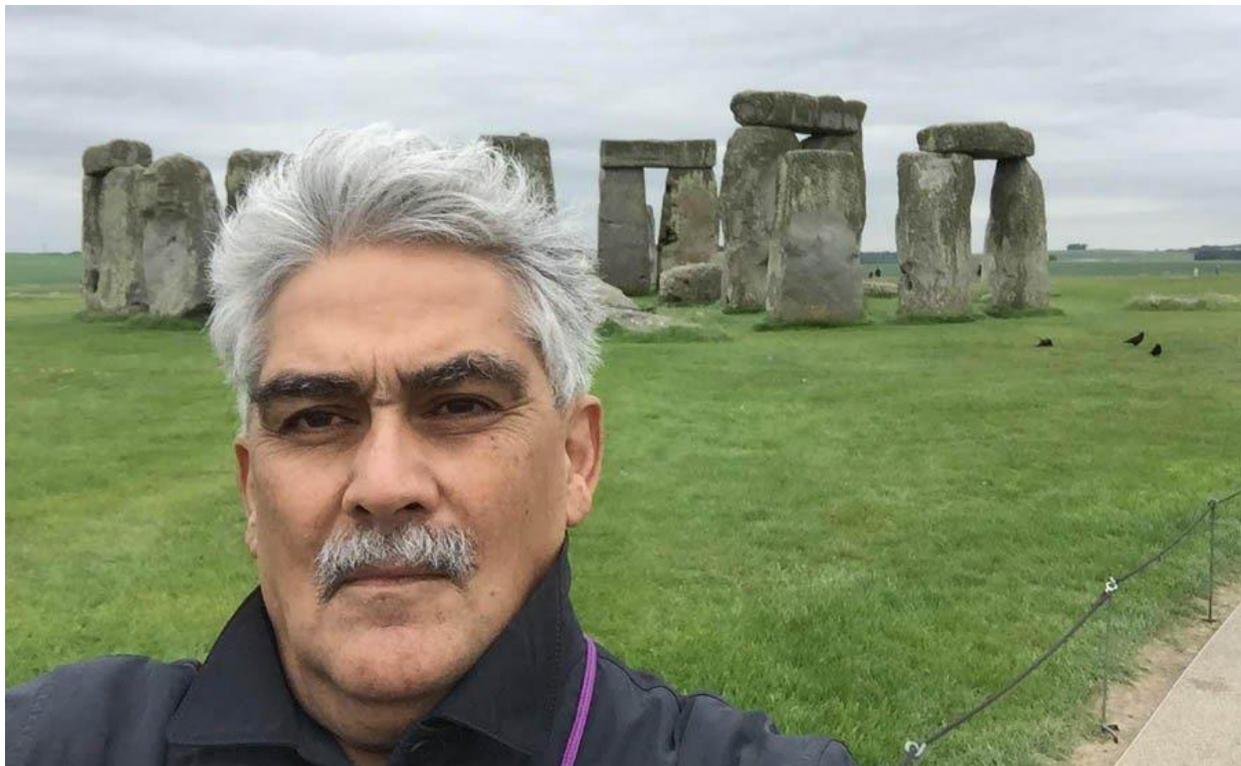


# "The economy is not a political enterprise"

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Special Report

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Interview of Economist and former Deputy Chairman Planning Commission of Pakistan, Dr Nadeem Ul Haque



**T**he News on Sunday (TNS): According to the Pakistan Bureau of Statistics, inflation in Pakistan is at a four-year high at 7.2 percent and the component of non-food non-energy items is showing a steady rise; this is despite the tightening of the monetary policy by the State Bank of Pakistan (SBP) which has raised the interest rate by 4.50 percent in one year. Would you agree that Pakistan's economy is in dire straits? How do you look at the SBP's current monetary policy? Will it be able to stabilise the economy?

**Dr Nadeem Ul Haque (NUH):** Yes and no. Economy is not in dire straits but certainly in a difficult situation. Pakistan economy has always performed in a strange way. In the sense that the ministry of finance (and the government) is always trying to kill the economy because they are stuck in the realm of extractive, colonial state. The bureaucracy, the judiciary, the army still behave in a colonial fashion. Only the informal sector drives our economy and that's very good; it'll continue to kick away. However, presently, our bureaucracy is working overtime, alongside the donors, who are thriving on wrong analysis of the country. Donors don't understand us. They're trying to tax us to death and driving the informal economy down. So obviously there are problems.

Inflation in Pakistan is going up but the good thing is inflation in the world is low -- and that'll help us, because our inflation is normally linked to global inflation. Right now, whatever we import will not be expensive.

Stabilisation of the economy is not a joke. Economy is not like a fighter plane that the finance minister can fly at will. The economy runs on its own. Economy is what is produced by people through their own exchange and institutions. But if we continue to hold on to colonial institutions, yes, there will be problems because they are designed to be extractive.

The help from IMF may stabilise the Pakistan economy in the short run but in the long run borrowings have to be repaid. Getting growth up to 5-6 percent will become very difficult. The only way out is modernising the colonial structure. The *raj* infrastructure based on cronyism has to go. This is a long-term solution and, believe me, there are no short-term solutions in this country. We must learn to manage our economy by starting to bank on professional management and professional, decentralised decision-making and create a huge demand for data and research. Politics must be separated from economy. The economy is not a political enterprise.

**TNS:** Was it in the interest of the country to keep the exchange rate unnaturally overvalued in the country in the last five years or so? The past year has seen the Pak rupee go down by almost 40 percent against the US dollar. How are the exchange rate policies of the past impacting the present? And what does the future of rupee entail?

**NUH:** The State Bank of Pakistan has muddled up for the last 70 years. It doesn't understand its exchange rate policy. They and many of our economists think that the exchange rate must be overvalued. Volumes have been written on how overvaluation of currency harms the economy, and, yet, for the last 70 years, we have overvalued the rupee. It's pure stupidity.

The finance ministers guide our monetary policy, and that's why the IMF is arguing that the central bank should be independent. The only way out of this mess is to refrain from any kind of intervention -- just leave the exchange rate to the market. No finance minister or even prime minister should have the power to control our currency rate. The SBP should never throw dollars in the market. The government must purchase dollars from the open market to pay its bills, not borrow from the central bank.

**TNS:** Pakistan's budget deficit is estimated to increase to 6 percent of GDP in financial year 2018-2019 (Fitch Solutions). Are we likely to see more public sector projects? Can we still afford to build metros and motorways? Where will the money come from? What's the way out?

**NUH:** The real budget deficit is close to 9 to 10 percent because in the 6 percent they have not included the circular debt and the PSE losses. If one includes all of this then the budget deficit will increase to 9 to 10 percent. Strangely, the fiscal deficit depends on how the government defines it.

I think all public sector projects should be put on hold for the next 5 to 6 years. The ongoing ones should be completed. Because, first, there's too much wastage of our precious resources in our public sector developments, and second, our public sector projects are too politicised. In the future, the PSDP must be fully segregated from politics. Only the cabinet, through the parliament, can give direction to our public sector development. Politicians should not be able to whimsically make highways leading to their houses in remote villages nor should ministers or chief ministers be able to dictate the design of ring roads or metros. Project design and selection must be on technical grounds based on procedures. No one should have the power to bypass those procedures. Due to politicians' pressures, the emphasis is on roads, even

though few in this country own cars and the environmental costs are high. Railways, the poor man's transport, has been totally ignored.

We don't need any more roads. We have already built more roads than we need. We may need more in future. These roads are not even paying for themselves. Let's think of cleverer ways in public sector development. We have made 200 universities but not a single one is worth its name. It's time to ask tough questions.

**TNS:** The PTI government is relying on indirect taxation and on external financing than on economic activities. Agriculture is clearly a casualty of this rule. Though in the recent mini-budget, Finance Minister Asad Umar announced incentives for banks to offer agricultural loans by reducing the tax rate from 39 percent to 20 percent on their interest income, it has failed to satisfy the farmers who maintain that this will not reduce the cost of production and increase the access of small farmers to short-term financing. Being an agrarian economy, shouldn't there be more focus on generating agri-related activity to fight inflation?

**NUH:** We're not an agrarian economy. The latest census discloses we are over 50 percent urbanised using obsolete definitions. Reza Ali, a researcher, has used satellite data to show that we are over 70 percent urbanised. With a proper definition of urbanisation, the census will also show us that we are more than 70 percent urbanised. We are probably one of the most urbanised countries in the world.

It's a myth that we are rural. The contribution of agriculture to our GDP is 20 percent. Anywhere in the world, development happens only when urbanisation increases and agriculture's share in economic activity decreases. Let's stop attempting to favour agriculture. Let industry, service and agriculture all grow -- productivity of all three sectors must escalate alongside innovation and entrepreneurship.

**TNS:** The latest United Nations report projects economic growth in Pakistan to slow down in 2019 and 2020 to below 4.0 percent. What downside risks do you foresee?

**NUH:** The exchange rate policies have always slowed down our economy. They have always been responsible for our balance of payment situations. There is no doubt about it. The biggest downside is that we don't want reforms, and by not introducing appropriate reforms the government is dumbing down the people. Growth is an urban phenomenon. Sadly, we have ruralised our cities and have over regulated investment in urban areas. This is a huge cost to the economy.

**TNS:** In your book, *Looking Back: How Pakistan Became an Asian Tiger by 2050*, you create a fantasied Pakistan, that has reached a stage of development where it is capable of launching a spaceship, where you propagate a bottom-up approach to develop the community and opportunities for youth. In today's Pakistan that's nothing rather optimistic. With inflation on the up, the family finances are squeezed. Life is more expensive. How will a common man live your dream?

**NUH:** The common man is living his dream. He is looking after himself very well. In fact, the government is preventing him from further prospering and living freely.

The middle class has grown and is more prosperous because it has migrated to mainly the Middle East, and is sending back remittances. They are growing because they are smuggling in mobile phones and tape recorders. By preventing them to bring in these lifestyle products, the government is trying to hold them back. What's the big deal if they smuggle these things in? It only bothers the *raj*! Smuggling is only a by-product of the government's bad policies. To grow, a bottom-up approach must be adopted.

Also read: [Desperate measures](#)

My theory of development is very simple. I keep the quality of life at the core, and quality of governance, vibrant markets, energetic youth and community and creative cities surround it. Market and governance are the parents of the economy and development is the child. In Pakistan, the child is suffering because the colonial government is stunting market and city development as well as imposing huge regulatory costs everywhere because of its DNA of control and extraction.

In order to grow, I hope that Prime Minister Imran Khan can reform the governance structure from colonial command and extraction to a modern thoughtful, decentralised, professional and non-politicised. This structure, in turn, will thoughtfully develop markets and cities for the 21<sup>st</sup> century. People will then respond with their entrepreneurship and innovation. The promise of Pakistan will then be realised.