

WHY IMF PROGRAMS NEVER WORK FOR

PAKISTAN

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Every new government in Pakistan looks toward the IMF to manage its balance of payments and other deficits in the country, and so far, Pakistan has undertaken about 22 IMF bailout plans. The question arises, however: despite availing these IMF package to such a large extent, why have we been unable to achieve any long-term and sustainable economic development? Acemoglu and Robinson (2012)¹ have the answer to this perplexing question. They explain that such types of economic failures are not the result of any ignorance, nor is it due to the lack of intelligent economic advisors, but because of the decades-old extractive political institutions, which in turn create extractive economic institutions, from which only a special privileged class are able to benefit.

A political system with extractive institutions does not provide equal opportunity and representation to all people in a country; only a few are eligible to contest elections, and, in some cases, only a particular race/class has the right to vote. Pluralism which ensures that political power is widely distributed to all the people in a society, is missing in these institutions. These institutions were prevalent in many parts of the world, including the U.K., USA, and many regions of Europe. However, these countries progressively transformed their extractive institutions into inclusive institutions and are now among the top performing world economies.

International financial institutions like the IMF consider that bad economic policies cause poor growth in developing countries, so they propose a list of improvements that the developing countries ought to implement. These improvements generally focus on things like reduction in the size of the cabinet, flexible exchange rates, reducing tax gap and increasing tax net, central bank independence, and a free market economy. They focus on some microeconomic measures as well such as privatization,

increasing efficiency of the government institutions, and certain kinds of anti-corruption measures.

Extractive economic institutions are those from which only a special group of people or an elite benefits and common masses and other people have a little to gain from their efforts and investments.

However, history shows that such attempts have not rendered fruitful and long-lasting sustainable development because the basic question of why bad policies and institutions were present in the first place is never addressed. Regarding the independence of central banks, the case of Zimbabwe presents an interesting account. Zimbabwe's President Robert Mugabe, heeding international advice, declared Zimbabwe's central bank independent in 1995. Before this decision, inflation in Zimbabwe was about 20 percent. By 2002 it had reached 140 percent, by 2003 almost 600 percent, and by 2007, 66000 percent, and by 2008 230 Million percent. All this was because after getting sovereign status in 1980, Mugabe gained complete control over Zimbabwe by either eliminating his opponents or co-opting them. This strategy continued until his ouster from the president's office in 2017. So the institutions in the country served only his and his close allies' interests.

Zimbabwe also undertook the independence of central bank under international monetary bail out plan but it failed badly because President Mugabe and his allies were not willing to change the very nature of extractive institutions.

¹Acemoglu, D. and Robinson, J. (2012). Why Nations Fail: The Origins of Power, Prosperity and Poverty, New York: Crown Business Books.

The aforementioned measures fail every time in Pakistan too because the recommendations are only implemented in theory or are undermined by the people at the helm. Policies are implemented only for a short period before business as usual is returned to as politicians dare not change the extractive nature of the institutions. Governments in countries like Pakistan and Zimbabwe spend more than they collect under taxes and then force their central banks to print more money to cover up the difference. Further tax systems remain dysfunctional and discriminatory, providing protection and concessions to non-filers and under-filers.

Before 1970 Brazil also had extractive institutions flourishing under the military dictatorship; however, the rise of the Workers Party under union leader Lula da Silva made possible a new path for the country under a truly democratic regime. Lula organized all parties fighting for the rights of wage workers, especially the poor, under the platform of the Worker's party. He gradually gained control of the country through successive wins in periodic elections. Their "participatory budgeting" system, which was introduced to have common citizens let their preferences be known how cities were allocating their expenditures, became a world model for local governance. Lula lost the presidential elections in 1994 and 1998; however, he finally became president-elect in 2002.

With the inception of this democratic regime in Brazil in 1990, the proportion of the population living in poverty fell from 45% to 30% in 2006. Average schooling years increased from six in 1995 to eight in 2006, and Brazil is now part of the BRIC nations (Brazil, Russia, India, and China) and one of the first Latin American countries to play a significant role in world diplomacy. All this democratic and economic progress in Brazil has not been achieved by the injection of any foreign aid, especially IMF or World Bank, nor is it the result of any policy change regarding a free-market economy or modernization; rather, it is the result of collective efforts of diverse Brazilian political collectives to usher in inclusive institutions in the country.

Pakistan, too, instead of rushing towards IMF now and then, would do well to change the nature of its existing extractive institutions. For this to happen, political leaders must first teach and nurture a democratic culture within their own political parties. All have to agree on the continuity of the democratic system and introduce reforms on a war footing to eliminate bad practices and loopholes from the current electoral system.

Transformation of extractive institutions into inclusive institutions in Brazil from 1990 onwards paved way for Brazil to become part of BRIC nations and one of the first Latin American country to have say in international affairs.

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