

COST OF ECONOMIC RELIEF: AN ANALYSIS OF HOW THE IMF BAILOUT PROGRAM FOSTERS SOCIO-ECONOMIC INEQUALITY IN PAKISTAN



AUTHORS

Taha Bin Aamir, under the supervision of Professor Sebastian Dyrda

AFFILIATIONS

- Laidlaw Foundation
- University of Toronto

In exchange for economic stabilization packages, the IMF historically imposes austerity measures such as imposition of taxes, reduction in government spending and subsidies, free-floating exchange rate, and financial liberalization. This research shows that such conditionalities have adverse impact on the social and economic equality in Pakistan, and that the reduction of budget deficits has led to expenditure cuts causing major economic burden on the most vulnerable segments of the society. Overall, the IMF economic stabilization programs have contributed to the worsening of the socio-economic equality in Pakistan, since the burden of austerity is unevenly distributed.

ABSTRACT

The purpose of this research is to critically evaluate the role of International Monetary Fund (IMF) in the economic stabilization programs offered to Pakistan throughout the past four decades. The impact is analyzed through a comprehensive study on the performance of selected macroeconomic variables: income distribution, per-capita income, consumer price inflation, and the employment-to-population ratio, etc.

INTRODUCTION

The IMF has come under great scrutiny regarding the relationship between its bailout programs and increasing socio-economic inequality in the borrowing nations. This paper argues that the IMF lending programs have provided short-term debt relief to Pakistan at a much larger expense of fostering socio-economic inequality in the country. This is evaluated through analyzing the performance of macroeconomic indicators such as Gini coefficient and income decile shares' ratio.

CONTEXT

The first structural adjustment program for Pakistan was introduced in 1988. Hence, it acts as a reference point to compare the performance of macroeconomic indicators after a decade of implementation of the prescribed policies. Since 1988, Pakistan has reached out to IMF thirteen times for a bailout package. This provides us with a substantial timeframe to analyse the impact on multiple macroeconomic indicators before and after implementing the program policies.

METHODOLOGY

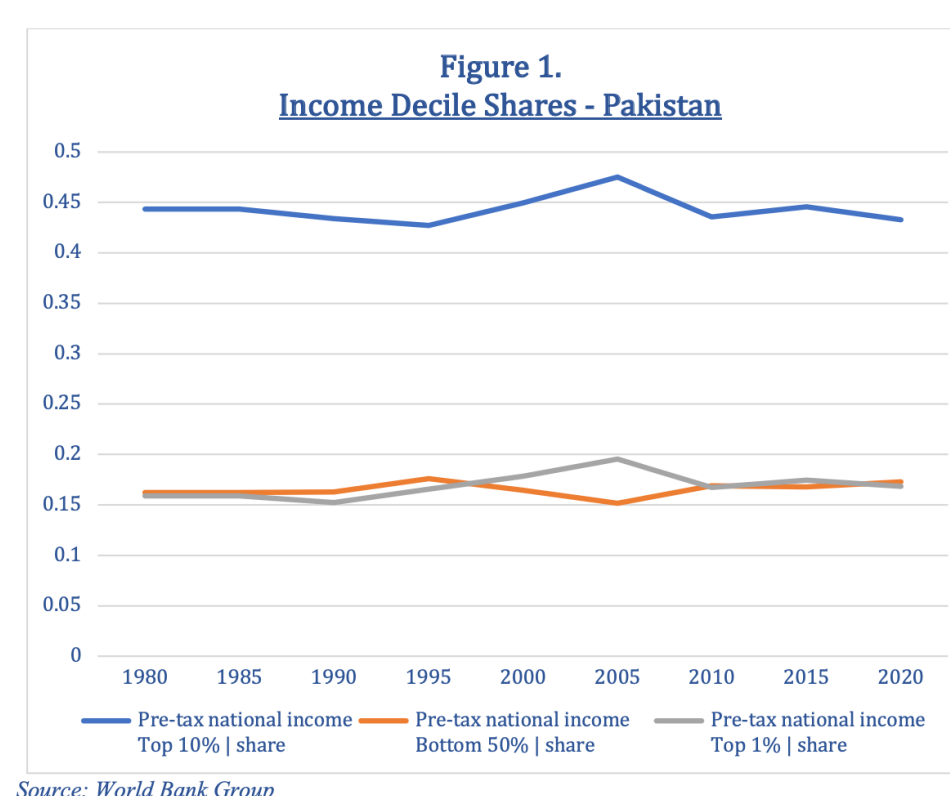
- An extensive review of the literature around the intricacies of the IMF bailout programs, and the terms and conditions that are incorporated within these packages.
- Statistical analysis of Pakistan's national economic data, to measure the changes in income inequality over the years. Calculating and interpreting the Gini coefficient values over time.
- Incorporated the analysis based on Income Decile Share Ratio, to evaluate whether austerity has positively or negatively impacted the level of socio-economic disparity within Pakistan.
- Analyzed additional indicators that directly impact inequality levels such as consumer price inflation rate and employment to population ratio.

RESULTS

- Implementing the austerity measures posed by the IMF has not helped Pakistan with improving on Gini coefficient, income distribution, consumer price inflation, employment to population ratio, and the overall economic growth.
- The regressive nature of high inflation and unemployment causes major burden on the segment living on lower and fixed wage levels.
- The long-term trend showed that the pre-tax national income of top 1% population almost equates to the pre-tax national income shared by the entire bottom 50% of the population throughout the time period leading up to 2020. Additional indicators such as consumer price inflation rate and employment to population ratio also experienced an adverse trend which could potentially further deteriorate the already worsening situation.

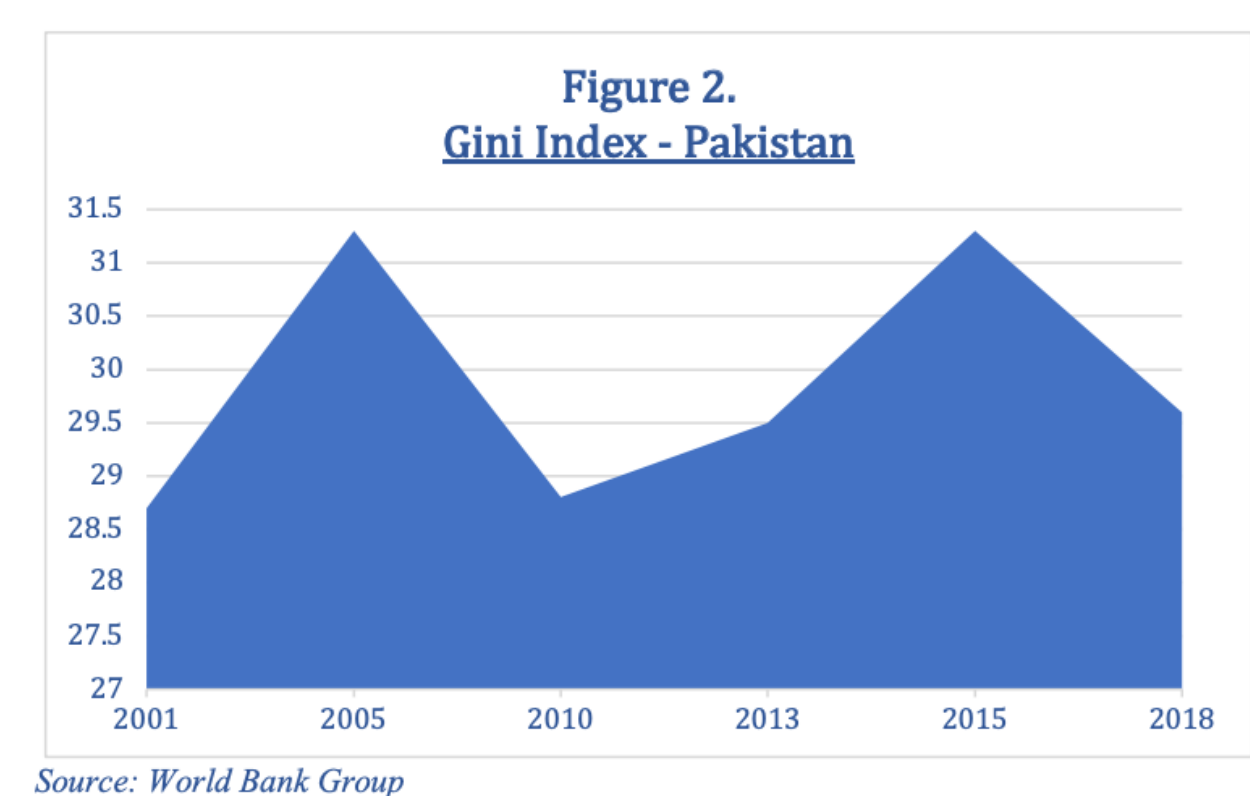
ANALYSIS

- Analyzing the trend of income decile shares in Pakistan, the deep-rooted income inequality becomes more apparent. Following the implementation of IMF structural adjustment program, the pre-tax national income of top 10% population – including top 1% specifically – drastically rose from 1995 till 2005, while the share of bottom 50% continually declined.
- The latest data available from 2020 still represents substantial income inequality in Pakistan since the top 10% population shared approximately 50% of the total pre-tax national income.
- A Gini index of approximately 0.30 in 2018 represents significantly unequal distribution of income in Pakistan.



Source: World Bank Group

The historical trend shows a huge gap between the income decile shares of the top 10% and the bottom 50% of the population in Pakistan



Source: World Bank Group

The recent trend shows an unstable but rising trend in the Gini coefficient. It has risen from 0.285 in 2001, to slightly above 0.295 recently.

CONCLUSION

The long-term evaluation of the IMF economic stabilization and bailout programs shows that they have significantly contributed to the worsening of the socio-economic equality in Pakistan, since the burden of austerity is unevenly distributed. The results suggest that there is a need to design alternative stabilization programs tailored to the economic situation of a country.

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RELATED LITERATURE

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