



Published 17 Sep, 2020 07:10am

## Economics beyond the ordinary

SHAHID MEHMOOD



PAKISTAN needs wholesale reforms in every aspect of its socioeconomic milieu. That much is agreed upon by everybody, regardless of party or ethnic lines. Another critically important reform that is the need of the hour is the manner in which the economy is discussed.

Pick up any channel or any social media platform. The discussion almost invariably revolves around a few trite concepts: GDP, fiscal deficits, the Federal Board of Revenue, 'informal' economy, taxes/ tariffs, exports, debt, etc. The debate of those who govern (and have governed us) swirls around these. It is as if no other economic indicator matters or exists. But, the truth of the matter is that economics is a wide world of its own, much more than these repetitively discussed indicators; other indicators are as important as those like the GDP.

Let me cite some lesser-discussed examples, and their far-reaching repercussions.



Let's start with the all-important aspect of credit. It has played an integral part in shaping economic activity since the earliest days of man's recorded history. The availability of credit and its positive role in perpetuating economic transactions, thereby increasing aggregate economic activity (leading to higher GDP), is well established by now. Simply put, credit expansion will expand economic activity — and vice versa.

What this country needs is a transformation, and not doses of palliatives that only lessen the pain but prolong the misery.

Now let me ask a simple question: how many times has anyone heard 'experts' talk about the credit situation in Pakistan, where it is being directed and who is holding the largest share of total credit stock? Here's a primer. At the end of the previous fiscal year (June 30, 2020), total credit stock stood above Rs23 trillion, of which around 70 per cent was held by the public sector. In contrast, the share of the private sector stands at 26pc! In terms of the 'flow' of credit (total credit advanced, by end 2019), 90pc of the credit advances went to Punjab and Sindh only. Of the remaining 10pc, 9pc was utilised in Islamabad, while Khyber Pakhtunkhwa, Balochistan, Fata (the tribal districts), Azad Kashmir and Gilgit-Baltistan had to make do with the remaining 1pc!

The repercussions could be startling. Start by noting that the public sector has the lion's share in the total stock of outstanding credit, thereby 'crowding out' the private sector which is not only considered the engine of growth, but also substantially more efficient and productive at using financial resources. In contrast, in aggregate, the public sector in Pakistan represents inefficiency, incompetence and the unproductive use of resources. Put another way, 70pc of credit stock is owed by a sector that is inefficient at using it.

But an even more worrying spectre should haunt policymakers in the form of credit flows, when one realises that hardly 1pc of advances were made to areas that have more than 20pc of the country's population. Is it any wonder that the major portion of business activity, and GDP, comes from the provinces of Sindh and Punjab? Given the close link between growth and credit availability, nobody should be surprised.



Next, let us take up the question of the droves of people immigrating from Pakistan. For our traditional economic managers who are adept in the colonial ways of managing economic affairs, that is nothing less than a godsend since expatriates send back much-needed remittances, without which we'll find the going impossible. Yet you will not witness a single person pontificating on the repercussions for the country of losing quality, trained human capital to other countries.

Economic theory and experience suggest that modern economic growth is not possible without having a quality human capital base and a system that can utilise their talent. Paul Romer in fact won a Nobel Prize in economics for highlighting the all-important role of human capital. Industrialised nations have long recognised this reality, incorporating it in their immigration policies that encourage technically qualified human capital like doctors, engineers and programmers to come over and live there. The policy is complemented by a well-functioning system and quality institutions that can optimise their talent and skills.

Astonishingly, such a realisation is completely missing in Pakistan. There is little to no demand for talent and innovative ideas in the country since it is still being run according to colonial-era regulations. Around 200 universities and thousands of education-related institutions are hardly producing anything that match global standards. Whatever little we do manage to produce in terms of quality human capital, the first choice is to

escape this country (and nobody can blame them for that). The joy over remittances is largely unfounded given that, as economist Paul Collier aptly pointed out, remittances are “palliative” but not “transformative”.

What this country needs is a transformation, and not doses of palliatives that only lessen the pain but prolong the misery. I have yet to see a quantification of probable losses that Pakistan has suffered due to the loss of quality human capital. And you will hardly see this aspect in discussions revolving around the economy and economic growth.

I can point to other issues of importance that remain missing from our economic discourse. For example, how the spate of demolitions across the country in the name of removing ‘encroachments’ are only directed at the poor and how they take away the sources of livelihood from them, making them inadvertently fall on public handouts and charity. Or the issue of the economic cost of millions of cases pending in courts without resolution, the cost of the bureaucracy managing economic policies, and how regulations prove to be a disincentive to investment in various sectors of the economy.

Suffice to say, barring a few examples, the economic discourse in Pakistan remains centred on a select number of indicators but misses out on other equally important ones. We need to change the quality of discourse for hope of a better understanding of our economic plight.

*The writer is an economist, and a research fellow at the Pakistan Institute of Development Economics.*

**Twitter:** [@ShahidMohmand79](https://twitter.com/ShahidMohmand79)

*Published in Dawn, September 17th, 2020*

---

[Read Comments](#)