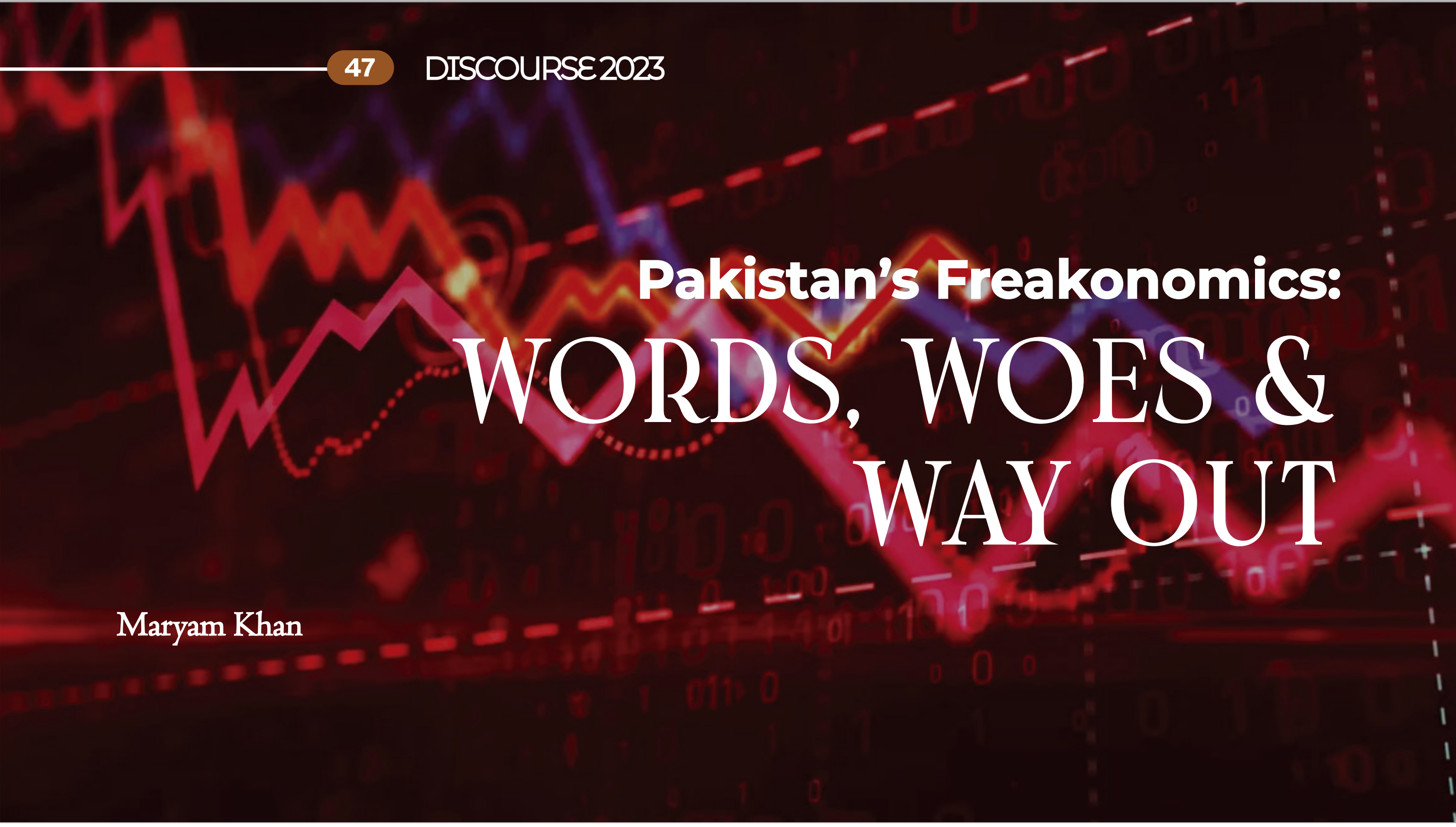

Pakistan's Freakonomics:

WORDS, WOES & WAY OUT

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Charles Edison in his keynote speech at Harvard's geoeconomics seminar said: **"Economics, politics, and personalities are often inseparable."** Similar is the case of Pakistan, which has experienced a definitive synergy between economy, people and politics ever since its creation. This existent coaction is usually a pillar of strength for a country's economic outlook but for Pakistan, it has become a woe of sorts. Despite being a resourceful nation, Pakistan has remained in a chronic economic crisis. Unfulfilled words and perpetuating issues in the socio-politico sphere of Pakistan have contributed to widespread poverty and stagnant economic growth. But the road to economic recovery is not forgotten; it is less travelled and arduous but can be met. Thereby, measures need to be taken that push Pakistan towards the path of sustainable and inclusive economic growth, while dialling down its confrontational rhetoric. The political stakeholders must set aside their differences at this time of grave economic crisis and realise that economic recovery is beset in structural and socio-economic reforms.

UNFULFILLED WORDS: PAKISTAN'S ECONOMIC TALE

When narrating the tale of Pakistan's economy, personalities and words have centred it through the beginning of times. Just like the Charter of Democracy, a new phrase that has been making the rounds in our domestic media's diction is the 'Charter of Economy.'

The cardinals of this term talk about a broad political consensus among major political parties on how economic policy should look like, yet in the existent economic turmoil of Pakistan it almost seems as old as history and as utopic, because words - promises - were never met.

The demands have remained the same: equitable prices of food and fuel, and stable market dynamics for potential investors. However, since the onset, Pakistan's leadership has not proven effective in actualising the commitments made.

The musical chairs era of the 1990s impeded the country's growth, exports, revenues and development. The fiscal and monetary policy of one government was not followed by the next regime, entrapping the economy into a deep morass of external and domestic indebtedness.

As a result, poverty had risen from 17 percent in 1980s to 32 percent by the end of the 1990s. This was due to both fundamental structural and institutional problems as well as poor governance whereby regime-makers were unable to implement their proposed policies.

By the late 1990s Pakistan entered a crucial state of paralysis in its economy particularly in the foreign direct investment and exchange sector. The freezing of foreign currency accounts and the termination of aid by bilateral donors was a consequence of the decision makers not walking their talk. Words never followed action, but inaction, and from the stumbling 90s Pakistan entered the morbid 2000s with even more economic challenges.

WOES OF PAKISTAN'S ECONOMY

The 2000s thus have brought forth a dismaying state of affairs in Pakistan's economic polity – the woes of which are resonant in political feuds and the absence of an economic blueprint that can stabilise the economy. According to the Pakistan Bureau of Statistics, the annual inflation rate in Pakistan increased to a stark 21.8 percent in November 2022, and the inflation estimate of the country is approximately 26 percent. It is the highest inflation rate ever since 1973. Increased levels of inflation with low levels of employment have added to the grievances of the common man.

Similarly, the recurring balance of payments crisis stems from the subsequent economic mismanagement of the overlooked perennial 'cancerous' structural issues plaguing the economy. The most deeply rooted issue is the industry-innovation problem. Pakistan has an influx of primary and tertiary industries, with no manufacturing industry base due to which the country's comparative advantage in exports is only met by agrarian commodities like cotton and textiles. In contrast, Bangladesh has strong industrial complexes in the manufacturing sector which help it in the export of value-added finished products; generating a consistent surplus in the current account.

Moreover, due to the acute macroeconomic crisis, Pakistan faces massive brain drain - whereby the valuable remittances seem to be declining, only expediting the unfolding economic crisis.

The impact of these structural and fiscal shortcomings has led the common citizen to live life at the brink as food price inflation remains high due to supply chain disruptions, and the increased prices for wheat and sugarcane is causing a food crisis in Pakistan. Worse is the inflation for other various consumer goods due to the stark depreciation of the Pakistani rupee and the actualisation of IMF-ridden hikes for electricity tariffs and domestic fuel prices.

These perpetual economic woes have made Pakistan's downward drift evident, especially in its frequent balance of payments crises. Since 2000, the country has been bailed out by the IMF five times, with each SAP (structural adjustment program) associated with severe belt tightening – mostly for the poor. Contrastingly, India's last IMF program was in 1992. While IMF's SAPs in Pakistan helped build up reserves, moderate exchange rate volatility, and achieve price stability, the gains have always been short lived. Between 2000 and 2023, the Pakistani rupee fell from 52 to the US dollar to 250, manufacturing and exports stagnated, and investment and real wages failed to expand.

A growing proportion of public resources is now needed for debt servicing, leaving little room for expansion within social institutions such as education, health and climate change preparedness. This is a call for speedy economic recovery in Pakistan - whereby investment, employment and productivity is strengthened. But what could lead us to this road of economic recovery?

PAKISTAN'S ECONOMIC RECOVERY: THE WAY OUT

The answer is multipronged. Fixing two or more economic variables on the macroeconomic chessboard is not enough to fix Pakistan's economic conundrum. In a diverse country like Pakistan, where society is profoundly intertwined with everyday politics, it is important to have a creative, functioning, and reliable governance system which can pursue an adept and consistent economic policy.

Firstly, Pakistan needs a consensus at the civil society level as well as on the political level.

- At the grassroots level, Pakistan should actualise mechanisms of power and resource sharing. This can only be done through strong local self-governments that regulate district level economics.

- At the national level, there is a need for imminent structural reforms. These reforms must include alterations within the ambit of investment and employment policies. The introduction of reforms that facilitate SMEs and MMEs in integrating with various investment opportunities and incorporate women will not just increase the work force, but also the needed skillset.

Furthermore, to achieve holistic economic stability, a few immediate corrective measures need to be taken that include:

- Reducing subsidies in the short-run, and engaging in long-term investment plans for secondary and tertiary industries.
- Halting artificial depreciation of rupee against dollar by restoring confidence in market and boosting investor confidence in Pakistan's domestic industries.
- Broadening the tax net of the country by formally including parts of the informal economy in the tax band. Wedding culture in Pakistan is a huge part of the informal economy which does not fall under formal taxation, for instance, and extending the tax bandwidth to all parts of the economy will ensure a better, coherent tax culture.
- Formulating a synergy in agriculture, energy, services sector to boost economic growth and productivity.

Moreover, parliamentary committees must be created to overlook economic policies and these committees must be held accountable to the parliament. Hence, it needs to be ensured that words are followed by action. This will result in economic inclusivity, something that Mark Zecker puts as the theory of creative security: "Economic growth means nothing if it's not inclusive."

It is important to understand that in Pakistan's case, a stabilised economy will only transpire if the vicious cycle of political instability and polarisation is broken. The bottom line is to eliminate the villain of ineffective economic governance. Behind the intense ongoing political tug of war, the fundamentals of Pakistan's economic fabric remain the same. However, to weave that fabric in its truest glory, political reconciliation is the need of the time and an unrelenting prerequisite for any progress on the economy.

These preliminary steps - following up words with action, implementing structural reforms, pursuing political reconciliation and the establishing a consensus on a charter of economy - is the way forward for Pakistan's economic recovery. For this to be possible, execution and implementation of all fiscal plans should be granted central importance.

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