[**What we need to grow**](https://www.dawn.com/news/1725278/what-we-need-to-grow)

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IN recent columns, I have written about the control of elites over Pakistan’s polity, the ineffectiveness of our governments and our pursuing the wrong model of import substitution, which results in boom-and-bust cycles.

Since our elite already control most of our resources, they aren’t interested in economic growth or increasing the size of the pie. Their preoccupation is with maintaining their lion’s share of the pie.

Our governments’ ineffectiveness serves our elite well as it stops any social mobility, and preserves the status quo. Finally, the import substitution policy ensures that monopoly profits flow to the already well-off.

The only way to escape this poverty trap is to come up with a new ‘elite bargain’ that sues for growth and development. How can such a compact for prosperity be achieved is an important question that I leave aside for now. Today, I want to briefly describe what I consider to be six essential pillars for a development compact.

If our government were to carry out just one task, I’d want it to be population control, my first pillar for development. No amount of resources we put in education or health will ever be enough unless we control our runaway population growth.

Our population is growing at more than twice the rates of India and Bangladesh and three times the rate of Sri Lanka. Pakistan will forever be mired in poverty and illiteracy unless we bring down our population growth.

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In the 1950s, an American economist Charles Tiebout came up with the concept of citizens ‘voting with their feet’, and moving away from jurisdictions that do not provide services well or tax too much. He argued that because of this competition, cities and states would provide better services to citizens.

In America, states are sometimes referred to as ‘laboratories of democracy’ that experiment with different ideas until the successful ones are adopted widely. In America, power and responsibilities are not just devolved to its 50 states but to counties (loosely, what we call divisions — they typically provide many services) and cities (which are typically much smaller, and have many devolved responsibilities).

States and cities also must raise most of their own revenues. This way, the US has implemented the most effective federalism, where spending and taxation decisions are made by the same jurisdiction. This federalism is partially responsible for America’s incredible economic success.

When Deng Xiaoping liberalised China’s economy, he didn’t just use the central bureaucracy in Beijing but also asked local government officials in four regions to establish Special Economic Zones.

One of the four zones, at Shenzhen, was very successful and within five years, inspired by Shenzhen, there were 35 zones across China, which went on to become the engines of Chinese exports and growth. Even today, it is the best-performing regional officials who are promoted to be the highest Chinese Communist Party and government officials.

The Chinese economic miracle is in no small part due to the drive and zeal of the local officials who are competing against each other.

Our four large provinces do not provide any competition but if we had our nation’s 38 divisions and more than 100 districts also competing with each other, we would definitely get better, more responsive governments.

Even while keeping provincial boundaries intact, we just need to ensure that each division has an elected commissioner and each district has an elected mayor and they are entrusted with significant devolved powers and responsibilities.

Moreover, of the divisible pool money that is given to sub-national governments, 60 per cent should go to districts and 20pc each to divisions and provinces, thus making districts the hub of metropolitan services.

Empowered local governments with responsibilities for health, education, policing, zoning, etc and raising revenues is my second pillar for growth. We should have many competing jurisdictions that make governments responsive and effective.

My third pillar is to live within our means and reduce the fiscal deficit to less than our growth rate.

The most efficient way to reduce the deficit is to restrict public sector development projects to major interprovincial projects, restrict the growth of current expenditures, including defence, to less than inflation, and most importantly, reduce payments to sub-national jurisdictions from the current 57.5pc to about 40pc of the divisible pool over five years. Of course, sub-national jurisdictions should be allowed to raise their own revenues to make up for the loss of federal transfers.

Financing of our fiscal deficits leads to crowding out of private investments and borrowing from foreigners. The former is obviously not desirable and the latter results in current account deficits, which, as we are finding out, are not sustainable.

We must therefore opt for fiscal and exchange rate policies that lead to a balanced current account.

My fourth pillar is an adaptation of policies for export promotion as opposed to import substitution. Our exports are low because of three main reasons: one, we don’t provide continuous energy at reasonable rates; two, our country is not perceived as safe to visit by foreign buyers; and three, our companies prefer selling to a protected domestic market.

The solutions for the first two reasons are obvious for at least 20 years but are still awaiting implementation. A solution for the third reason is to impose additional tax on companies that don’t export even a small fraction of their sales and reduce custom duties that protect domestic manufacturers. These steps, plus export-processing zones set up by competing divisions, will give a fillip to exports.

My fifth pillar is improving agricultural productivity and yields. We call ourselves an agricultural country and yet most years we import wheat, cotton, edible oil, lentils, chickpeas, garlic, ginger, and many other farm products totalling $8 billion. Our farm yields for most crops are considerably lower not just compared to China but also India, which has similar conditions.

Since our population is increasing by more than five million people annually, our shortage of food will only increase unless we enhance our farm yields. This will also raise farm income and alleviate rural poverty.

My sixth pillar is education, which deserves a column on its own.

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