POST-BUDGET ECONOMY ISSUES AND CHALLENGES

The News

25 July 2004

PROF. KHURSHID AHMAD

POST- BUDGET ECONOMY: ISSUES AND CHALLENGES

Prof. khurshid Ahmad

The budget for FY2004-2005 has been passed by the National Assembly in a manner that hardly befits any Parliament of the world. The budget, despite its PR flair, does not represent or reflect any structural change in the economy, or even the budget. Fundamentally it represents "more of the same" approach. The basic framework of the budget and of the economic strategy in general, remains unaltered, notwithstanding some changes on the periphery, which in my view are in the right direction. Although 'macro-stabilization' of the 'Washington Consensus' fame remains the focal point, one can see a little shift in the direction of growth and investment orientation. Perhaps because of the democratic imperatives, although democracy is still more decorative than substantive, some relief measures have been announced, which, too, are welcome.

However, I must emphasize that these measures are too little too late. There is no proven positive correlation between growth in the GDP and reduction of poverty and alleviation of the sufferings of the people at the grassroots. While growth is essential, it is not sufficient. We had periods of over 6% annual growth in the 1960s and 1980s. One year in 1990 also showed more than 6% growth yet poverty has increased from the mid 1980s till today. The claim of 4.2% reduction in poverty during FY 2001-02/2003-04 seems to be dubious. In the face of the less than 50% target achievement in the agricultural sector (2.4% increase against the expected 4.2%) and increase in unemployment from around 5% to over 7% in 2002-03 and over 8% in 2003-04, it is very improbable that the poverty level has gone down, particularly so as majority of the poor are in the rural areas. Whatever development has taken place, particularly in the industrial and services sector, is elitist in nature. It is the rich who are the real beneficiaries. The government totally lacks a policy aimed at reduction of economic inequalities in the country. The boom in the stock exchange and the real estate sector has only benefited a few thousand privileged ones.

One indicator is that in the manufacturing sector while production of bicycles, sewing machines, and motorcycles, which are, a poor man's tools, have increased only 1.5%, 27% and 30% respectively, the production of cars has increased by 70%, air-conditioners by 66% and so on so forth. The sensitive price index in which food items are prominent has shown abnormal rise, almost 40% more than the rest. This is so even though cost of rent and education is not included in this index. All the indicators suggest that life has become more miserable for the poor. It is only the rich who wallow in luxuries.

The administrative expenses have increased but the utilization of development funds has lagged behind. All this increases unending sufferings of the common man and woman. It is, therefore, difficult for me to regard it as a really welfare-oriented budget. While I appreciate whatever little shift has been made towards agriculture and some incentives given for higher production mainly at the large-scale industrial level but some also for SMEs, I regard the budget for year 2004-2005 very much an exercise in continuity. It should be very clear that the hopes of 'trickling down' well being and prosperity are totally false. What is needed is not a little change here and some readjustment there, but a total paradigm shift focusing on agriculture, small and medium industry, socio-economic infrastructure development, distributive justice with an effective income policy and massive mobilization of resources for education, health and welfare. This I find missing in the budget and the current economic thinking of our economic managers. However, at the more academic level, I think this budget and current economic policies of the government would have to be judged on the touchstone of some of the major challenges that beset us.

First and foremost is the need for change from exclusive concern for macro-stabilization to growth-orientation and welfare needs of the people. As economic policies are still being pursued on a plank of continuity, yet the need of the hour is change of focus and economic benefits to demands of "change" have been neglected for too long. Macro indicators alone can no longer carry the day. The real test now relates to what the regime can give to the people to alleviate their miseries and sufferings.

Second, it is being claimed that Pakistan has adopted a policy of "bye-bye IMF" from July 2004. What difference is this going to make for our development strategy and welfare programme? Are we shedding obsession and almost single-minded dedication to macro-stabilization of the IMF diktat, or would we continue the same strategy without the IMF flag? More fundamentally, are we moving away from debt-based growth strategy or not--that is the real issue!

Third, we cannot ignore the peoples' verdict in the recent Indian elections, as far as they relate to the validity of the liberalization strategy for economic reforms. The popular disapproval by Indian electorates of the so-called 'Shining India' is very relevant to our own situation. Our strategy of liberalization and privatization has been very similar to the economic reforms pursued in India. Indian reforms (1991-2003) and our own policies under the World Bank and IMF tutelage had great similarities, a few differences notwithstanding. We boast of $12.5bn forex reserves, theirs were above $115bn. We claim 5.5/6.0% rise in GDP they have crossed 8%. We had depressed common man's purchasing power by containing budgetary deficit to 4-5% they did not do so to that extent and kept their deficit much higher, yet this strategy failed to deliver.

Indian elections represent a wake-up call for all countries blindly wedded to a strategy of liberalization, privatization, deregulation, macro-stabilization and market fundamentalism, to the neglect of micro-economic, justice-centered and welfare-oriented dimensions of the economy. In our case, the neglect of agriculture and the socio-economic infrastructure on the one hand, and alarming increases in poverty, unemployment, and economic and social sufferings of the people have exposed in its true colors the real economic malaise. Are our economic managers prepared to address these issues?

The fourth dimension relates to imminent onslaughts of globalization, particularly, with the enforcement of WTO regime from 1st January 2005, just seven months from now. How prepared we are to face this situation?

These constitute the touchstones on which the real worth of our economic policies would be assessed and not merely on familiar hype about selective macro-economic indicators.

Before I discuss some of the major economic challenges it is important to focus on some procedural and structural problems that vitiate economic policy-making in the country.

First, budget-making has become a ritual and the exclusive privilege of the executive, to the virtual exclusion of the Parliament, which represents the people of the country. Other stakeholders in the economy also do not figure in. This is so because we are still framing our budgets under the shadow of the Government of India Act of 1935, which institutionalized the categories of "charged expenditure" and "non-charged expenditure." Charged expenditure, which covers sizeable gamut of governmental activity including the entire expenditure of the Presidency and a number of state organs and institutions along with the whole range of debt charges, for which the federal government is liable, is out of the control of the Assembly as it has no right to vote on them. This means that the authority of the National Assembly has been limited to non-charged expenditure only (Article 81-82 of the Constitution).

Moreover, the entire defence budget is turned into a sacred cow as its details are never debated or even shared with the Parliament. To cap this all, the time given to the Parliament to discuss the budget is a cruel joke--it is decorative and ceremonial, to say the least. In some of the democratic countries of the world Parliament and its committees take 4-6 months to discuss and finalize the budget, no where less than 4-6 weeks. In Pakistan everything is disposed off in a couple of weeks. This amounts to virtual disempowerment of the Parliament in respect of its most important function--legislation and control over the national finances. The finances of the country are in the hands of an executive oligarchy.

Second, different ministries without a proper process of harmonization formulate economic policies. Many economic, financial, commercial, agricultural and labour policies of the government are formulated in a fragmented and disjointed manner, with each ministry operating as an autonomous satellite. Hardly any effort is made to harmonize policymaking in all related areas. Not only that, in many areas, particularly those relating to conditionality attached to foreign loans, the Ministry of Finance commits the country without proper input from other related ministries. Hence, conflicts and anomalies along with overlaps and missing gaps. Absence of more integrated and holistic approach is also responsible for many contradictions in government policies.

My third fundamental concern relates to the reliability or otherwise of statistics and the information on which the entire national income accounting, budgeting and economic planning is taking place. Despite some visible improvement in data collection and classification, there are serious flaws in the system at all levels that cast doubt on some of the data relating to production estimates in different fields of the economy, particularly agriculture, labour and employment statistics and the entire exercise about poverty-count. Absence of alternate sources of information, independent of government control and influence is another worry. Our policymakers make mountains out of moles about percentage changes that figure in decimals, ignoring the fact that margin of error in our accounting system is so vast that makes many a claim and comparisons a mockery.

Leading authorities like Oskar Morgenstern (see On the Accuracy of Economic Observations, Princeton University Press) have warned against reading too much into GDP and rate of growth figures only. That is why many leading economists and statisticians suggest that unless a vast array of indicators is taken into view, real picture of the economy would remain elusive. There is a lot of truth in the suggestion that statements based on selective macro-indicators must be taken with a pinch of salt.

The extent of poverty in Pakistan is one of the critical questions we all are facing. Reliability of the data is the major issue. A recent study of the Department for International Development of United Kingdom as quoted in a consultancy report (Country Assistance Plan for 2004-2007--Pakistan) has come up with an alarming forecast that people living below poverty level by 2010 can be 42% of the population (some 82m people), as against the current estimates of 32.1%, which according to certain independent economists is an under-estimation.

The recent revision of the base year for national income accounting from 1980-81 to 1999-2000 is also problematic. Revision of the base year is not the issue. Choice of a year (1999-2000) when the economy was seriously depressed for a number of reasons including sanctions imposed in the aftermath of 1998 nuclear tests is enigmatic. Change of the base year in this manner is going to distort the picture and give a colored view of the rate of change in economic variables, making comparability of the data difficult, particularly for the non-professionals. Because of this one bit of statistical ingenuity a rosier picture about GDP and per capita would emerge, which in fact would becloud the real state of affairs. These three fundamental issues deserved to be discussed threadbare in the Parliament and by the people with a view to adopt remedial steps planned meticulously.

As to the major pressing issues and challenges that beset our economic managers, I regard the obsession with macro-stabilization as the most important issue. This has generated false complacency and led to the neglect of some of the burning issues of the economy, like increase in poverty from 18% in late 1980s to over 32% in 2000 and after. Unemployment has also increased from around 5% of the registered labour force to near 8%. While both represent serious underestimation, the fact that rate of increase in the number of the unemployed is around 50% within a span of five years is alarming.

The problem is serious at both ends, educated-unemployment in the urban areas, and much higher unemployment and under-employment in the rural areas. Keeping the rate of inflation low at the cost of downgrading the rate of growth (2000-2002) was a part of this strategy. The rate of inflation remained depressed not because of higher output, improved flow of goods and services and better productivity, but because of low purchasing power and depressed demand via poverty and unemployment increase. This made life difficult, even miserable for almost half of the population.