

EMPOWERING THE LOWEST STRATA: A VEHICLE FOR SOCIOECONOMIC TRANSFORMATION

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While Pakistan has a multitude of complex problems, whether in the form of our struggle to become a functional democracy, the unstable state of the economy, the inequitable distribution of resources, the lack of any long-term thought, sustained trade, investment and industrial policies, strategic geopolitical location and confused foreign relations, the extremely poor quality of governance, lack of investments particularly in the social sector, or the demographic explosion, the most crucial is the deep rooted class divide in our society. Without addressing this, the remaining issues cannot effectively be overcome – and more concerning, our next round of speculation is likely to be around not merely avoiding a default but that of avoiding the collapse of a failing State.

Just to emphasise this point of the class divide, one example is of our basic societal compact, i.e. our Constitution, which is in a language that is completely alien to the vast majority of our population. It was a compact agreed amongst the ruling elites of the country and supposed to speak for the downtrodden. Given that it is not what the people of Pakistan collectively cherish and hold sacred, it is often trampled upon with impunity, without any protest from the masses.

Many would argue that with the right policies based on corrective reforms, we will overcome this class divide. I would argue that this class divide is rooted in several centuries of societal stagnation driven by pervasive elite capture. It will not change unless we make it the key objective, rather than leave it to evolve as a desired outcome of a series of reforms in other areas because for any meaningful social development, freedom from elite capture is a basic pre-requisite.

A fair amount of academic work has been done to demonstrate that all species have evolved through degrees of group cooperation, and it is not natural for one or a small sub-group of a species to progress whilst everyone else is left out. All members of particular species are in it together or out of it collectively.

For human beings, the societies that seem to do well at a point of time in history appear to be those that have the highest level of cooperation amongst themselves. However, this is a cyclical phenomenon, where settled societies tend to see inequality grow over time and this tendency remains so, resulting in a gradual decay of that society unless some event or factor disrupts that inequitable order and results in some sort of a painful new equalisation that resets the path.

Cooperation amongst society members tends to be relatively weak amongst unequal societies, where members of the society are forced to work towards sustenance under degrees of coercion. The coercion need not necessarily be in the form of physical punishment or the threat thereof but can be in the form of the threat of not being able to earn a livelihood in order to survive. If we take the last few centuries, the European nations appear to have evolved to a higher level of cooperation amongst members of the society relative to other settled societies, of what is commonly referred to as the Global South.

These few centuries have also seen some nations experiment with Socialism or Communism, which have not succeeded, and amongst various factors that led to failure, an important attribute was that these went against the use of free trade as a means of exchanging produce and resulting in a balancing of supply and demand.

Of course, there is a school of thought that believes that the free trade or the marketplace is also best suited for balancing out the demand and supply of labour as well. This, to my mind, is an extremely flawed thinking and perverted interpretation of the concept of 'reliance on the market'. There is little similarity between the two. Firstly, people are not commodities that can be moved freely, unless they are slaves: people are members of families and communities and will find it difficult to relocate at any given point in time. Second, the demand for skills is not easily acquired, at least not overnight in the event of the demand arising for a certain skillset. Thirdly, there is a time lag between birth and joining the workforce; thus, once born, the supply of labour is assured whether or not there is a demand for it, say, eighteen years down the road. Over the very long run some minor adjustments in the supply of labour may be possible, but that too is subject to domestic as well as international political constraints.

Given the fact that there is a minimal possibility of switching off the supply of labour, it tends to become the buyer's market - which then sets the price for labour. This can result in no jobs for some, and inadequate wages for the luckier ones. Thus, this 'marketplace' cannot function as it does for commodities, where arrangements for the supply can be adjusted within days. With the possible loss of profit for the supplier, workers will potentially be let go: meaning that the lack of demand will actually impact the supplier's employees (labour). Thus, the lack of demand for a commodity ultimately impacts the persons in the labour market, who do not have the ability to do anything about it in the near term and may well starve to death unless there is some intervention by the society.

Pakistan is one of those societies where, for a variety of reasons, we have very low levels of productivity and thus low levels of labour absorption. On the other hand, the population is exploding. This continues to

place the labour force in a state of near serfdom, a tendency that has prevailed over centuries.

The resultant low wage levels translate into abysmally low per capita consumption of almost everything. This is made worse as owing to the low productivity, we need to import a very large portion of what we consume. We import machinery, raw materials, intermediate goods, finished goods and energy. This leaves us with an increasing import bill, but owing to the low productivity, we do not have the ability to earn enough from our exports to be able to pay for the import needs. On top of that, despite being basically an agriculture country, Pakistan in certain years has also been a net importer of agricultural produce. This import dependence in turn creates pressure on our exchange rate, which translates into higher consumer prices and leaves the labour force under further stress. It is not surprising that with this abysmally low per capita consumption, forty percent of our children suffer malnutrition, stunted growth and a bleak future.

The situation is likely to get worse over time, as the economy cannot grow with this high import dependence if we continue to struggle to earn enough foreign exchange to pay for them. We simply cannot afford to continue kicking the can down the road, i.e. postponing the day of reckoning through borrowing. This situation is further exacerbated by the high growth in the population, i.e. higher consumption needs, and higher supply of poorly skilled labour.

The question is whether we can somehow break out of this vicious downward cycle. The traditional approach of trickle-down economics has not worked and is not likely to work going forward. How do we empower the masses to participate in nation building, i.e. have the luxury of not being preoccupied with where the next meal will come from, and applying their minds to what sort of societal compact they want. This may set the basis for a participatory decision-making political system to evolve.

Economic management is a matter of managing money flows. With our current structure, the bulk of money is flowing to the better off members of society, whilst inadequate levels of money flows to the bulk of the population. The time has come for altering this equation, not through a revolution or turmoil in society, but through direct peaceful action by the State to deliver a larger share of money flows on a per capita basis to the bottom of the pyramid.

Some half measures have been attempted through conditional direct transfers, which have, to a very small extent, alleviated the plight of some families, but that system has inherent defects. It is designed as a poverty alleviation structure, meant to deliver a fraction of the minimum wage, which in itself is highly inadequate for the families identified as in near destitute situations. The attitude is that it is a handout, and borrowed wisdom is repeated such as, "It is better to teach a man how to fish, rather than give him fish."

Sounds very nice, but our economy, the way it is structured, results in even skilled persons struggling to find full employment and an acceptable wage level. If and when we reach a fairer and more egalitarian society, we will have the luxury of such out of place condescending comments. We need to pull out of the whirlpool-like vicious cycle first.

What I would recommend is a direct monthly payment to each adult, without going through a challenging exercise of trying to identify needy families, with all the inherent risk of abuse in the process of identifying the selected few. The direct payment to every adult citizen is easily identifiable through NADRA and we have good progress on the technology application side, which will enable the direct transfers.

The key features of the direct payment being proposed are:

1. The direct payment to every adult citizen will be a right to basic income of every citizen and not support for poverty alleviation.
2. The basic income shall be inflation indexed and adjusted each month.
3. The amount ought to be based on the targeted minimum consumption basket of every citizen, considered as the bare minimum in this day and age. Ideally, it must cover food, clothing, shelter, transportation, medical care, education, etc. as well as access to the internet. Whilst working out the details, items like medical care can be covered separately through a universal medical insurance.
4. A quick way of going forward with the basic income can be based on the current minimum wage. Given that the minimum wage is calculated for an average family, and the fact that the basic income would be paid to every adult, women and men, we can assume that if half the amount equivalent to the minimum wage is distributed to each adult, it should adequately cover a family. However, in order to avoid the risk that people will lose the incentive to join the productive labour force, the basic income can be discounted by a factor between 25% and 50%, which would leave the recipients with what one might consider an appetiser that generates a desire for more.
5. Do away with all subsidies and cross subsidies, including BISP, structures like subsidised Utility Stores Network – which are prone to inefficiencies – as well as higher than market interest based Behood Savings schemes, various tax breaks on one pretext or the other, etc.
6. Ideally, the entire amount (or a significant portion) applicable to the citizens domiciled in each province should be deducted from the NFC award

for each province.

7. For the sceptics, there have already been limited but extremely successful trials of basic income in both developed as well as developing countries. All the feared negative outcomes are negated by such trials.

FINANCING BASIC INCOME

1. If we assume that Basic Income will be paid to 50 million adults (20% of the total population) and apply it on the basis of the current minimum wage of Rs 35,000 per month, and pay half of that to each adult, with a 50% discount, as indicated in Point 4 above, the annual amount works out to Rs. 5.25 trillion.
2. Financing of the proposed basic income will require a change in the traditional approach towards monetary and fiscal policies, as well as distribution of the NFC amount after deducting the provincial share. If the provinces pick up 50% of the cost, the federal share will be Rs.2.63 trillion. The savings under the current system of subsidies will partially off-set this cost.
3. The federal government currently borrows the fiat currency (backed by the State itself) on behalf of the State from banks and pays interest to the banks on that amount far in excess of the proposed Basic Income. Ideally, the State should have the SBP create new money to the extent of the State's borrowing from the banks and pay back their loans. The SBP would need to ensure that the excess money so created is sanitised through the Cash Reserve Ratio being altered upwards significantly, so as to ensure that the entire amount is deposited with the SBP and cannot be used to create new money under the fractional reserve system. This will of course, much to the disquiet of the banks, reduce their profits significantly, which are currently being earned on risk-free lending to the State.

The likely benefits can be:

1. The higher consumption by the majority of the population will result in a virtuous cycle of higher economic activity for every aspect of the economy.
2. The higher spending capacity is likely to create higher demand for education and healthcare as well, which in turn will help our labour force productivity.
3. There is evidence that improved economic conditions result in the reduction of the population growth rate, and not the other way around.
4. Our import dependent consumption will force the exchange rate to realign our economy towards domestic sourcing; the inflation linked basic income will protect the masses from the consequences of exchange rate related inflation but will help create more jobs and at the same time place us in a better position to export.

5. End of market distortions through subsidies and cross subsidies.
6. Apart from the economic activity at the lowest level, basic income for every adult will help empower all those currently suffering discrimination, including backward regions, women, and minorities.

Overall, we ought to see truly empowered citizens, both economically as well as politically, who will demand and enforce better governance arrangements in a better functioning economy.

The author is affiliated with the Arif Habib Consultancy – all views expressed in these pages are his own.

