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**[Stability with growth](http://dawn.com/news/1051103/stability-with-growth)**

[Ishrat Husain](http://dawn.com/authors/274/ishrat-husain)

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THE stabilisation vs growth debate has been sparked by concerns that Pakistan is entering its sixth year of stagnating incomes and can no longer afford to tread the same path.

Further doses of macroeconomic stabilisation as reflected in the current arrangement with the IMF, will make ordinary lives more difficult. Proponents of stabilisation argue that fiscal prudence and monetary tightening will reduce imbalances in fiscal and current accounts, paving the way for the resurgence of economic growth.

Both arguments are partially true but there are ways in which macroeconomic stability goals with the resumption of growth can be managed.

First, the factors conducive to reviving growth. Global economic prospects look promising. Green shoots are beginning to appear even in peripheral countries of the eurozone. Japan looks much better and the US economy is doing better with unemployment continuously declining. In Pakistan, the smooth electoral transition has ushered in political stability — critical to economic stability. Nawaz Sharif’s election has boosted the confidence of market players. The IMF agreement has provided a framework in which economic discipline is likely to be enforced.

Still, there are elements of uncertainty, confusion and doubts about the willingness of the government to take tough, unpopular decisions. Backtracking by the Federal Board of Revenue on its efforts to document the economy and widen the tax net has raised doubts about the government’s ability to withstand pressure from vested interests. Ministers do not seem to be working as an integrated team. Civil Service structures, processes and human resource policies that need reform to bridge the gap between policy and performance have been left unattended. No attempt is in sight to address outdated procedures, seniority-based promotions, lack of accountability, etc.

It is the private owners of property, assets, labour and skills that produce and add economic value not the government, which only facilitates these individuals, households and businesses. Maintaining security of life and property, adjudicating on disputes, enforcing laws, taxing everyone in a transparent fashion and providing skilled labour and physical infrastructure fall within the government’s domain. By neglecting its primary areas of responsibility and focusing on activities in which it lacks competence or comparative advantage the government is disenabling the private sector and subtracting economic value.

During 2008-12, nominal GDP expanded by 102pc but FBR tax collection grew by 87pc. Tax collection was unable to keep pace with the expansion in nominal incomes. What are non-traditional ways in which tax collection can be augmented? The aggregate provincial tax receipts amount to Rs230 million ie 12pc of the general revenue receipts. Non-tax provincial receipts are only Rs61m. There is scope to raise both provincial tax receipts and non-tax revenue by at least 50pc through better coverage, improved compliance, stronger enforcement, revision of tax bases, revaluation of assets and halting leakages and corruption. The additional revenue should be used by the provinces to generate surpluses and for basic public goods.

Similarly, the federal government’s non-tax revenues from profits, dividends, interest, etc total Rs822 billion or 3.4pc of GDP. No government has paid attention to enhancing the yield from this source. By managing this portfolio better, including its debt, 25pc more can be generated ie Rs205bn.

The additional income should be utilised to complete high priority infrastructure projects in the sectors of energy, gas, water, transport, railways etc to ease supply bottlenecks and help the private sector reduce production costs.

The government is paying Rs400bn to foot the losses and subsidies of public-sector enterprises, and utility companies. Despite this huge outlay, load-shedding, industrial shutdown, delayed delivery of export orders, high inflation and increasing public indebtedness are suppressing growth. If part of this amount is used to reduce the fiscal deficit, and an additional Rs200bn collected from persons and companies eligible to pay tax but who are not doing so, we’d have Rs400bn for stimulus spending on public goods while holding the deficit down. All subsidies should be targeted and channeled through the Benazir Income Support Programme.

The composition of government expenditure has gradually shifted from investment to consumption. In Pakistan, studies show that public investment complements private investment. Private investment has dropped to 3.7pc from 19.8pc. By allocating these funds for public investment, growth can be induced. Under IMF arrangements, the government has always reduced the Public Sector Development Programme rather than non-development expenditure.

The public sector’s size has expanded by at least 25pc in the last five years while the wage bill has almost doubled. The delivery of public goods and services, instead of showing improvement, has been deteriorating. The government pays 85pc of the wage bill to unskilled, semi-skilled or outdated manpower. A freeze on recruitment in the lower cadres, excepting teachers, health workers and policemen, will result in substantial savings.

Depreciation of currency can be translated into boosting Pakistan’s exports and reducing the current account deficit. By allocating gas for power generation, prioritising export industries, removal of bottlenecks by a proactive Trade Development Authority of Pakistan, and providing innovative financing for new products and markets Pakistan can reach $30bn in two years.

Access to finance through the organised sector has been limited to corporates and high net worth individuals. Small and medium enterprises, farmers and agro businesses that generate growth and equitable distribution are neglected. The State Bank can take the lead by promoting refinancing and guarantee schemes for these sectors at very low cost to the economy.

Most large-scale manufacturing industries are operating below their capacity. This unutilised capacity can be translated into jobs and production if private sector credit is made available on terms that are commensurate with the repayment capacity ie starting with a longer grace period and lower instalments up front and accelerated payments later. This would require removing the minimum deposit rate stipulation and tapering credit demand by the government.

It is thus conceivable to devise a combination of fiscal, monetary and financial policies to boost growth without impairing macroeconomic stability. Whether the government has the courage to take on interest groups and implement these policies is another matter.

*The writer is a former governor of the State Bank of Pakistan.*