Rethinking policies

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For policies to be effective, they must always be a by-product of research and debate. Unfortunately, in Pakistan, the policymaking process is either under the heel of the political elites or revolves around suggestions of organizations funded by foreign donors. The result is the current bleak state of the economy.

So, how did we get here? The lack of demand for domestic research by policymakers has left a void between policymaking and ground realities, which is now increasingly being filled by foreign donors and consultants. Over the years, policymakers' fascination with donor-based off-the-shelf solutions has not only promoted the inflow of easy money but also resulted in an increased economic burden, often ending in economic disasters. The current financial crisis in Pakistan has exposed the extent of the economy's vulnerability, highlighting the state's incompetence as policies suggested by international financial institutions (IFIs) are being imposed as the panacea for all economic ills, with little to no effect.

Economic realities demand the consistent involvement of local academia and research think tanks in the process of decision-making to turnaround the economy towards a high trajectory for sustainable economic growth. Political uncertainty is further fuelling the crisis, and tackling it is the only way out of the economic mess. Politicians need to learn from the current crisis and look at decision-making as more than just a tool for securing political gains. Economic growth is a result of consistent policies with long-term objectives rather than short-term patchwork for survival.

Reforms and capacity-building of institutions are always carried out in isolation, excluding the integration that exists among institutions, and the process is often entrusted to international institutions. Only swift action can help the country navigate out of the current situation.

Integration between academics and policymakers at the local level is key to ensuring effective policies. In the contemporary world, think tanks act as a bridge to transfer actionable knowledge to decision-makers. The lack of demand for this actionable knowledge by the government sector has also affected the capacity of the supply side – universities, think tanks, academia – and the capacity of policymakers. From time to time, the capacity building of officials from ministries to local administration is entrusted with donor agencies, and the unsatisfactory results are for everyone to see.

Policies and narratives pushed by IFIs must not be accepted as is, and should be validated through local research. The notion of '10 million housing deficit' has been sold by various organizations for quite a long time now. It was bought by the outgoing PTI government without any fact-based research.

A PIDE study finally debunked it as 'inadequate housing' instead of a housing shortage. Similarly, in every IMF funding programme, the government is directed to increase the targets for tax collection. In the most recent case, the target was set before the closure of the annual budget, and the response from the government was in the shape of increased taxes on the salaried class and higher energy tariffs.

Another PIDE study shows that no considerable evidence exists between the higher tax-to-GDP ratio and sustained economic growth in the case of Pakistan. The emphasis on a higher tax-to-GDP ratio has promoted multiple taxes, creating a complex tax structure and leading towards a hostile environment for growth and investment. The emphasis should be on exploring ways to increase the tax base rather than increasing the burden on the existing tax net.

The state cannot just attract foreign investment with short-term or uncertain policies that keep foreign investors on their toes only for them to eventually decide against investing in Pakistan. Even domestic investors prefer to invest in unproductive assets – housing plots. Even though one can argue that the returns these real-estate assets offer as an incentive, it is our policies that favour investments in such assets.

Why do we even consider austerity measures during periods of busts if they cannot be sustained and backed by long-term policies? Deficits in bust cycles must be off-set with surpluses during booms, and why do we even care for surpluses when our national policies support investment in unproductive sectors? It is unbelievable that we do not take our exports seriously and pay more attention to remittances. The growth rates for remittances on a year-on-year basis are negative for the past few months, indicating a declining trend in remittances in the past 12 years.

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