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# Some Heretical Thoughts on the Federal Budget

by Dr M. A. Hussein Mullick, Islamabad \*

**The author discusses the present budget of Pakistan, particularly its effects on development. Although it compares favourably to the former ones and offers a number of advantages mainly in the fields of agriculture and taxation, there are serious shortcomings, too. Therefore the Government would be well advised to employ better trained experts who are already available.**

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Judged by the criterion of social justice for the masses, the present budget is surely much better than the budgets presented during the pre-Bhutto regimes. But to use the prefix "unique" for the new budget does not sound so convincing. The image of the budget is still very much traditional. Although the expenditure side of the budget has undergone some changes here and there, for instance, a number of quite positive improvements have been made in the pay and wage structure of the lower and middle echelons in both the public and the private organized sectors, this is still far from the goal of achieving an egalitarian society. The problem facing Pakistan is not the achievement of equitable distribution of income alone, there is also the far more pressing problem of employment generation. In order to have a sound and socially justifiable development, both income and employment must be dealt with simultaneously.

How could this be achieved? The budget has come out with a number of incentives to invest in government approved securities, shares, or in the housing or in industrial ventures in certain selected semi-industrial or underdeveloped areas. But all this package of incentives is not sufficient to set in motion the whole chain of productive forces in the economy. Now that a large number of big enterprises have been nationalised, the time is ripe for the government to come forward in a big way towards the development of the hitherto very much neglected small and medium-sized firms in the economy. Through a variety of ways, they could be helped to modernise their enterprise, i.e. by importing or acquiring new machinery, obtaining easy credit facilities, tax concessions, free training and extension services, allotment of land, installation of telephones and provisions of electricity and other necessary utility services. Another source of strength for the

small and medium enterprises would have been a declaration from the Ministry of Finance that the nationalisation measures would not be extended to them.

It is indeed very much encouraging to find that the budget has given proper attention to the rapid development of the agricultural sector. This is reflected from various budgetary allocations made for Tarbella-dam, water and salinity projects, sinking of tubewells, raising the procurement price for sugarcane, wheat, rice and cotton. Obviously there will be many who will benefit from these measures, particularly those, who shall produce mainly for the market. But as rural population is composed mostly of subsistence level farmers and non-farmers (people engaged in crafts and basic services) the impact of the above measures will not be so noticeable. Although not much research work has been done on the present economic problems of the non-affluent farmers and non-farmers in the rural areas, many critical observers of the rural economy have, however, been telling stories of great hardships being faced by a large majority of the rural population. Not only does this considerably significant segment of the rural economy suffer from lack of avenues for employment of its working-age men and women, they also suffer a great deal from the present policy of rationing basic food articles.

So far as self-reliance is concerned, the picture is not so encouraging. Out of the total development expenditure of Rs. 8,500 million<sup>1</sup>, as much as Rs. 5,573.9 million i.e. 65.6 p.c. will be financed from external sources. Aid should not be used as a primary source of development finance as is the case at present; the maximum role that it can play is to serve as a residual source. In order to make the country self-reliant, there is the urgent need to reduce the quantum of foreign dependence.

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<sup>1</sup> \$ 1.00 is roughly equal to Rs. 10.00.

The agricultural sector, despite some of the problems, like waterlogging and salinity, inadequate training of farmers, and at times also scarcity of irrigation water, is, however, playing a vital role in making the country self-sufficient in basic food articles. Like the agricultural sector, other sectors will also have to be activated to absorb domestically available surplus resources and give a spurt to output in the economy.

The art of budget making is not always conducive to the promotion of development. As is well known, budget in its original concept aimed primarily at the collection of sufficient funds to meet government expenditure. But that was during the pre-development phase. Now that development is also partly the *raison d'être* of budget, the latter, too, has to be carefully prepared. Looking at Pakistan's budget, and this holds true for budgets of many other developing countries as well, the pre-development rationale of budget formulation is still very much prevalent. A hurried look at the various budget documents reveals that the import of many capital goods and essential industrial raw materials which are not produced within the country have to bear substantial customs/excise duties and other taxes. But those in charge of the customs or those responsible for formulating customs policies do not seem to understand the *linkage* effects of these measures in the process of development.

In order to make the budget an effective instrument of development, the older concept of revenue collection will have to be abandoned. Another point connected with the collection of revenue is the generally held belief that the greater the revenue the better it is. There does not seem to be much truth in this either. One cannot *per se* assume that the greater the revenue the greater the strength of a country. In a developing country like Pakistan where the public agents of development are not as yet fully trained in both the art of spending and accountability, just the same as their counterparts in the private sector, perhaps a far smaller collection of revenue would prove more profitable for their nation.

There are of course a number of good points in the budget which are going to restore confidence among the entrepreneurial community in Pakistan. This is the granting of a number of tax and other concessions to help the existing and the prospective entrepreneurs. The new budget has definitely contributed a great deal towards curbing a number of unfounded rumours, such as nationalisation of housing sector, etc. etc. This was indeed very urgently called for.

In order, however, to set things right, the government has still to remove some of the mist surrounding nationalisation and rationing. It would

be in the interest of the country to clear the claims on the already nationalised industry. This is necessary not only on grounds of equity and fairplay but also for the stability and strengthening of an economic order where private ownership is still guaranteed under the constitution. The other problem linked with nationalisation is the presentation of a report on the management of the nationalised industries. The public has a right to know as to how these industries are being run: whether more efficiently (if so, how?) or inefficiently (and why?). Rationing, too, is another feature of Pakistan's economy which has not been properly understood by experts in economics. It would be perhaps desirable to do away with some of the rationing gradually.

There is also another crucial problem connected with the formulation of budget in Pakistan. A critical look at the various budget documents including the speech of the Finance Minister reveals that the architects of budget are still very much the same people who know more about law and order rather than the art of budget formulation. It was alright, perhaps, during the colonial period to have a stereotype budget aimed at meeting the state expenditure and maintaining the status quo, but now that Pakistan is determined to remove the shackles of underdevelopment, inequality and injustice, the older architects can no longer serve to build the new edifice of the national economy. The Finance Minister determined as he is to build up Pakistan along lines of distributive justice and rapid economic development will be well advised to build another stock of intellectuals and professionals around him. This is necessary to assist him both in the adoption of most modern technical methodology governing the formulation of budget as also to keep him well informed on the various socio-political and economic rationalities so inseparably connected with the budget and other financial problems.

Another point linked with the above stock of intellectuals and professionals is the need to choose between "merry-go-round" and "hard-core and devoted" economists. Pakistan's economy has until recently still been in the hands of the first group. But as the development targets have changed from a capitalistic to an egalitarian set up, the merry-go-rounders can no more deliver the goods. There is thus the urgent need to associate with budget formulation the hard-core and devoted economists whose interest does not lie in the perpetuation of dependence of their country on others but in their continuous struggle for national sovereignty and self-reliance. It is thus the intellectual *coup d'état* which is the *sine qua non* of formulating an egalitarian budget for Pakistan.