

The IMF challenge

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Please don't ever go to the IMF. Also please refrain as far as possible from promising, even rhetorically, to emulate the Chinese model or to turn Pakistan into an Asian Tiger.

Let us talk first about the IMF. There is no country in the world which can claim that by strictly adhering to the Fund's conditionalities it has progressed from being a poor country to even the middle income category. Most probably many of these countries must have experienced what is called IMF-induced food riots.

The reasons are simple. The lender of the last resort lends only to those countries that pledge to carry out to the letter all the Fund's conditionalities which in essence have been seen to have only slowed down the recipient's economy so much so that the latter, more often than not, is forced to become the Fund's perpetual client.

From 1958 to 2013, Pakistan contracted as many as 21 Fund programmes. And interestingly enough Pakistan could complete only six out of these 21 programmes. Three of the six were successfully completed during the first PPP government (in 1977, 1974 and 1973) and the fourth one was completed in the second PPP government (1988). Of the remaining two, the first was completed in 2000 (during the military regime of Pervez Musharraf) primarily because it was front-loaded which meant the money was disbursed only after all the economic and political conditionalities attached to the programme were fulfilled by the military regime. And the last of the six that were completed was the last one contracted by the incoming PML-N government in 2013. This programme was completed with the Fund offering as many as 17 waivers - a record in itself.

But look at the way the economy has behaved since the completion of this last programme. Debt has mounted to impossible heights, current account deficit is at an all-time high and the currency is in a tailspin.

Fifteen out of 21 programmes could not be completed because successive governments got cold feet when it was time to take in hand the second phase of IMF prescribed 'reforms' and hastily withdrew from the arrangement on their own or the Fund itself cut it off finding no progress on the second part of conditionalities.

Since the first phase of reforms adversely affected the voiceless poorer sections of society like price hikes across the board, increase in users' charges and withdrawal of subsidies, etc., successive governments felt no qualms in implementing these at the earliest to ensure early release of the first tranche of the assistance.

The second phase of Fund conditionalities are invariably aimed at equitable distribution of hardship across all sections of society, through tax reforms and withdrawal of special tax concessions accorded from time to time to the members of the ruling elite. No ruling elite worth their salt would curtail drastically their rent seeking abilities, therefore, the unceremonious exit from so many Fund programmes.

So, instead of going to the IMF, it would be economically more profitable to meet the current obligations through borrowing from the market. It is not wrong to borrow, even if part of it is meant to repay the past loans. We need to urgently increase the investment to GDP ratio to at least 25-30 per cent. Since our savings rate currently is no more than 11-12 per cent of GDP there is no way we can improve our investment rate without resorting to heavy borrowing and at the same time inviting foreign investment at an accelerated rate and quantum.

At the same time, the new government led by Prime Minister Imran Khan can cash the goodwill it enjoys among the overseas Pakistanis inviting them to increase the flow and quantum of their remittances and also bring their investment dollars to Pakistan.

While one is still at it, the FBR can be overhauled and reformed to be able to implement the tax reforms recommended in the latest report of tax reform commission.

Because of massive tax evasion and avoidance our informal economy has expanded by leaps and bounds. Some experts say it is more than double the formal economy. But even if it is equal in size to the formal economy there is no way a government, any government would be able to keep corruption at an acceptable level.

In a social democracy, the most important objective of taxation is to provide economic justice, which relates to distribution of tax burden equitably and equitable dispersal of benefits of public expenditure while maintaining vertical and horizontal equity. Taxation of the rich for the benefit of the poor is at the core of social democracy. Unfortunately in Pakistan, successive rulers, both military and civilian, used taxes as a tool to extort from the masses as much as possible for their own comforts and luxuries. By resorting to repressive tax laws, they make the rich, richer and the poor, poorer. Our official financial managers are caught up in a dilemma. On the one hand, there is a mounting pressure to reduce fiscal deficit through improved collections and on the other, they are not ready to abolish innumerable tax exemptions and concessions available to the rich and the mighty.

Revenues worth trillions of rupees have been sacrificed by governments - civil and military alike - since 1977, extending unprecedented exemptions and concessions to the privileged classes. The federal and the provincial governments have shown little interest in collecting progressive taxes, e.g., Estate Duty, Gift Tax, Capital Gain Tax and so on.

During General Zia's rule of 11 years and that of General Musharraf of nearly nine years, absentee land-owners (including mighty generals who received state lands as gallantry awards or otherwise!) did not pay a single penny as agricultural income tax or wealth tax. Taxation of 'agricultural income', at present, is the sole prerogative of provincial governments under the 1973 Constitution. All four provinces have laws to this effect, but total collection has not exceeded more than Rs 2 billion (share of agriculture in GDP is about 22 percent) for any year since. No one has calculated how much tax loss Pakistan has suffered perpetually since 1977 on account of non-taxation of agricultural income alone as suggested under the Finance Act, 1977. According to the yet to be implemented Taxation Reforms Commission (TRC) report the total loss of revenue through various exemptions, non-taxation of benefits given to the state oligarchy and through Statutory Regulatory Orders issued during the last four decades, amounts to more than Rs 100 trillion - this explains how unprecedented concessions to the rich has made the state poorer, rendering the country to enormous indebtedness. We would not have required any borrowing at all, if tax losses of such magnitude had not occurred at least since 1977.

One way of tackling the problem is to spend your way out of the crisis by borrowing and printing currency and spending the amount on creating productive jobs that would put spending cash in the hands of the poor, leading to increase in demand that would stimulate supplies and that in turn would result in higher growth rates.

And taking advantage of the CPEC we could turn our country immediately into a warehouse or what is called transshipment economy importing raw materials and intermediaries at almost zero tariffs and turning them into finished and semi-finished goods and exporting them onwards. Our strategic location with China, Afghanistan, Iran and India would immensely help us in becoming a successful regional trade hub.

Emulating China? Only those who have not known or read how China reached where it is today would commit this socio-economic blasphemy. Between 1947 and 1979 China worked and worked hard, shunning consumption while creating massive physical and social assets. From cradle to the grave each Chinese citizen was allowed no more than two pairs of uniform like unisex attires. One room flats. Population restricted to one baby a couple. Three square meals, all frugal.

When in 1979, the Chinese leadership opened its windows (Shenzhen) to the world (Hong Kong) its citizens had enough savings of their own to be able to buy goods produced by entrepreneurs from neighbouring Hong Kong who had come in hordes to the main-land setting up manufacturing units. Soon, Chinese were inviting investors from other parts of the world to come and set up industries in China for a population of more than a billion of which a big part was knocking on the doors of middle income category. And when globalization arrived, China with its cheap but highly skilled labour became the most attractive venue for world's multinationals to produce their goods at highly competitive cost for the export market. That is how China lifted its millions out of poverty. And by the turn of the century China was leading what is called the Asian century.

So, unless we are ready to sacrifice our today the way the Chinese did for 30 long years for our tomorrows, we

better not talk of emulating the Chinese.

And why can't we become like the Asian Tigers? The Asian Tigers willingly became the sweet shops of the multinationals of the US and Europe. The entrepreneurs of the rich world brought capital and technology to these countries used their cheap labour to produce goods to be exported to their own markets. And by the time a decade and a half had passed all these Asian sweat shops had become Asian Tigers.

We, on the other hand lost these decades fighting wars with India and also renting out our troops to the US and Saudi Arabia. Thus we had turned Pakistan into a security state making it impossible for successive governments to reconcile its demands with those of a social welfare state.

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