STATEMENT ON BUDGET P1986-87

Reference to be provided by Prof. Khurshid

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The new budget was the first after 9 years of Martial Law regime. It has the distinction of being presented by a political government along with a political finance minister. Thus it was quite the justified on the part of common man to expect that he will be relieved of the burdens which have been accumulating during the non-democratic regimes.

However, the budget has taken everyone by surprise as it fails to fulfill the minimum of expectations of the common man. The budget is a confused document, lacking a clear direction and approach which was expected of a representative government.

ISLAMIZATION: The Federal Budget is supposed to be one of the major tools of achieving social objectives and ideals. The government misses no opportunity of beating the trumpet of Islamization but unfortunately the present budget does not reflect a Government resolves to fulfill the aspirations of people in this regard. As a matter of fact a process of de-Islamization is already visible. Perhaps this is no coincidence that this year the chapter on Islamization has been dropped from the Pakistan Economic Survey.

The banking business is mostly being run on the basis of a virulent form of Bai Murabaha and Simultaneous Buy Back Arrangements which are nothing but interest under a new name. The leasing, hire purchase and house building loans are also being used in a way which is very close to Riba because no business risk is being shared by the banks while they receive a fixed, pre-determined return.

The government sector loans are also mostly interest-based. It is ironical to note that while government claims to have eliminated interest from the economy, interest payments constitute the second biggest item of government expenditure after defence. It comes to 12.5% of total government expenditure. Still new schemes based on interest are being introduced every year. Income from interest in the Federal Revenue receipts are shown at Rs. 11,941.5 million for the *year* 1985-86 budget and are expected to increase to Rs. 14, 462.0 million. What an Islamization?

It is being proposed that since government borrows money for public welfare, the rate of return on government saving schemes and bonds may be linked to the rate of growth of GNP. This scheme has no justification whatsoever. Firstly, the growth of GNP depends on a number of factors and is not very much linked with government bonds and saving schemes. Secondly, it is not only loans that are raised for public welfare. All government resources including taxes are supposed to be for public welfare. Loans are already in advantageous position as compared to taxes since the principal is to be paid back. Therefore, the argument that since loans contribute to public welfare, lenders should get a return is not valid.

The funds should be raised on the basis of PLS. In this regard the proposal of Finance Minister concerning the application of the principle of profit and loss sharing to WAPDA is a good idea. As a matter of fact it can be extended to similar other departments such as telephone, railways, etc. If all sectors capable of being governed by the principle of PLS are dealt on that basis, it will relieve a lot of pressure on government expenditure. The rest of genuine expenditures could largely be financed by taxation. The need for public debt can be drastically reduced if not eliminated.

It is pertinent to note that unless interest is eliminated from the government sector, genuine interest-free schemes cannot flourish in the private sector because if a guaranteed return is available on government bonds, the risk adverse savers will find a safe haven in them and transfer their saving to the interest- based sector.

Establishment of an Investigation Committee for Zakah and Ushr is a welcome step. It is hoped that the loopholes and omissions in the assessment and collection would be removed to raise the yield from Zakah and Ushr, which at present is far below the potential. The draw-backs in the disbursement especially, increasing political and government intervention and accompanying corruption must be eliminated. If the structure of Zakah Committees is properly organized, it can be used for a much broader social security institution. Perhaps the proposed National Insurance for the Bread Earner can also be run more efficiently by the Zakah organization. In order to increase Zakah yield, the suggestion that the amount paid as Zakah should be treated as paid taxes rather than allowing it only as a deduction from taxable income, is also worth consideration.

NON-DEVELOPMENT EXPENDITURE: Non-development expenditure met out of revenue account has shown an accelerated increase. Against a 7 percent increase recorded in 1985-86 the budgeted 14.7 increase for 1986-87 comes out to about 7"percent. In the face of scarce resources this trend need to be arrested.

The defence expenditure during 1985-86 rose by only 3.7 percent. But as compared to the revised estimates the defence expenditure for 1986-87 is 37.322 billion which 9.7 percent higher than last year is. The political government, thus, does not seem to rationalize the defence spending. The defence spending comes almost close to the size of ADP which is about 44 billion (after the proposed 5 percent reduction).

DEVELOPMENT EXPENDITURE: Although development expenditure is expected to Increase it still would be 9.3 percent of GDP and only 31 percent of the budget. It may be recalled that the development expenditure was 10.4 percent of GDP in 1978-79. Thus we have not been able to achieve even that percentage, despite the entire clap trap about Prime Minister's five points programme which accords top priority to development in the country. It is disturbing to know that the current deficit in the budget is planned to be met from a reduction in the development expenditure.

<u>RELIEFS AND CONCESSIONS:</u> After a continued decline in the world oil prices people of Pakistan were expecting that in almost 16 years time this will be the first year when they will see a reduction in oil price. The expectation was quite legitimate as the government has made considerable savings in its oil prices. It is estimated that a sum of Rs. 8 billion may be saved by the government on its reduced oil bill.

It was quite disheartening to see that a mere 20 percent of this saving is passed on to the consumers.

Also there were savings on edible oil imports after decline in international prices. That too has not been fully passed to consumers in this budget. Instead the common man has been burdened with higher postal prices and telephone charges. This is quite unjust amid the widespread inefficiencies and low quality of these services and the fact that T&T has shown sizeable profits during the year.

<u>INSUEANCE:</u> The National Insurance Scheme introduced in the budget is a welcome idea. However, it needs to be organized on altogether different grounds. The scheme should insure those who are in need rather than every bread winner. This will make the size of compensation higher than the present 10,000 and will be more useful. Second, the coverage should be extended to natural deaths as well. Furthermore, the scheme should be implemented through a separate institution and not linked with State Life Insurance Corporation. This new institution should develop a comprehensive net-work of social security preferably along the lines of Zakat administration.

<u>EDUCATION:</u> The allocation to education does not reflect the additional resources generated through 'Iqra Surcharge'. It seems the present allocation would have resulted had there been no such levy. Thus the Iqra Surcharge is simply adding to government exchequer and is not spent for the purpose it was earmarked.

The Finance Minister claims to have given higher priority to education by allocating Rs. 14,440 million as against Rs. 12,850 million last year. After 5% cut on development expenditure and providing for 5.3% inflation the real increase is only 1.4 percent.

The excessive allocations for higher education or even literacy campaign will never serve the purpose of eradicating illiteracy in the country. Literacy rate can substantially increase only through systematic expansion of primary education. Furthermore, educational allocations are heavily tilted towards the urban sector where the literacy rate is much higher. The real need is in the rural sector where only 30% of educational expenditure is made.

<u>UNEMPLOYMENT:</u> Unemployment being a critical problem has received much less attention than what it deserved. Job creation measures announced lag behind the required efforts for solving this problem in any meaningful way.

As a matter of fact they are insufficient to create jobs for new entrants in the labour force. There is rhetoric for providing support for self-employment of professional and skilled labour force, but the measures announced are insignificant. The minimum government could have done was to assign mandatory targets to financial institutions for providing finances for self-employment.

Furthermore, the government should have linked the financing of industrial projects with the number of jobs they create.

HOUSING: The Prime Minister has set up a target ^^of distributing 1 million plots to the homeless in rural sector by 1990. The present budget makes a provision of distributing only one lakh plots this year, only 10% of the target. The rate at which the implementation has started indicates that the target is unlikely to be achieved or else there will be a disproportionate burden of this scheme which will be felt during the next three years.

The housing problem is much more acute in the urban sector but it has received no attention in the present budget.

AGRICULTURE: The present budget again escaped the crucial issue of taxation on large agricultural incomes, which is central to any meaningful reforms for resource mobilization. The rich landlords in agriculture continue to enjoy total tax holiday.

The new provision for accepting agricultural land as collateral, at market prices, for loan is a welcome idea. However, it should have been restricted to obtaining finances for agro-based industries only which have a lot of potential and reflect our national comparative advantage. It will also help in general agricultural development.

FOREIGN DEPENDENCE: Dependence on external resources remains undiminished. The country is presently indebted to the tune of over $ 10 billion (Rs. 165 billion) which comes to about one third of the total GDP of the country. Debt serving ($ 1.1 billion a year) is equal to about thirty five percent of the total exports of the country. The Finance Minister has remained conspicuously silent on this dimension of our economy.

In summary, the new budget has failed to meet the aspirations of the common man. This failure becomes more painful when one realizes that it has been presented by a representative government. The failure also accords low credibility to the Prime Minister's five point programme which in the context of the present budget may turn out to be more of rhetoric than reality.