DAWN

Budget 1998-99

**The national priorities**

By Prof Khurshid Ahmad

The day May 28, 1998, shall always stand prominent in the political history of Pakistan. By conducting atomic test explosions, Pakistani nation exhibited before the world its unshakable commitment for its ideological security, territorial defense and complete faith in Allah's sovereignty. It is certainly a matter that the nation can take pride in. But, at the same time, it also presents a real challenge as independence and security can never be achieved by merely having an atomic programme. True independence can be achieved only when national policies are formulated in accordance with national aspirations in all realms of public govern political, social and resonance.

Given the extraordinary circumstances and the forthcoming bud- get, it is the right time to critically assess government's economic performance in light of prevailing economic situation on the one hand, and on the other, to identify those basic issues which shall provide a criterion to judge the coming bud- get. In the last 16 months, despite enjoying constitutional and admin- iterative powers, the government has been unable to give a certain direction to its rule. The real state issues are handled with princely indifference. PML Manifesto and Economic Reforms:

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Politics in Pakistan denote that game of preserving the vested interests which is played by the feudal, the industrialists and the well-to-do of society. Together they form an oligarchy.

The present ruling elite — the Pakistan Muslim League — came into being during the Martial Law regime of General Ziaul Haq. Since then, it has held reins in the Centre and provinces through the newly introduced democratic system. Thus, neither the present Muslim League government, nor those who ruled during Peoples' Party era, could be considered new comers and absolved from the responsibility of past flawed policies and their outcome. The existing situation is the direct result of the deeds of these two parties and their continuous governance. If the budget sys- tem and pattern of basic economic plans is analyzed particularly, they carry undisputed similarity. We ignore this fact for a while and examine the performance of the present Muslim League government in light of its 1997 election manifesto, the policies it pursued after coming into power and the targets it set in its 1st budget (1997-98).

First, take up the salient points of the Muslim League's short-term one year programme, which were as follows:

i. Effective monetary policy will be pursued to bring down inflation while the tax collection system shall be overhauled to suit modern requirements;

ii. Government administrative expense shall be curtailed drastically to minimize the fiscal deficit. iii. Crash programmers will be initiated in the agriculture sector to enhance production, more particularly of the commodities that directly affect the commoners;

iv. Special efforts will be made to improve financial institutions... During the term of the previous government, the repayable loans of the banks rose from Rs82 billion in 1993 to Rs125 billion in 1996. The Muslim League government will recover all these loans and also ensure independence of the State Bank of Pakistan;

v. Privatization will be made transparent and the pace enhanced on firm commercial lines. To see the process is really transparent, a judge of the High Court or Supreme Court will be made member of the Privatization Commission. All major cases of privatization will be (directly) telecast. These were the top 5 items of "The Short-term One-Year Programme." Some other promises and targets of immediate importance were also made. They include: i. 10% growth in the industrial sector (p. 15); ii. Attainment of self-reliance, minimal dependence on external loans, balancing the budget and self-sufficiency in agriculture and other sensitive sectors of the economy (p. 16); iii. All industrial institutions to be bound to undertake social welfare tasks (schools and clinics in their respective areas), commensurate

With their capital size;

iv. More reliance on direct taxes and cut in the share of indirect taxes (p. 8);

v. To construct small and big dams for power generation and farm irrigation (page 9); vi. Peasants farming government lands will be given proprietorship at a very low price (page 10);

vii. The domestic and foreign air travel of the officials will be minimized, curtailing also the size of the entourage of the President and the Premier in foreign visits. viii. Islamic welfare state shall be introduced and the Islamic economic system established.

On February 23, 1997, the Prime Minister said: "Pakistan is an Islamic ideological state. Introducing here an Islamic banking system is our constitutional and religious obligation ... With all sincerity, I wish that Pakistan adopts the Islamic banking instead of the pre- sent banking system."

The Finance Minister in his first budget speech (June 13, 1997) defined the economic policy of the government and specified the tar- gets of his budget. Some of these were: (i) Accelerating the economic growth so as to double the national income in 10 years and increase the per capita income by 2/3rd;

(ii) The fruits of progress should not be limited to a few hands;

(iii) Fiscal and monetary stabilization, increases in revenue and controlled expenditure, shall all lead to significant reduction in the budget deficit;

(iv) Reliance on external loans and aid to be minimized. Foreign (private) investment and export of value- added goods shall be increased;

(v) Bank loans to be taken back and defaulters to be treated strictly; and

(vi) Islamic values to be enhanced and the Islamic economic system to be further activated. Before we come to the budget, let us take a look at the manner and mood of the PIML governance. The Prime Minister's vow that all the elected representatives and public servants shall declare their assets has not materialized. Rather, the caretaker government's ordinance, which proposed punishment for the contesting candidates making false statements during elections, was allowed to vanish.

The premier's order to do away with the lavish marriage spending was scoffed at. The law of "conflict of interest" was never made substantive part of the code. The way accountability is being conducted is not only helping outlaws to emerge as innocent but is at the same time encouraging them to deceive the nation again.

The fate of promises made in regard to control over public money has gone awry. Today the promised small-sized cabinet is composed of 55 ministers and 25 advisors of minister status — totaling 80 in all. Then there are two dozen parliamentary secretaries and 4() chair- men of the subject committees in the National Assembly and the Senate — they all have been provided with offices, secretaries, residences, chauffeured transport and generous allowances. The team of ese federal ministers and advisors alone devour precious Rs35 million daily (The Nation, London, April 17).

No substantial shift has occurred in the much-publicized curtailment of government's foreign visits; the situation has rather deteriorated. Nawaz Sharif made 16 foreign tours covering 65 days in 17 months. The entourages were of a grand size. Pakistan used to receive on average $500 million investment yearly; it was $600 million this year. On the one hand capital is invited while, on the other, thermal projects investors are being snubbed in the most bizarre manner. This mishandling is sure to wash away the confidence that has been gained in the foreign investment sector so far.

The China visit provides the master- piece case. Reportedly, the MoU signed on Jan 21, 1998 for the expansion of Pakistan Steel Mills — about which the Chinese hosts were fully ready to finalize matters was not at all mentioned during the Prime Minister's recent visit. Why! Because our Foreign Office forgot to place it on the agenda.

Qarz Utaro, Mulk Santvaro campaign, launched with great fanfare, petered out within a few months. Only $250 million were collected, including half as new loan. Nobody today speaks about the scheme while during the last 17 months indebtedness has only increased. The beggars' bowl is intact and rotating. External indebtedness was $17.2 billion in 1990-91, which rose to $22.04 billion in 1992-93. In 1996, the load was worth $29.61 billion. Today it is more than $32 billion. A hefty sum of $10-11 billion is in the pipeline against which interest has to be paid. There are $10.5 billion in the FCA, which is a liability. A careful estimate is that $5 billion have been added to our external loans during the 17 months. Short-and mid-term loans availed at the market rate interest are most alarming because the bulk of increased external indebtedness is due to these loans. They were 10% of the external loans in 1990-91, while today they stand at 21%. Total indebted- ness has increased by 100% over the past 5 years. External aid and loans are now used only to pay back the annual instalment and the interest on past loans. During 1997-98, the official and institutional aid disbursement was $2,351 million. Repayments during the year were to the tune of $2,309 million, the net amount being $42 million. This much of amount has made us mort- gage our honor and self-esteem to the World Bank, the IMF and the Western powers. The US is giving no new aid, rather receives from us $426 million every year against the previous liabilities. The amount we advanced to US for F-16 aircraft, is accounted nowhere.

The loans government is getting internally are also increasing as usual. Now interest is settled through market on the short- term federal bonds (STFB). 6% interest previously paid; has now gone up to 16%. By December 1997, the government had availed Rs84 billion through this auction method. The result is that debt service, both on internal and external loans, was snowballing.

As regards bank defaults, the amount increased by RS2 billion every month and over a period of 13 months reached the figure of 150 billion. Incentives were provided, yet nothing could be realized from the 8,000 defaulters. Instead a number of them were allowed rescheduling and advanced new loans. The State Bank had to extend its last date for refund of outstanding money three times in respect of its concessional package.

Taxation and Corporates: No change could be effected in the tax system in vogue. Much is being talked about the reorganization of the CBR, but the way it was mocked by the traders of Liberty Market, Lahore, is admonitory. Twice the target of tax revenue has been lowered. Even in that mini- mum level, only 65% was collected during the first 9 months. It is feared that the budget deficit might cross the figure of Rs66 billion. Performance of the public sector is very disappointing. The expected deficit of WAPDA is Rs 4() billion, of KESC Rs9.7 billion, PIA Rs9 billion and of the Pakistan Steel Mill Rs3.4 billion. Stolen electricity in WAPDA is close to 40% and in the KESC 24.4%. Unemployment is increasing. 300,000 were rendered unem- played in the name of downsizing, whereas no new jobs were created.

The large manufacturing sector faces a slump. The large manufacturing sector that grew by 8 to 10% in the past, will hardly show a growth of 4%. About 114th of the population, or nearly 30 million people, live below the poverty line in Pakistan ... the pattern of income distribution has worsened over time.... In these 2() years, the share in national income of the lowest 20% of the population has declined from 8.4% to 5.7%. On the other hand, the share of the highest 20% of the population has gone up from 41.5% to 49.3% over the same period. Those in government refer to two achievements. One, decline in the negative bop in foreign trade; and two, arresting inflation to bring it down to 9%. Regarding the improvement in trade deficit, the real cause is the 11% decline in imports and 4.3% increase in the exports (export target was 15%). The improvement is temporary. Saving in the import bills is due to the decreased oil prices in the world market that again is a temporary factor. The second important factor was about 25% decline in the import of machinery, which is not a good sign.

The most ridiculous claim is regarding inflation, which only adversely affects the credibility of official statistics. Every one experienced that cost of living has reached an unbearable level. The facts can- not be denied that during the year. Wheat price was raised by Rs55 per bag of 40 kg; cement was costlier by Rs52 per bag; Electricity tariff increased by 10% and that of gas by 12%; Telephone charges increased by 2500 and its fixed charges by 150%; the rupee was devalued by 8.7%, increasing the prices of all imported commodities; and the money in circulation increased by 14.7%. If all these indicators are true, then how and where did the miracle of decline in inflation occur? Unless official monopoly over information and statistics is done avv'ay with, the nation shall never know the truth.

The May 28 atomic test explosions' fallout has been economic rather than radioactive. The coun- try, which was already drenched in severe economic crisis, now has either to immediately formulate and strictly follow a rigid economic policy or to face serious economic disaster, which lies at hand. The present rulers have not realized the gravity of the country's economic crisis. The prominent features of the fundamental changes that we need are as follows: The objective should be to establish a health economic system not concerned only with safeguarding the interests of special groups, but rather aiming to realize economic strength that ensure honorable earning to every citizen and pro- vides protection to our independence and cultural values as well; To realize this objective, it is essential to get rid of an economic development approach, which is based on loans. Interest should be eliminated and economy restructured on equity and venture basis. The Parliament should stop the interest-based transactions through an Act and frame the alternative modes founded on self-reliance. No contracts be made with the governments and international financial institutions regarding foreign loans and every known and accepted way for their rescheduling and restrucairing be followed. Also, moratorium be obtained for a reasonable period, so that the economy is put back on track to be able to meet international obligations. A programmer should be chalked out to liquidate the internal debt through a laid down process;

The first priority is to cleanse the economic and political profile of corruption, dishonesty and exploitation. It is not tolerable that a few thousand influential capitalists and landlords control the country's wealth and use it for personal luxuries. Disregarding any other need, these affluent people are busy ruthlessly plundering anything coming their way. Authorities in government openly confess that half of the national wealth is in the grip of black economy. Taxes are not paid annually to the tune of Rs100 bil- lion. Two to three billion dollars are siphoned out from the country illegally every year. Bank's defaulted amount is close to Rs200 billion;

The question of open-market economy and the economic role of the state and government also war- rants examination. Both these extremities are wrong and injurious. To strike a balance between the two is necessary. We should benefit from the market's capabilities, but state should be able to play an effective role to provide justice, protect the weak and enable them to compete; It is important to do away with the culture of consumerism. Both the individual and the State should bring expenditure within their available resources. We need to encourage a culture of saving and investment;

Along with the large sector manufacturing, arrangement for the growth of small industries and progress in the agriculture sector are important. A delivery system is to be devised for micro. Credit and provision of farm inputs at reason- able price. The investment level of the small scale industry (SSI) is to be brought to the level that helps bring about industrial revolution at the grass-roots. If we make Rs5 mil- lion the ceiling for small scale industry and provide required incentives, the whole face of the economy will be changed in a few years; Development of education, health and human capital should also feature prominent in this approach. Also the wealth distribution, proper wages structure and a participatory model at all levels of economy is essential. The tax system need total restructuring.

Reforms are needed in many areas: namely, freedom in the political system, upholding the democrat- ic values, supremacy of law, recognition of merit, impartiality and professionalism of the administrative machinery, independence of the judiciary and police reforms. We have reached a point today when conventional budgeting and economic programming seem use- less. We need changes and reforms that break the status quo and release popular energies.