Health of the economy

BY I S H R A T H U S A I N
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A LARGE number of professionals, academics and businessmen repeatedly ask a simple question: what is the real state of health of the Pakistani economy? Who is telling the truth? The finance ministry or ‘independent’ economists writing in newspapers and appearing on television?

Should we believe reports from the IMF, World Bank and The Economist who give a relatively more optimistic picture of the economy? Or should we trust former governors, advisors and journalists telling us how weak and fragile the economy is? Is the government fudging data to make things look good? These are all legitimate questions as we are mired in a lot of confusion.

In economics, there are several ways of measuring progress or outcomes. Each one of these metrics has limitations. One way is to use the year in which a political party assumed power as the benchmark and then compare macroeconomic indicators such as the GDP growth rate, inflation rate, current account deficit, foreign exchange reserves, budget deficit etc. in the current year.

The problem with this approach is that these short-term indicators may indeed show improvement compared to the benchmark year but provide no indication whether this progress can be sustained over time. If the changes that have taken place are not rooted in solid structural reforms, positive indicators achieved in the short term may not be sustainable. However, those managing the economy would be naturally justified in taking great pride in and pointing to the improvement recorded in their short tenure. Those concerned that the politically difficult structural changes are not yet visible on the horizon would speak out negatively as these indicators are transitory and effervescent.

The second metric is the movement of the same indicators with reference to some ‘desirable’ benchmark. For example, Pakistan`s long-term growth rate has been about 6pc and this is supposed to be the potential at which the economy should be performing. While we may have moved up from 3pc to4.5pc in the last two years and the pace of progress may appear a positive achievement, economists concerned with poverty alleviation and unemployment are unable to accept this sub-par growth rate as the economy is still performing below its potential. The assessments of both sides are not factually incorrect but the reference points are quite different. Hence, the conclusions drawn would vary.

However, the structure of an economy the cumulative result of past policies and governance can be altered over a long period of time and is beyond the scope of a particular regime. If each regime makes an honest attempt to implement these reforms even partially our efforts can bear some fruit in the coming years. To the extent that the critics raise the alarm that such reforms are not taking place they have a valid point. Where they are not right is to hold any government in power at any point of time solely responsible for the structural deformities.

Another point of difference may be the choice of indicators that are critical. The IMF and the government point out that the 2013 balance-of-payment crisis has been averted. Fiscal profligacy is on the wane, inflation is down, reserves have risen, the exchange rate has remained stable and market sentiment is gradually turning positive. The critics may present a completely different set of indicators investment and savings rates, export growth, tax collection, debt and debt-servicing ratios and circular debt in the energy sector. On this count, the performance does not 1001< too promising.

The third metric of progress is even more complex. While the economic managers may feel satisfied that they are inching forward on the front they are battling, other commentators may feel that the front they have opened up to fight is the wrong one.

To this group, an obsession with maximising growth rates may in fact be making those possessing assets better off and those less well-to-do worse off.

Deprivation may be rising at the same time as the growth rate may be inclining upwards.

The fourth metric-most relevant-is whether a citizen is able to access day-to-day public services easily without much hassle. Is a citizen who is not rich, well connected or influential, able to get quality education for his children, healthcare and medicines for his family, security for his property and life, drinking water and sanitation services? On this measure, the answer is a big NO.

Most of the criticism of the ruling elites arises because of this deep-rooted disaffection and frustration. But a closer analysis would show that while the ruling parties in power cannot be completely absolved, this outcome is an interplay of many forces and due to the decay of many institutions.

Most institutions do fall under the purview of the executive organ but the responsibility is shared by others. For this, the judiciary has to dispose of cases expeditiously and administer justice in a fair, evenhanded manner. Parliament has to exercise oversight over the executive's actions, formulate legislation to protect the rights of citizens and enforce them. Constitutional bodies such as the Election Commission, auditor general, Federal Public Service Commission, regulatory bodies such as the State Bank, SECP, accountability bodies such as NAB have to diligently carry out their duties and mandate. Only then would we be able to make some satisfactory progress for citizens to be able to access these basic services.

To sum up, the confusion arises because of the different prisms and disparate yardsticks being used to analyse the health of the economy. The way to resolve it is to first define the yardstick or reference points for measurement and state the objectives.

Until then, economic managers will continue to be perplexed about why their efforts and hard work are being dismissed and pooh-poohed while their critics will continue to tell us that the government is taking us for a ride by insisting that everything is hunky-dory in the country.

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