

# A CRITIQUE OF THE GOVERNMENT'S POLICIES AND CLAMIS

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THE Senate of Pakistan was empowered under the 17th Constitutional Amendment to send its recommendations on the Finance Bill and the Federal Budget within seven days of the presentation of the budget. Despite this time constraint the Senate sent 90 recommendations to the National Assembly in its current session. But the NA has not considered them with any seriousness.

It is claimed that 51 of the 90 recommendations have been accepted but this is a very deceptive claim. Senate's recommendations are divided into two major categories — first 50 deal with technical, partly conceptual and mostly drafting lapses in the Finance Bill Other 40 deal with substantive issues relating to economic policies on budgetary provisions.

It is a sad commentary that successive governments have been misusing the Finance Bill/Federal Budget to amend certain laws not directly related to it, even those which cannot be called Money Bills. This year 21 laws have been amended in this highly objectionable manner. For the last two years, the Senate has been asking the government to abandon this tactic, as it constitutes a serious deviation from the normal process of legislation. Along with by-passing the normal legislative process, it is objectionable on one more count this results in the exclusion of the Senate, which does not vote on Money Bills, but has the right to consider all other legislation.

Out of the 21 laws amended this year through the Finance Bill, 2007-2008, only three falls directly in the ambit of Money Bills; remaining 18 should have been amended through normal legislative process. This is a very serious violation of the Constitution. Of the 21 laws so amended, the Senate could examine only eleven laws and therein we found 50 serious lapses. The government and its functionaries admitted these mistakes and 50 of the 51 recommendations the National Assembly has approved consist of these mostly technical corrections and improvements. Of the remaining forty substantive recommendations only one has been accepted. This is how the National Assembly has responded to the hard work Senate had put in.

While most of these 50 amendments relate to technical and drafting lapses, there have been some serious conceptual and legal flaws, which the Senate has tried to correct. Two instances may be highlighted. In the Customs Act the executive was being given the power to take action without even giving the party concerned the right to be heard. This is against the basic axioms of law. The Senate has recommended the right to be heard. The other one has been a much more serious, even draconian provision to authorize banks to reveal confidential information about the clients on the suspicion of money laundering.

This new section 93(e) to the Ordinance LVII of 1962 (Section 16 of the Federal Budget 2007-2008) was an invasion upon privacy of the individuals and companies. This is simply playing in the hands of the US which, in the name of its anti-terror policies, has instituted a regime of surveillance on all

banking transactions. The Senate took serious exception to it and the government has agreed to withdraw this malicious amendment in the name of 'disclosure of information'.

The substantive recommendations of the Senate deserve to be studied with care because they also constitute a candid critique of some of the government's economic and financial policies. Key recommendations deserve serious reflection:

1. It is very unfair that the Senate gets only seven days to make its recommendations. Although the government has agreed to increase the period to at least 15 days, nothing has been done so far.
2. Similarly, the Senate has been insisting that it should be adequately represented on the Public Accounts Committee, as its exclusion is a serious lapse, impacting the federating character of the state. This recommendation has been made now for the third time.
3. The Senate has also expressed its concern over non-fulfillment of the provisions of Article 160 of the Constitution dealing with the NFC Award. This too is a serious lapse, which is alienating the provinces from the Centre.
4. The Senate has also emphasized the need for an autonomous authority for the collection and presentation of statistics in the country. Its absence has seriously damaged the credibility of the economic and financial data on which policy making is based.
5. The Senate has recommended, as it did in the past, that the number of federal and provincial taxes on business and industry deserve to be consolidated into a maximum four laws. But this remains unheeded.

It is worth noting that these recommendations are unanimous. Government Senators and functionaries have agreed to them, yet they remain in limbo.

This year the Senate has come up with some very important positive recommendations which also embody Senate's critique of the federal government and its economic and financial policies. The message is very clear: national interest is being ignored by the government in some of the very important fields of economic policy making:

1. Recommendation No. 66 says "that the Government should not over-spend whatever has been sanctioned in the Budget." This brings into sharp focus the cavalier manner in which the government has overshot the budgetary allocations. The budget outlay for the year 2006-07 was Rs1345.510 billion, but the revised

estimates have risen to Rs15554.500 billion. The total current expenditure that was expected to be Rs904.380 billion has increased to Rs1165.465 billion.

Regrettably, some of these demands relate to government's obnoxious spending. To give a few examples: expenditure on dearness allowance of federal ministers/ministers of state – Rs5 million and TA/DA of ministers and PM's advisers Rs9 million; for purchase and up gradation of the security system at PM House Rs19.4 million; setting up of offices of federal ministers and purchase of transport and dearness allowance for them Rs11.4 million; renovation of PM's estate garden Rs5.1 million; expenditure on performance of cultural troupes in Washington D.C. during the visit of the president Rs20.8 million; improving Rawalpindi Golf Club Rs10 million; extra grant for PM's visits abroad Rs167 million and for President's visit abroad Rs120 million. All these expenses are over and above the budget. These make a shameful reading.

It may be noted that while the current expenditure has overshoot by Rs161 billion there was a shortfall of around Rs50 billion in the development expenditure: an index of the priority this government gives to development and poverty eradication.

2. The Senate has also taken serious view of the failure of the Government to contain inflation and has observed "that the Government should contain inflation within bearable limits." During the last three years in particular inflation has stayed high. The Consumer Price Index has increased from 3.1 per cent in 2002-03 to 9.3 in 2004-05 and has persisted around 8 per cent during 2005-06 and 2006-07.
3. The Senate has also expressed its serious anxiety on the manner in which the privatization policy is being pursued. This is very much in keeping with the concern expressed by the Supreme Court of Pakistan in respect of the privatization of the Pakistan Steel Mills. The Senate's recommendation is "that the privatization policy should be re-formulated keeping in view the strategic interests of Pakistan and its economic sovereignty and future privatization of state-run units should be carried out by disinvestment through Stock Exchanges of Pakistan, wherever possible." The Senate's concerns are very relevant in the context of the privatization of banks, Steel Mill, PSO, NIT and other strategic assets of the country.
4. The Senate has also expressed "its concern over the wide banking spread" prevalent in the banking sector and has directed "the State Bank of Pakistan to ensure its role as the regulator so that depositors get fair return on their deposits." During the last eight years Pakistan's banking industry has become one of the most exploitative industries. Banks' profits have increased from Rs9 billion in the 1998-99 to Rs105 billion in 2006-2007. The 7.5 per cent bank spread is among the highest in the world.

The depositors are getting hardly between 2 to 5 per cent while borrowers have to pay from 12 to 14 per cent. The government has failed to protect the rights of the millions of depositors and is only pandering to the interests of the rich and the powerful. This is also having very serious impact on the industrial development of the country. Cost of production has increased making our manufactured goods uncompetitive in world markets.

The government has not come up with a worthwhile strategy to meet medium and long period financial needs of industry and agriculture. DFIs have almost disappeared from the financial landscape of the country. As such industry is at the mercy of the commercial banks. That is why the Senate has come with a very positive recommendation "that the Government should announce subsidized long term fixed interest loans to set-up new industrial units."

5. The Senate has also expressed its serious concern over the transformation of the direct taxes into indirect taxes in the name of withholding tax and presumptive taxation. It has therefore recommended "that withholding tax on exports should be lowered to 0.75%" and that "the entire question of presumptive tax should be examined and a more judicious system put in place." These are some of the recommendations which have direct impact on major government policies in respect of economy and finance.

The Senate has also come up with a number of very pertinent and concrete proposals about changes in taxes and some crucial financial allocations in the budget. In other words these recommendations deal with lapses of omission or under-allocation in the budget.

- 1) The Senate has expressed dissatisfaction over the increase in the salaries and pensions and has suggested increase of at least further five per cent over and above the increases announced in the budget. Similarly the Senate has suggested minimum taxable income to be raised to Rs2 lacs and Rs1.5 lac for the salaried and non salaried class respectively. The Senate has also recommended "that the minimum old age benefit be increased to R.2000. Similarly, the allocation for education and health should be increased to 4 per cent and 2 per cent of the GDP.
- 2) The Senate has expressed its serious concern over the banking sector's less than equitable contribution to the well-being of the people. Corporate taxation on banking has been reduced from 60 per cent to 35 percent. The Senate has therefore recommended that "all financial institutions should spend 2.5 per cent of their net profit on promotion of health and education particularly primary,

secondary, technical and vocational education and the same should be included in the Prudential Regulation.” It is an innovative way of making financial institutions contribute towards the well-being of the people, without increasing tax on their income.

- 3) The Senate has also felt that the rich have not been taxed enough and the poor are shouldering a much larger burden through indirect taxes. The Senate has, therefore recommended that “CVT on all real estate transactions be increased by 1% and must include Defence Housing Societies and Cantonment board areas and property value in such areas should be based on market value”. Similarly the Senate has recommended “that 10 per cent Capital Gains Tax should be levied on stock shares held up to one year.”
- 4) The Senate has recommended some important changes in taxation to address problems faced by certain industries, which were not taken up in the budget: (a) “5 per cent extra sales tax on tin plate should be withdrawn.” (b) “Import duty on PET bottle grade Resin should be maintained at 10 per cent and it should not be increased.” (c) The Senate has also made specific recommendation about need for relief to certain industries that are under pressure: the textile industry, beverage industry, sugar industry, fishery industry and Polyester Filament Yarn. All these issues deserve to be addressed in this budget.
- 5) The Senate has also expressed its indirect disapproval of the present method of subsidy to agriculture and has recommended that “a yield-based subsidy regime should be adopted for agriculture.
- 6) It has also emphasized the need for introduction of crop insurance in agriculture.
- 7) The Senate has also noted that recommendations of the Parliamentary Committee on Balochistan have not been implemented and demanded their immediate implementation. The Senate had identified at least 10 important areas/projects in Balochistan where urgent attention is needed.

I have made an effort to review some of the major recommendations of the Senate and spell out their implications for policy making in the country. This also brings in sharp focus the important contribution Senate is making despite the marginalization of its role in financial matters. Is it too much to expect that the government may rethink some of its policies in the light of this critique and the recommendations of the Senate?

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