

‘Casino economy’

Kaiser Bengali at the launch of his report "Economy on a roller coaster and stuck in the mud" stated that "technically Pakistan is already in default given the net negative balance. This crisis has not risen as a short-term cash flow problem but is rooted in long-term decay of the productive sectors of the economy". As proof of his contention, he added that during the past 25 years average growth rate of key crops and manufacturing sector have ranged from between negative to as low as 1 percent and have been consistently unstable to boot. More disturbingly, backing his claim by data, Bengali said the rise in Gross Domestic Product (GDP) has largely been created through speculation in the stock market, the property market and the commodity market thereby justifying his labelling Pakistan economy as a 'casino' economy.

Two further elements evident in Pakistan's two major productive sectors need to be highlighted. First, the country's farm sector's yield per hectare remains one of the lowest in the region, with the Indian Punjab's yield much higher than our Punjab's. The rich absentee landlords (a group with high representation in the country's national and provincial assemblies), through accessing available easy credit/subsidies, with large enough landholdings to take advantage of the economies of scale and fully cognizant of the modern methods of farming due to better education have a much higher yield per hectare but these gains have not filtered down to the middle income and below farmers. Needless to add, the rich landlords have also been the major stumbling block in the levy of a tax on their income which has had negative repercussions on the revenue base of the province.

Secondly, LSM has been on the decline and the reasons have not changed over the country's history: instances of specific sectors not increasing indigenization as agreed, or not achieving international quality standards, or not producing for exports but instead exporting their surplus (a factor believed to be a major contributor to declining exports) and instead focusing on pressurizing successive governments to provide fiscal and monetary incentives to enable them to raise productivity (a trend continuing with the incumbent government) abound. In this context, it is relevant to note that the Khan administration's claim that increase in credit to the private sector is an indication that the private sector has begun to play its due role as an engine of growth would do well to look at the State Bank of Pakistan's data that reveals that credit rise was to low-end non-productive services sector that include wholesalers and retailers.

Bengali's contention that the GDP growth has been spearheaded by speculators in the property, commodity and stock markets has merit and here too it has been evident that any attempt to bring these sub-sectors into the tax net, with a view to imposing a levy comparable to what is being levied by neighbouring countries, has consistently failed. Additionally, the property market remains an important avenue of money laundering while the stock market continues to be manipulated by relatively few individuals who succeed in pressurizing governments not to undertake fiscal reforms pertaining to their sector.

Pakistan today is a heavily indebted country and while the budget deficit has reached unsustainable levels, projected at over 7 percent by the end of the current year, yet one would assume that similar to the policy during previous administrations, the Khan administration may decide not to include the

energy sector circular debt estimated at over a trillion rupees in total debt which would raise the deficit to over 8 to 8.5 percent of GDP.

Bengali gave a host of recommendations to improve productivity, including reducing general sales tax from the existing 17 percent to 5 percent (which in the short run would further fuel the deficit), and raising capital gains tax to discourage short-term speculative trading, (which would again the short-term lead to a fall in the index), and indicting principle of right of first purchase in land transactions (which was a good budget measure proposed by the Shahid Khaqan Abbasi administration though it was rejected in the first amendment finance bill 2019).

Bengali also proposed banning the import of all non-essential consumer items which has been the need of the hour since the Khan administration assumed power. The trade deficit should have been tackled through banning all non-essential imports rather than raising duty till such a time as the trade deficit became manageable and, at the same time, the speculators contribution to GDP should be minimized through raising taxes and the first right of purchase by the government in the purchase of land transactions based on the sale price claim.

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