

Hello IMF, goodbye welfare state

Of this we are certain: in PM's pantheon of dreams the chief god is welfare state. What we are less certain of is if he knows what transforming a security state into a welfare state takes. What we are even less certain of is if he fully fathoms the gap between prayer and policy. Supplicating to the idea (state of Medina) is one thing; crafting the needed policy apparatus quite another.

Ashoka may have used welfare as an instrument of empire-building, but it is Islam, with Zakat as one of its five pillars, that is credited with providing the legal framework for welfare and pensions. Rashidun caliphate is generally acknowledged as world's first major welfare state.

Quintessentially, a modern welfare state delivers 'equality of opportunity, equitable distribution of wealth, and public responsibility for those unable to avail themselves of the minimal provisions for a good life' – exactly what the Constitution of Pakistan enjoins (Articles 3, 14, 37, and 38).

In the march towards the modern welfare state Bismarck and Disraeli stand out as important inflection points. But the directional change came with the Beveridge Report that captured the five 'giants' of a welfare state: want (therefore income), disease (therefore healthcare), ignorance (therefore education), squalor (therefore housing), and idleness (therefore employment).

Squaring up to these giants is the leitmotif of PM's rhetoric that is yet to evolve into a viable policy matrix. There has been more policy posturing than policy positioning.

The modern welfare state is pillared on provision of funds for 'services' (healthcare, education, housing) and 'benefits' (direct payments to the old or disabled or those in need of family support). There are two ways to fund these: contributions and progressive taxation. Employees and employers contribute to social insurance and progressive taxation takes from the rich to give to the poor.

The philosophy underlying 'contributions' is succinctly summed up by social historian Alan Ryan: "It is to help people to provide for themselves in sickness while they enjoy good health, to put money aside to cover unemployment while they are in work, and to have adults provide for the education of their own and other people's children, expecting those children's taxes to pay in due course for the pensions of their parents' generation".

Progressive taxation as a concept is built into our tax policy, except it does not go far enough. We have capped our personal income tax rate at around 25%. Most welfare states have a tax rate of 50% plus. Sweden, the ultimate in welfare, has a 70% rate.

The PM keeps asserting that people are loath to pay taxes because they are convinced the leaders

steal them. Probably the greater reason is 'invisibility' – they don't know where their tax rupees are spent. You spend it closer home - on their welfare benefits - and perhaps there will be a greater inducement.

Social expenditure as a percentage of GDP is the conventional measure of welfare state. The OECD (public) social expenditure/GDP average is 22%, with several countries either at 30% or inching closer. Although still relatively low compared to OECD average, over the last 25 years Mexico and Turkey doubled and South Korea quadrupled their social spending/GDP ratio. In our case the ratio has languished at around 5%.

Public social expenditure is topped up with private social expenditure (mostly pension plans or contributions to social insurance). The OECD average is 2.7% of GDP. The US, with a Public social spend of only 19% of GDP, joins those at the top of the league with a large Private social outlay of 11% of GDP.

We have a huge 'catching-up' gap, in public as well as private social spending. Our fabled philanthropy helps but is not enough.

Enter the IMF. The premise that taxes and transfers reduce poverty where social spending is at least one-fifth of GDP is supported by impeccable empirical evidence. For us to get to this Holy Grail the economy needs to grow fast and long. It is a Growth- Social Spend combo. Faster the GDP grows greater the space for social spending. Almost certainly, the IMF programme will stall growth, at least over the short-term.

The real challenge of negotiations with the IMF is going to be sequencing: yes, the bitter medicine is unavoidable but so is moderating the dosage, lest it should become a case of 'surgery was successful but the patient died'. We have been frequent fliers on IMF flights and have considerable experience. But so do they; and we are not sure if their Greek experience has had a sobering effect.

The real reason for our IMF-relapse syndrome has been the lack of 'ownership' of IMF solutions. We sign-off because we have to, not because we want to. Belt-tightening of an already famished body is not without serious socio-political consequences. The only fat is in the informal sector, but trimming that has significant costs in terms of welfare: in an economic sense, it is more efficient, has greater job-elasticity than the formal economy, and contributes more to social protection.

Fiscal deficit will be top of the agenda in talks with the IMF. Striking a balance between expenditure cuts and a broader tax base is not going to be easy. The former will constrain growth and job-creation; the latter would require coming down heavily on the informal sector which, like it or not, keeps the show going. If we don't get the balance right something will have to give, most likely the welfare state.

PTI needs to take tough decisions but its ability to do so will be driven by 'early harvest'. If it has some runs on the board it will have a greater room for manoeuvre. The freshman-year exam results are due in June 2019. 'Work in progress' will be a hard sell if PTI gets a C or failing

grade in inflation, employment, exports, loot-recovery, revenue generation, housing. It will then wake up to the reality of its dreams. It will be a farewell to the Welfare state.

Imran is no Tiberius Gracchus, the second century BC populist who advocated transfer of land from the patricians to the poor. Further, he is stuck between the 'electable' and the IMF straitjacket. Metaphysical certitude of the kind Imran displays comes only with spiritual help. He is wedded to it.

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