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Question#02

What are the root causes of inflation and unemployment in Pakistan? Analyze how poor governance and policy inconsis--tency have contributed these economic challenges?

Introduction:

Unemployment and inflation are the persistant issues that have been facing by the state of Pakistan for several decades. However, for the eradication of such issue it is import-ant to explore the root causes these issues. Additionally, there are the multi-dimensional root causes of unemplo-yment and inflation such as economic instability, import based economy, doll-ar flight, devaluation of rupee, tax evasion, Elite capture, nepotism, low FDIs, poor institution building, and Corruption. Moreover, Pakistan also facing the challenges of poor governance and inconsistency in policy that are further contributing these economic challenges. These are due to dynastic politics, incompetant leadership, politcal instability, and situat-ional ideologies. However, such phenomenas are the major reasons of poor governance and policy inconsistancy and directly impa-cting the economy of Pakistan.

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Root Causes of Unemployment And Inflation:

There are the multi-dimensional causes of unemployment in Pakistan which are the following.

Root Causes

- Economic instability
- Import based Economy
- Dollar Flight
- Devaluation of Rupee
- Tax Evasion
- Elite Caputure
- Poor Institutional Building
- Low FDIs
- Nepotism
- Corruption

A- Economic instability:

Pakistant is persistantly facing the economic instability. Which is a triggering point of unemployment and inflation in the country. Because this is due to three major reasons which further excerbate these issues.

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i- Borrowed Based Economy:

Economic instability is due to the phenomena of borrowed based economy. **Dr- Maleeha Lodhi** in her book discusses the five faultlines of Pakistan's economy **Pakistan byond the crisis state** one of them is this, due to consistant loans Pakistan's institutions especially economic institut-tions have low capacity building which can cause inflation and unem-ployment. According to a report the inflation rate in Pakistan is **24%**. while unemployment rate in pakistan is **5.50%** in the year **2024** that direc-tly hit the youth according to a report of **World Bank**.

ii- Pile of Undocumented and Informal Economy:

Economic instability also causes by pile of undocumented and informal economy in Pakistan they do not pay taxes that further increa-ses the inflation and unemployment. Because, government of Pakistan pays a large amount of remitensos in the guise of loans and can not pay the salaries which directly impacts the tax payers and it causes the inflation and unemployment. A study Projected that Pakistan's informal

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and undocumented economy is **64%** larger than the formal economy.

B- Import Based Economy:

Basically, Pakistan's economy is import based economy. A big chunk of goods have ~~export~~ imported from the other countries. while due to price hike in international markets inflation and unemployment further increase unprecedently. Import based economy is due to further two reasons.

i- Energy Crisis :

Since long Pakistan has been facing the energy crisis the expensive electricity has almost shut down the industry in Pakistan. expensive electricity provides the apporoxmatly **100 rupees** per unit to the industrial sector which causes economic upheaval in the country. And due to this phenomena it causes the import based economy.

ii- Incompetancy in Global Market :

Pakistani goods are incompetant in global market. due to this phenomena they can not fill the needs even on domestic level which leads towards the imports. According to a report ~~more than~~ in fiscal year **2024** Pakistan's import stood

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at $24.75 billion dollars.

c- Dollar Flight:

Pakistan has withnessed the dollar flight in the year **2021-22**- which caused the sudden inflation and umemployment. In this fiscal year the inflation hit the peak value of the history approximatly **46%**- Due to phenomena of **political instability** and **low remitanses**.

(i) Political instability

↓

No-Confidence movement

↓

Troppled down the Regime

↓

Collation government

↓

Price of Dollar Hicked

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D- Devaluation of Rupee :

Dollar flight directly impacted the price of rupee - which caused the further inflation and unemployment in the country. According to a report of **Economic Survey of Pakistan** Price of **$1** reached to the equal to **178 Rupees** in fiscal year **2023-24**.

E- Tax Avasion :

As most of the economy of country is informal and undocumented due to this phenamena the amount of tax avadours is getting higher day to day. According to a report of **Fedaral Board of Revenue** the price **$2.78 dollar** has been evaded in the form of taxes. which ~~up~~ causes the turbulent economic condition and increased the inflation and unemployment.

F. Elite Capture :

Every institution is under the influence of elite or ruling elite of the country. which employed the phenomena of uplifting the nepobabies However, **Nepotism** always wins ~~the~~ over the meritocracy. This phenomena increases the unemployment and inflation in Pakistan.

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G- Poor institutional Building:

Poor institutional building is one of the key factor involved in unemployment and inflation. However, system needs reforms especially structural reforms ~~more~~ only way to overcome such economic challenges.

H- Low FDIs:

Low inflow of **Foriegn Direct Investments** causing the further umploy-ment and inflation. Because government can not meet to the needs of employs which causes the unemployment. As low inflow of foriegn direct investm-ent decreases the remitenses which causes the **balance of payment crisis** and leads ~~une~~ inflation hike. Moreover, low inflow of FDIs is due to **security concerns** caused by indian proxies such as **BLA "Baloch Liberation Army."**

I- Corruption:

Dychronic study of Pakistan's issues of inflation and unemployment reveals that corruption is the major cause. According to a report **Pakistan stands on the 138th ranking over 178 Countries in world.** This is how inflation and unemployment caused by corruption in Pakistan.

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2- Poor Governance And Policy inconsistancy Contributing in Economic Challenges:

Poor governance and policy incon--sistancy are contribution further in economic challenges due to the following reasons-

Reasons ~~of~~

- Incompetent Leadership
- Dynastic Politics
- Political instability
- situational Ideologies

3- Conclusion:

Unemployment and inflation are the persistant issues of the economy of Pakistan and basically caused by multi-dimentional causes - However, they contributed further in the turbulent economic condition. However, poor governa--nce and inconsistant policies are also big contributors of economic upheaval and can not be solved in a jiffy.