Stabilisation or overkill

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The PTI government has finally requested the IMF for a bailout package to save the economy from further destruction. Minister for Finance Asad Umar met IMF Managing Director Christine Lagarde in Bali last month to make a formal request for the Fund's assistance in overcoming our current account deficit.

Going to the IMF contradicts Imran Khan's electoral promise to break the begging bowl, end dependency on foreign loans, and build a self-reliant economic system without foreign crutches. Moreover, he had said that he would rather commit suicide than approach the IMF.

Imran Khan was slated to change the nation's fate. Ironically, the wheel of fate didn't move in the direction that Khan's proponents had desired. Instead, it landed in a different territory filled with so many economic IEDs: depleting foreign exchange reserves; soaring foreign debt; an increasing imbalance in exports and imports; and the rupee continuously falling against the dollar.

However, the earth-shattering explosion of these economic IEDs took place on October 8 when the KSE 100-share index recorded a decrease of 1,328.06 points and settled at 37,898.29. This is the lowest index recorded in two years as political and economic uncertainty drove investor sentiments, leading to panic selling.

Markets have an 'animal spirit', as argued by John Maynard Keynes in 1936 when the Great Depression had caused economic devastation around the world. He maintained that market sentiments (investor behaviour) always respond to external events, creating uncertainty. A similar form of uncertainty was generated by the PTI government in the absence of a cohesive policy to tackle the economic crisis.

Cabinet ministers started issuing different statements, spawning more confusion and volatility. Some believe the crisis would be tackled through austerity. As a result, buffaloes and luxury cars at the PM House were auctioned – a spectacle that amused the entire world. Many argued financial assistance would be sought from friendly countries – Saudi Arabia and China – while others suggested that the PM would seek assistance from Pakistani expatriates. Therefore, the PM urged overseas Pakistanis to transfer $1,000. But nothing worked.

Out of sheer desperation, the PTI government decided to approach the IMF for a bailout package. Some of the IMF conditionalities are fixed and there are a few situational factors, such as the IMF suggesting it wants "absolute transparency" of Pakistan's debts from China in order to determine Islamabad's debt sustainability. The Fund has also proposed cuts in the share of the provinces in the NFC award. This means that the IMF wants cuts from funds required for the development of the social sector. Susan Strange, a British economist, refers to these cuts as “bad economics” on the IMF’s part.

However, one thing must be kept in mind: the IMF mostly adopts a ‘one-size-fits-all’ approach to fix the crisis-ridden economies without taking social matrices, and socioeconomic and political structures in different countries into account.

Let’s unpack the IMF package to understand the consequences that the people of Pakistan will have to bear. The IMF’s packages of structural adjustment mostly comprise liberalisation; privatisation; deregulation; austerity; downsizing; the withdrawal of subsidies; an increase in interest rates and taxes (especially indirect taxes); the devaluation of the currency; and a reduction in government spending. The overall purpose is to control demand and, thereby, rising inflation.

Each component of the IMF toolkit has consequences for the economy. Liberalisation pits a weaker economy against a stronger one. As a result, some industries get closed down, creating more unemployment. Deregulation creates a free-for-all situation where those with vested interests exploit the fluid economic situation, manipulate prices, and flout corporate laws.

Privatisation has social consequences as it generates more unemployment – as Pakistan witnessed in the 1990s. Austerity is the most painful IMF condition as it suggests steps such as the withdrawal of subsidies that could increase the prices of daily utilities, causing more miseries for the people.

Even before we approached the IMF, the prices of gas, electricity and oil had gone up. Downsizing in major institutions increases the unemployment rate and sometimes leads to confrontation between state institutions and the civil society. Greece went through a period of austerity imposed by a troika consisting of the IMF, the ECB and the German government. This resulted in the change of three governments in the country.

Devaluation is another area that is filled with unprecedented dangers. It may be recalled that the Asian financial crisis of 1998 exploded with Thailand devaluing its currency under the pressure from the IMF. This crisis had effects that even spread to the Latin American countries.

If we examine the history of the IMF, the body is the brainchild of Keynes, who thought that the international control of money, finance and trade was essential for economic and financial stability across the world as he believed uncontrolled market capitalism creates destruction. The IMF’s original mandate was to bail out countries facing current account deficits. But under the ‘Washington Consensus’, the mandate was changed in light of rising economic nationalism in the developing world, symbolised by the demands to establish the New International Economic Order (NIEO).

These events shattered Western economies and led to a change of thinking, replacing aid with loans. Hence, the IMF’s role was changed from that of a facilitator to a controller through a monetarist approach under the Washington Consensus or neoliberalism. All loans were made conditional. This marked the reversal of Keynesianism, under which the IMF was created as a facilitator to stabilise the economy of any country requesting a bailout package.

However, IMF conditionalities either promote macroeconomic stability or ‘overkill’ the economies of countries joining adjustment programmes. Here is a glimpse of some studies.

In her book, ‘The Shock Doctrine: The Rise of Disaster Capitalism’, Naomi Klein states that after the 1973 coup in Chile, General Pinochet seized power from Allende’s socialist regime and Chile literally turned into a laboratory to test neoliberal economic policies by the IMF. The state was stripped of its welfare role. Public spending was reduced by 27 percent in one blow. Health and education took the heaviest hit. The shock treatment was seen by many Chileans as a war of the rich against the poor and the middle class. Even The Economist, a free market cheerleader, called it “an orgy of self-mutilation”.

Susan Strange argues that the IMF ensures the transfer of money from developing countries to the developed world. This rampant transfer is causing underdevelopment, poverty and violence, putting developing countries in a vicious cycle of poverty.

The IMF’s adjustment programmes mostly produce disastrous consequences due to their inflationary nature. To save people from any negative effects, the PTI government should form social safety nets to protect the poor from the ‘overkill’ of shock therapy or we will see more havoc and destabilisation along the way.

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