THINK TANK
An economic mirage

Policy makers must abandon the short-term and narrow goal of maximising benefits for themselves and their loyalists

By Ishrat Husain

For the past several years, Pakistan remains caught in the vortex of low growth and high inflation. Its widening fiscal deficit is creating an unsustainable debt. Its surging number of unemployed remains a cause of social unrest. Its deteriorating law and order has shattered the public confidence on the state institutions and the government. To sum it up, the overall mood and sentiment in the country remains depressing. Is this state of affairs going to help the incumbent political parties at the centre and provinces? If not, why aren’t they taking the decisions that will put things right?

This disconnect arises because most politicians look at the forest rather than trees to gauge their popularity. They may be enamored by the superficial lush green vegetation as exports are expanding, remittances rising and foreign reserves remain at a comfortable level. This may give them a sense of false complacency without realising that the trees that form the forest are decaying from within or are being gradually chopped off.

The critical factor for them to consider is whether in 2013, the political forest would look attractive enough that the people would vote them back to power. Leaving aside voters in some traditional rural areas -- where biradari and kinships, tribal affiliations and landlord-peasant relations dominate -- the youth, who now form a considerable size of the electorate, will be the new element in the equation. The new census will show that the urban constituencies will form at least 40 percent of the total electorate.

The ruling parties can only keep the youth of today contended and happy if they are able to provide them jobs, essential food at affordable rates, clean drinking water, healthcare facilities and education to their families. Security of life and property and providing an expeditious and inexpensive justice system also remains a challenge and a must. To fulfill these aspirations, Pakistan needs a healthy forest and strong trees, which take their roots in good governance, sound economic policies and management. But are the political parties trying to strengthen these trees?

The answer is a firm “no.” On the contrary, the political parties are weakening the existing roots by creating jobs in the public sector for few of their loyal supporters and saddling the exchequer with financial burden, amplifying the fiscal deficit. For each job only one person is obliged by the politician, while 99 other potential or actual supporters, who do not get that job, are disappointed. The politicians end up with the worst of both the worlds. They not only alienate the majority for the sake of a few, but also unwittingly contribute to the problems of fiscal deficit, debt and inflation.

How can we preserve the lives and the property of common citizens when policemen are appointed not on their suitability for the job but on the recommendations or sifarish and political affiliations? How can electricity, gas or water become available to consumers and businesses when these services are heavily subsidised across the board, poorly managed and theft and pilferage are rampant with the active connivance of the politicians? How can the government balance its books when taxable private incomes or dutiable goods are left out of the tax net either because of corrupt officials or the influence and patronage of politicians? How can development projects bring benefits to the people when contracts are awarded to cronies?

Economic trees such as growth, poverty reduction, employment creation, low inflation and investment gain strength if there is a positive market sentiment and a general upbeat mood among consumers and businesses. In other words, they have confidence in the foresight and capabilities of policy makers and the leadership. As a result of this confidence, investors will sense a positive return on their future investment and expand or build a new capacity for goods and services. This heightened economic activity will create jobs, reduce unemployment, add to purchasing power and thus raise aggregate demand. It will naturally boost growth rates and results in more taxes because of higher incomes, filling in the fiscal gap.

The salaries of public servants can be revised upwards and development spending on energy, transport, infrastructure, education and health can be accelerated as additional resources become available. Shortages and supply bottlenecks in the energy sector -- that cripple the economy and create disaffection among the people -- will be eased, lowering the costs of doing business, making Pakistani goods competitive in the international markets and cooling tempers of the households. Looking at the successes of the domestic investors, foreign investors will also bring in capital, know-how and technology. This scenario is not theoretical but has actually been played out in practice several times in this very country for extended periods of time.

How can this virtuous cycle replace the current vicious cycle?

The answer lies in the sagacity and wisdom of our leadership. If policy decisions are based on considerations of "what is good for the majority rather than for me and my supporters," if appointments to key positions are based on merit rather than connections and loyalty, if tax evaders are penalised instead of being condoned, if law enforcing agencies are kept away from political interference and if those indulging in corruption, waste and self enrichment are taken to task, the benefits will ultimately accrue to the ruling party. The voters will be happy because the forest will look greener and dense for the real, the outgrowth between the trees will disappear providing better nourishment to the trees, the trimming of trees and the freeing up of space in between will add to the efficient resource exploitation for the betterment of the majority. A healthy political forest with neat, clean and productive trees is what the country needs today. The ruling political parties should realise that such a forest will ensure the electoral victory and at the same time giving rise to a healthy and vibrant economy. There is a lot of truth in the saying that “good governance is good politics".

Why doesn't this happen?

There is a conflict between individual and collective interests and between short- and long-term goals. Policy makers must abandon the short-term and narrow goal of maximising benefits for themselves and their loyalists. Little do they realise that when each politician extracts a large piece of pie for himself and loyal supporters, very little is left for the majority. And without the majority vote, their party cannot come back to power. Coalition politics is not stable. Our leaders must wake up to the reality that demographic changes with a large number of youth as voters, growing urbanisation, rising middle classes and vibrant media, social networking through the internet are bringing about significant though not so visible changes in the political landscape even since 2008. Unless they shift their tactics and do not come out of the smugness of their past glory, they would be in for a big surprise in 2013. n

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