability.

This is particularly clear on the monetary side. Due credit should be given to the State Bank of Pakistan for taking advantage of the changes at the international level to consolidate Pakistan's position on some fronts. We have a healthy level of foreign currency reserves, now, the exchange rate has been stable for sometime, while inflation and interest rates are low. And it seems that for sometime we will continue to have significant flows of foreign remittance so that even the trade gap will not be able to deplete our reserves. Our overall debt levels have also started to come down and the rescheduling with Club members and other lenders have helped a great deal in allowing our debt-servicing requirements to come down. This will allow us some 'fiscal space' to keep budget deficit in check and to increase development expenditure by a bit.

Two things should be kept in mind though. It is not really the policies of the last ten years, the so-called 'Washington Consensus' that

are following the policy package being sold by the IMF and the Bank. Did the East Asian miracle take place because they opened up all markets, privatised everything they could lay their hands on, and removed the role of government from active participation in the economy. Was this how Japan developed? Are these the policies that have kept China on a high growth trajectory, and is this the only thing that India has done over the last decade?

China's growth and opening up have been going on together, and this is what the World Bank and the IMF talk about, but they do not talk about the massive investments China has made, in the last 40 odd years, in the fields of education, technical training, health, infrastructure and heavy industry. India's information technology miracle would not have even started had the Indian government not invested in the Indian Institutes of Technology (IITs), Indian Institutes of Management (IIMs), and other quality institutions of higher learning and research throughout India. The East Asian miracle is as much a miracle about growth performance as it is about the amazing nexus of industry, private sector and the public sector that these countries were able to develop. So why have such unshakeable confidence in the Washington Consensus?

There might be two faults in the way policies are operationalised in Pakistan. It might be that some of the policies that we are following are not right for our conditions, a critique that the well known economist Joseph Stiglitz has also voiced against IMF/bank policies, and it might also be that the way policies are implemented is what makes them turn out to be poor ones for the country.

Consider the following. If privatisation is done without due care for equity and consequences for the labour force, it has been shown that it just increases concentration of power and wealth and turns public utilities and monopolies into private ones. On the other hand, there is some evidence that shows that privatisation can increase efficiency as well. Clearly the art of policymaking and implementation is going to lie in ensuring that we do not have the former, while somehow guaranteeing the latter.

Similarly the issue of lowering import tariffs also creates similar dilemmas. On the one hand increased openness and trade have been shown to effect growth positively, on the other it has also been shown that increased

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It is true that some notion of economic stability has indeed been achieved in the last many years but let us examine what this economic stability consists of and how it has been achieved. Over the last many years development expenditure were cut, public investment went down, the government tightened monetary policy, money creation was controlled and quite a few indirect taxes were introduced. As a result we had some reduction in inflation and some control over the fiscal deficit. That was not much of a success given the fact that these policies had induced a significant recession on the economy that had hurt many people due to job losses, inability to find new jobs, increases in poverty, and lower income growth.

It had hurt the middle-class and the business class as well as it had dried up opportunities for making money at even the small and medium enterprise level. But the real downer was that despite years of 'austerity' at the beginning of the Musharraf takeover we

measure of stability.

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Two things should be kept in mind though. It is not really the policies of the last ten years, the so-called 'Washington Consensus' that has been rammed down our throats by the World Bank and the IMF, that have led to this stabilisation. It has been the changes at the global level that have been more responsible. This alone should have been sufficient to alert the government on the need to have a detailed dialogue on the economy as soon as it came in. A dialogue that would have, honestly and openly, asked for some innovative thinking on the basic economic issues confronting us, and hopefully, at the conclusion, we would have had some consensus on some policies.

Secondly, stabilisation, for what it is worth, might not lead to growth. There is no necessity here. Once stabilisation is there, we need to think of pro-growth initiatives. Again this should have made the government anxious to get a dialogue going. But it seems the democratic government is not really that democratic. Here it is truly following its predecessor.

Does the government in power not notice that the countries that are growing fast, around us and in the rest of the world, are not really growing because they

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Similarly the issue of lowering import tariffs also creates similar dilemmas. On the one hand increased openness and trade have been shown to effect growth positively, on the other it has also been shown that increased openness can hurt domestic industry, employment and can also hamper the development of comparative advantage in a dynamic sense. Again, it is how discriminately the issue is handled that is going to determine which outcome is going to come through or dominate.

Given the complexity of these issues it was incumbent upon the government to do some deeper soul searching on the issue. It was incumbent upon the government to elicit views of the various stakeholders in the society, and it was incumbent on the government to shape policy in order to reflect the concerns and issues facing the public. Yet we have had no such efforts. To the contrary, we have had rhetoric that previous policies will continue, stability will change to growth, and we should patiently wait for the promised kingdom to arise. All this does not sit well with what we want from a democratic regime, and one hopes someone somewhere in the regime with wake up and smell the coffee, and soon.

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