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Purchasing power

Purchasing power is the "financial ability to buy products and services". A consumer's purchasing power is that consumers' "capacity to buy certain quantities of goods and services." A decline in the purchasing power of a currency means that the cost of goods and services has increased "thus increasing the cost of living and lowering consumer spending." Disposable income is the income remaining after the deduction of taxes-the income "available to be spent or saved as one wishes."

To be certain, changes in real disposable income is an extremely important economic indicator. Take a piece of paper and write up your income. Now deduct taxes, your electricity bill and your gas bill (perhaps your house rent as well if you are renting). Whatever you are left with is the income available to you – to be spent or saved as you wish.

Over the past year, an average Pakistani's income left after the deduction of taxes and utility bills has gone down drastically. In other words, our disposable incomes have gone down – rather dramatically. As a consequence, our financial ability to buy products and services has gone down – rather drastically. Simply put, Pakistanis have stopped buying. When we stop buying inventories of factories begin to rise-rather sharply.

Initially, the factories keep on producing hoping that consumers will start buying. When factories do not see consumers coming back to buy their products they begin to cut back on production. I think we reached that stage a few months ago. When factories begin to cut back production they begin to lay off workers. I think we are currently passing through that phase. When factories cut back production they are unable to pay back loans from banks. For the record, non-performing loans have gone up to Rs768 billion.

Lay-offs cause unemployment and a further decline in purchasing power. This is the vicious cycle we are in – a "sequence of reciprocal cause and effect in which two or more elements intensify and aggravate each other, leading inexorably to a worsening of the situation."

The good news is that we have performed well on the East of Doing Business' index. The bad news is that the cost of doing business in this country has gone up because of four things: a high rate of interest, cost of compliance, input costs and the government's tax policy. Yes, real incomes are going down because of the high rate of inflation, negative wage growth and the government's tax policy.

We need to break this vicious cycle. There are four ways of breaking this vicious cycle. One, increase government spending. Two, increase exports. Three, increase business investments. Four, increase personal consumption. To be sure, the fastest way to break the vicious cycle we are in is to jack up government spending. But, the IMF's straitjacket that we are in we may not be able to do that.

We must, however, break the vicious cycle we are in. The IMF does not stop us from creating financial space by reforming our power sector. For the record, the circular debt stands at a colossal Rs1.7 trillion. The IMF does not stop us from creating financial space by reforming our public sector enterprises (PSE). For the record, PSE-debt went up from Rs1.3 trillion to Rs2.1 trillion just over the past 12 months. The IMF does not stop us from creating financial space by reforming our so-called Commodity Operations. The last time I checked, the accumulated debt from Commodity Operations had crossed Rs750 billion.

Yes, increasing government spending is the fastest way to break the vicious cycle we are in. Till we can do that we must reform.

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