Pakistan military junta's first budget meets opposition at home and abroad

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The Pakistani military government's first annual budget, presented last month, points to the volatile situation that General Pervez Musharraf's junta now faces.

Although the budget implemented a number of International Monetary Fund (IMF) directives, including a sharp reduction in government expenditure, increased use of the General Sales Tax (GST) and reduced taxes on the wealthy, the IMF has expressed dissatisfaction that not all its recommendations were adopted.

By backing away from key IMF instructions, the junta sought to appease various moneyed interests, as well contain popular unrest, but its efforts have not succeeded. There is mounting opposition to the regime and the IMF's measures.

Small traders have decided to resume their agitation against the GST, with a three-day strike from July 28, raising the spectre of the paralysing stoppage that hit Nawaz Sharif's government last September, just before it was ousted by General Musharraf. Public sector workers are also reported to be on the verge of staging demonstrations against job cuts and declining living standards.

Before the budget, a visiting IMF delegation spent considerable time with military government officials preparing its measures, and then left the country just before it was unveiled. Ever since it seized power last October, the junta has been anxious to meet the IMF's conditions in order to obtain loans to finance the escalating foreign debt, yet clearly it felt unable to do so in the budget.

Some IMF prescriptions were adopted. The budget gave major benefits to investors, including the cancellation of the wealth tax, a long time demand of the Federation of Pakistan Chamber of Commerce and Industries (FPCCI). This measure effectively exempts the richest from taxation, placing the full burden on wage earners and consumers.

Revenue from the newly-imposed GST, which provides more than a third of the total tax take, will rise by 43.8 percent (52.6 billion rupees or about US$1 billion) to 172.6 billion rupees. This is despite an 18-day strike by small traders in June 1999 when the tax was first imposed. The tax has sent prices soaring, the traders say.

Public expenditure was also slashed, reducing the budget deficit by 21 billion rupees (US$370 million), or from 6.1 percent to 4.6 percent of the budget. Subsidies to various state-owned institutions were reduced by 2.6 billion rupees. The removal of subsidies to the Water and Power Development Agency and the Karachi Electricity Supply Corporation will mean increased water and electricity charges.

Some government departments will be closed altogether, destroying a large number of public sector jobs. Finance Minister Shaukat Aziz declared that the regime has a “keen interest in pursuing a strict policy of economy and austerity”.

Under the privatisation program, the junta earmarked Pakistan State Oil, the state telecommunications company, state banks and other remaining state industrial units. Aziz said 90 percent of the proceeds would be used for debt repayments.

Education, health and railway have already been privatised. The process began during Benazir Bhutto's administration and continued under deposed Prime Minister Nawaz Sharif. The Bhutto and Sharif regimes retrenched 23,644 state employees.

The budget promised to keep inflation at 4 percent, but prices are going up much faster than that. The regime recently increased diesel oil prices by up to 70 cents per litre, and the LPG price by 15 percent.

One of the most revealing departures from the IMF's prescriptions came on military spending. The IMF insisted on a cut in the defence budget, but the junta raised it by 10 percent. At first, the administration tried to cover up the increase by transferring military pension payments to a civilian fund, but this was later exposed. Questioned by journalists, Aziz admitted the increase, saying, “We could not be careless about our security and the growing threat perceived in the region.”

These remarks suggest that the military is preparing for the use of force against rising social unrest and that it may also seek to use regional conflicts, including the continuing tension with India, to divert the opposition in a nationalist direction.

Living conditions are becoming intolerable for millions of people. The number below the official poverty line has jumped from 17.8 million in 1987-1988 to 43.9 million in 1998-1999. Glaring inequality is also fuelling unrest. The wealthiest 20 percent income group obtained, on average, 7.1 times the income of the lowest 20 percent in 1996-97, compared to a ratio of 5.5 in 1986-87. Education levels have fallen and the literacy rate is only 30 percent.

The budget's “poverty alleviation program” shows that the regime's only answer is to force the unemployed into cheap labour. It allocated 21.2 billion rupees for “public works projects” to employ the jobless. Projects of this kind exploit workers in extreme poverty, paying meagre wages.

At the same time, the regime is desperate to avoid a social explosion. Under the so-called food support program, the poorest households with monthly incomes of 2,000 rupees (US$37) will receive a monthly pittance of 175 rupee (US$3.2) in cash support.

Facing opposition from vested interests, as well as widespread discontent, Musharraf's junta failed to implement several other key IMF demands, including a devaluation of the rupee, the imposition of an agricultural tax, deregulation of petroleum prices, and adjustments in gas tariffs to prepare for privatisation of the energy industry.

Textile exporters, a major source of foreign exchange earnings, opposed devaluation, because of the losses it would cause them. Traditional landowners, who still wield great influence in the semi-feudal countryside, rejected the agricultural tax.

Business leaders gave the budget a mixed reaction, showing that they want greater concessions. While praising the abolition of the wealth tax, FPCCI president Fatal-Ul-Rehman described the budget as “a jugglery of words and attempts to misguide people”. Karachi Chamber of Commerce and Industry former president Abdullah Ismael said the budget was the “best possible in current difficult times”.

Both the former ruling parties displayed a combination of populism and nationalism. Benazir Bhutto, leader of the Pakistan Peoples Party, said the budget was “disappointing” and called it “a game of deceit being played with the people”. She was silent on the IMF agenda, which her government had tried to implement before Sharif came to power in March 1997.

Raja Safar Ul-Huq, a principal leader of Sharif's ousted Pakistani Muslim League, said the budget would “increase the problems of the masses and put additional burdens on them and make the country more dependent on the IMF and the World Bank.” Before the military coup of last October 12, however, this same party was also striving to meet the demands of the IMF and World Bank.

After being refused an IMF loan last July, Sharif's cabinet had adopted the IMF's demand for an increase in the GST to 15 percent, triggering the small traders' anti-GST strike of last September. Sharif then backed down, resulting in the IMF's refusal to release a loan installment. In the midst of this crisis, the US administration forced Sharif to withdraw Pakistani forces from the Kargil Heights in the disputed Kashmir.

Musharraf grabbed power soon after, promising to restore stability and wipe out corruption, the debt burden and widespread poverty. As soon as Aziz, a former Citibank executive, was named as Finance Minister, he flew to New York for what he described as “very positive” talks with IMF officials.

But in December Musharraf declared that the economy was in “much worse shape” than he imagined. And the predicament has worsened since then. The external and domestic debt has risen to 3,200 billion rupees (US$59 billion). The IMF has deferred a loan of US$56 million and, according to a recent Pakistani media report this week, is unlikely to agree to a new assistance program before November at the earliest.

An IMF team will visit Pakistan at the end of July to assess the budget. Adding to the international pressure on the junta, the US has refused to lift the sanctions it imposed over nuclear testing. Aziz held unsuccessful talks with US Secretary of State Madeline Albright and Deputy Secretary Strobe Talbot on June 16. They insisted that Pakistan had first to sign the Comprehensive Test Ban Treaty and take action against militant Islamic groups. Without an IMF bailout, Pakistan will begin to default on its foreign debts when the Western powers cease deferring loan payments at the end of the year.