**Empathy**

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It was rather disappointing to hear the Prime Minister, during a press conference last week, came across as being rather callous, but perhaps more disturbingly was visibly unsympathetic to the genuine concerns of the public at large. Also, if his government is just focused on discharging supposed IMF dictates without evolving any out-of-the box solutions to achieve two milestones with a singular move—keep IMF on track while easing the public pain threshold—then one may ask that why do we even need an interim set-up; bureaucrats despite all their shortcomings would do.
From what we here in Pakistan continuously fail to understand is that this 21-century inflation has undergone metastases in a globalised environment over the last 20 to 30 years and has evolved as something very different to the like of its past and so, naturally needs to also be tackled with new tools and techniques rather than just the simple textbook monetary tightening. What the modern day developing economies around the world who have are successfully countering this new brand of inflation are finding out the practical way is that the two most important tools tend to be improving perception and the supply chain.
Current day inflation tends to thrive in an environment where the traditional defences of home manufacturing or industrialisation and indigenising stand eroded through a systematic enforcement of free world trade in a very small handful of currencies and therefore, tends to hit inelastic sectors of economic activity where it hurts the most and are ones from where it is very difficult to escape. Pakistan currently faces a similar situation where incompetence, corruption, greed and short-sightedness of successive rulers have resulted in de-industrialisation and a consistent devaluation of the national currency that leaves very little options to counter an external led inflationary pressure.
To come up with short and long term solutions, the government will need to take a host of measures in tandem, but foremost amongst them are to first give people hope by aggressively working on restoring homegrown supply chain; sadly, both elements were missing from the thought process of Prime Minister Kakar when facing the press the other day. Managing perceptions is fast becoming an important tool to curb inflation. For example, Brazil and South Africa have used it very effectively at home in managing this present day wave of global inflation.
Forming the right perceptions can be the key in taming inflation. In other words, given the rapid development of electronic and social media in Pakistan, say unleashing of desired perceptions on forward pricings could be a very useful strategy in tackling hyperinflation or even stagflation being witnessed in Pakistan today. Meaning, if a family was to make an important domestic decision on buying a new car and somehow they were to be convinced through social media that the prices of cars are likely to come down over the next quarter, there exists a more than 75% probability that they will end up postponing their purchase by at least 3 months.
Now spread this outcome on mass collective basis and what one will see is that the prices of automobiles will in fact drop due to a drop in demand and an increase in competition to sell within the automobile industry. Despite a strongly rising inflation level in late 2022-2023, both Brazil and South Africa have stubbornly resisted raising lending rates (still under 12 and 11% respectively) and instead have engaged with powerful influencers, bloggers and popular IT platforms to signal a likelihood of looming price drops, and interestingly the notion has been gaining traction–more than 60% surveyed believed that prices are likely to come down in 2024 and markets have already started responding accordingly.
Naturally, words have to be following with actions, as otherwise the government would be feeding lies and people as we know catch up fast. And this part can only come about by looking inwards and by facilitating domestic manufacturing and re-visiting trade agreements that bleed Pakistan’s external account. In fact re-negotiated trade agreements can even bring about a cheaper import based supply chain and even fuel industries with raw materials that either come by via currency swap arrangements or outright exchange of good. The best example of this in recent year is Sri Lanka in its signing of new trade and raw material arrangements with China and India, something that has resulted in significantly shoring up its foreign currency reserves, pulling up the Sri Lankan Rupee to almost the level of ours (may be even better) and reducing inflation by almost 1000 basis in less than a year.
Finally, perhaps the real challenge today is the short-term; to urgently make things happen and that too in the current global financial environment–not an easy task by any stretch of imagination. The solution—as we have seen everywhere by now—lies in the government consciously ceding space to the private sector to help them deliver quickly and efficiently in the key economic areas. In some sectors we can perhaps immediately start by formation of apex boards consisting of competent professionals to determine prudent operational management and in others quite frankly, it would simply be prudent for the state to exit.
Unless the capital moves from inefficient to efficient and entrepreneurial hands, the results will not come forth; and that too at a time when capital itself is so terribly scarce. By this time we need around 5-6% primary surplus just to service government’s ‘domestic’ debt–can’t really see this happening without first generating the right type of economic activity. Lastly, it is important that the short, medium and long terms plans are unleashed simultaneously, since urgent reforms in taxation and investment framework are required to arrest de-industrialisation owing to dwindling productivity and lack of competitiveness. Again, a classical South Asian example is that of Bangladesh where the economic miracle is primarily private sector driven and not the other way round. Pray that our government or the powers that be also reach out to the ‘genuine’ private sector here for help before it is too late.