**The IMF and beyond**

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When we study the pattern of the recurrent balance of payments crises, we find that its magnitude has an escalating trend. This time, such is the scale of the current account deficit that we are staring into the abyss of an economic meltdown. Desperation has pushed the government once again into the lap of the IMF.

Two questions arise at this juncture. First, apart from what Monsieur Michel Camdessus of the IMF once called battlefield surgery, what can be done to mitigate the pain of the people? Second, beyond the immediate crisis, how can we address the structural features of the economy that cause such balance of payments crises to recur, prevent sustained high GDP growth and create growing inequality together with persistent mass poverty? In this article, we will briefly indicate an approach to addressing each of these questions.

As I mentioned in my previous article in The News, ‘Avoiding default without misery’ (May 18, 2022), the challenge in dealing with the short-term crisis is to place the burden of inflation, budgetary expenditure cuts and additional taxation mainly on the rich rather than the poor. So, for example, as fuel price increases trigger a generalized increase in the inflation rate, the minimum rations for the poor must be secured. The Rs.1.3 trillion tax exemptions currently granted to the rich should be withdrawn and new taxes on the super-rich placed to finance support for the survival of the poor. Similarly, while petrol prices can be substantially raised, cross-subsidization should be undertaken so that a minimum ration of diesel for operators of public transport and tubewell users can be provided.

While fighting the proximate fires of meltdown, the seeds should be sown for economic growth in the medium term. We must begin addressing the structural constraints to a sustained people-centred growth process. In this regard, a new policy perspective is required that could have seven features.

First, the central proposition that can guide a medium-term growth strategy is as follows. The architecture of the economy should be so restructured that equitable and sustained growth can be achieved by developing the capabilities of the people.

Second, in pursuit of the above aim, the government can give an immediate commitment for high quality healthcare and education for all citizens. This investment in the people has high economic returns according to recent research. It is obvious that a more healthy, more educated and skilled population will raise productivity and increase innovation. As Professor Aghion at Harvard has shown, the greater the depth and range of innovations, the higher is the long-term economic growth.

Third, declare food as a fundamental human right. As the imminent acceleration in inflation takes food out of the grasp of the poor, a minimum basket of food items (flour, cooking oil, lentils, vegetables) should be made available at a 50 per cent subsidy to the over 40 per cent of the population that is currently food insecure.

Fourth, while cutting down import expenditures is necessary to avoid immediate default, import constriction is not sustainable if the economy is to get back on its feet. The key imperative for sustained long-term growth is to accelerate export growth. Pakistan’s foreign exchange earnings must reach a level that they can finance the high import expenditures required for accelerated economic growth. For this, a knowledge infrastructure of research needs to be established to enable diversification of exports towards science intensive, high value-added goods and services. The demand for science intensive goods in the global market is rising more rapidly than that of traditional manufactured goods and services.

Fifth, small-scale high-tech enterprises in the electronics, metallurgical and alternative energy sectors should be nurtured to enable both import substitution as well as accelerated export growth.

Sixth, the small farm sector (farms below 25 acres) constitutes 60 per cent of the total farm area which is operated by 94 per cent of the total number of farmers. Pakistan has a huge potential in this sector for the production and export of milk, milk products and meat. This potential can be actualized by setting up Small Farmer Development Corporations, SFDC. (See our UNDP Pakistan, Report titled: Inclusive and Sustainable Development). These social enterprises can be owned by small farmers through equity loans from the government and run by high quality professionals with a heart. They can provide the following services to precisely the small farmers who own them: (i) collection of milk in refrigerated vans at the doorsteps of the farmers, refrigeration, packing and export; (ii) manufacture of milk products for export; and (iii) development of livestock through improved animal husbandry and feeding practices, together with meat packaging and export.

Seventh, the considerable potential for exporting high value fruits, vegetables and flowers by the small farm sector can also be utilized by SFDCs. In this context these small farmer owned and professionally managed social enterprises can provide the following services to their clients: (i) new technologies to small farmers for land levelling and drip irrigation for increasing the efficiency of irrigation; (ii) tunnel farming for producing high quality off-season vegetables under a controlled environment; (iii) composite fertilizers that are congruent with the nutrient requirements of specific soils; and (iv) setting up IT-based export platforms with data on the nature and volume of goods available for exports by member farmers along with data to show that each farmer’s production, packaging and storage practices conform to certified international standards.

We can conclude by suggesting that the measures to deal with the short-term financial crisis should be accompanied with efforts to protect the most vulnerable sections of society from the inevitable pain that accompanies such measures. At the same time, we must chart a new path to development, whereby sustained and equitable economic growth can be achieved through the talent and enterprise of all of the people rather than a few. From the embers of an economic meltdown, let a phoenix arise: An economy for the people, by the people.

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