

It's all about trade-offs, Prime Minister

Welcome back, Hafeez Shaikh. We know you to be a man for all seasons, and perhaps you can do the impossible; but miracles? And never mind the cynical view that Economists are brilliant at analyzing the past but not solving today's problems.

The last time you lorded over the Q-block manor you had famously said you were not the Finance Minister of Pakistan but tax collector for the provinces. Have things changed, or is your mission to change that?

Has your current boss told you what he would like you to do? He just wants you to 'turn the economy around'? If turnaround is what he wants we hope you have been explicit in advising him of political costs. Also, that glint in his eye, the welfare state, will need to be blinkered - for quite some time.

We hope the rise and fall of Asad Umar is not lost on you. Were there other ways of getting out of the ICU: less inflationary routes to macro-economic stability than significant rupee, interest rates, and energy price adjustments? Were the speed and sequencing wrong? Did he dilly-dally with the IMF too long?

Did the Kaptaan have Asad's back? Was he dropped because he was playing a Test match when the Kaptaan had a T-20 in mind? How do you propose to play, Sir: go for the boundaries or settle in for the long haul?

The problem is the IMF. It doesn't believe in quick fixes. We cannot do without the IMF - our external sector woes ensure that - but find its bill politically prohibitive. IMF dispensation requires a simultaneous dose of fattening the pocket and tightening the belt. Growth and jobs must wait. That doesn't fit in with the political cycle.

No government likes approaching the hustings with low growth, high inflation, and more unemployment. A government with a narrow mandate cannot survive on hopes of things looking good a year before the elections. A lot can happen between nurturing macroeconomic fundamentals and enjoying its fruit!

The problem is trade-offs. You get one and lose the other.

You can't raise revenues and broaden the tax base without documenting the economy. For all these years we have allowed the tax-lite informal sector to flourish. In many ways, it camouflaged governmental failings. It provided jobs, funded Edhi-style social protection, and chipped in with healthcare and education.

Informal sector thrived on loopholes, either self-invented or government-facilitated (part indulgence, part incompetence). It circumvented regulations but helped keep prices low. It avoided taxes but its philanthropy contributed to welfare. It kept the wheels of economy moving.

You don't document and you don't raise revenues. You document and you kill the goose. How will Hafeez strike a balance? How much space does he have between the IMF and FATF? Was Asad run out by the ball thrown by FATF for IMF to remove the bails?

On the expenditure side loss-making State Enterprises offer obvious savings potential. But closing them down (and there are certain natural candidates) means more unemployment and public unrest; privatizing them would require 'sweeteners' (say tariff protection) that will hurt consumer interests and 'socialize' the losses.

The challenge is balancing austerity with welfare. Will the PM hold on to his rhetoric of the less privileged being the centerpiece of his policies while accepting IMF diktat to raise revenues and slash expenditures? The cliché "you can't have your cake and eat it too" is painfully axiomatic.

Government takes a lot of credit for reducing current account deficit, blissfully forgetting that import containment is not a consequence of its policies but a worrying sign of economy slowing down. Also, it wasn't the overvalued rupee that pushed CAD to such dizzying heights; the 'culprit' was CPEC that has now receded.

Import containment is the easier side of the equation. It is export growth that is the challenging part - the naughty boy who refuses to behave despite all the inducements.

With little room left for further import curtailment, and exports not responding, what will Hafeez, the other side of the IMF coin, do? Let the rupee depreciate, policy rate appreciate, and let the Kaptaan worry about the resultant inflation eating into public welfare?

We admit to sounding like a broken record with our epiphany of "exports (and export-oriented FDI) ain't going no place without a supportive industrial policy". We also accept it won't happen as long as we are in the programme: Industrial policy is the road to perdition in IMF scripture.

We draw little comfort from soft murmurs emanating from the IMF cathedral. In a March 2019 IMF Working Paper "The return of the policy that shall not be named: Principles of Industrial Policy" Reda Cherif and Fuad Hasanov are dismissive of those who either ignore the success of the Asian miracle or find it unreplicable.

They identify three key principles behind the Asian success: "(i) support of domestic producers in sophisticated industries; (ii) export orientation, and; (iii) pursuit of fierce competition with strict accountability". This might sound familiar to the readers of this column!

With Hafeez in the saddle IMF will have someone who speaks their language. The trouble is if it is a relatively soft programme Asad will get the credit for badgering IMF into submission. If it is not, of which there are greater chances, albeit with fewer prior actions, guess who will get the blame?

It is all about trade-offs. Once we go into the IMF programme we have traded consolidation for growth; reforms for welfare. It may be needed but the Kaptaan's homilies for the down-trodden will have to become the policy book's epilogue, not its prologue. 'Trickle-down effect' materializes after years of high growth.

You can't keep the bottom of the pile on the hope-ventilator for long. Changing actors without changing the script just prolongs the agony. Recycling old ideas - pouring new wine into old bottles - doesn't sell. You can deflect attention from the problems of here and now through promises for the hereafter - but not for long.

It is time for the government to trade its 'container narrative' for a more sober and realistic one; a narrative that recognizes the challenges and gives a credible roadmap. We can take the long road. The question is of rahbari, not the pitfalls of the journey.

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