Amidst mounting crisis, Pakistan's new government slashes food and fuel subsidies

Keith Jones
16 June 2008

Pakistan's new coalition government has delivered a big business budget that slashes subsidies for food, fuel oil, electricity, and fertilizer by more than one-quarter—112.2 billion Pakistani Rupees, or $US1.6 billion. The Pakistan People's Party-led government has also pledged to gradually do away with all price subsidies, except possibly on food.

The World Bank pressed for the subsidy cuts, reportedly making them a condition for a possible $500 million emergency loan. Praful Patel, the World Bank's vice president for South Asia, said earlier this month that Finance Minister Naveed Qamar had provided assurances the government "will pass on price increases in commodities, especially oil, to consumers."

Pakistan is also in negotiations with the Bush administration, which has repeatedly called for the all but complete deregulation of Pakistan's economy, to purchase 500,000 tons of wheat under a US food assistance program.

The subsidy cuts will drive up the prices of essential commodities—and this under conditions where Pakistani toilers are already reeling under the impact of sharp food and fuel price increases. Data released last week showed that consumer prices in May were on average 19.3 percent higher than 12 months ago, the highest annual inflation rate since 1975. According to a May 13 report in the*News*, the price of wheat flour, the country's principal staple, rose 26 percent in a one-month span earlier this spring, while transport costs increased more than 14 percent.

The UN's World Food Program estimates 60 million of Pakistan 160 million people are "food insecure"—i.e., threatened with hunger. With 70 percent of Pakistan's population surviving on less than $2 per day, even those able to cobble together enough to buy food do so at the expense of health care, education, shelter, and other pressing needs.

The subsidy cuts, a pledge to step up the pace of privatization, a two-year extension of the tax holiday on stock-market profits, and a further 7-plus percent increase in the country's bloated military budget belie government claims that this was a "poor people's budget."

In truth, the budget unveiled last week by the PPP-led coalition government differed only in detail from those delivered over the last nine years by the cronies of Pervez Musharraf, the US-supported military strongman who remains the country's president.

Like the previous government headed by former Citibank vice president Shaukat Aziz, the PPP-led coalition has proclaimed the private sector the principal engine of growth.

The government, said Finance Minster Qamar in his budget speech, wants to "restore investors' confidence by declaring government's commitment to economic growth and private sector's lead role in the process."

Toward this end, the government will accelerate and widen the previous government's privatization program. "We will introduce new portfolio of privatization to earn good foreign exchange," Qamar told a post-budget press conference.

Forced to concede that privatization has failed to generate significant new private investment in infrastructure, the government is proposing to form private-public partnerships to spur infrastructure development. In other words, so as to entice private electricity companies—the country faces a huge shortfall in electricity generation—and other giant firms to partner with the state, the government will offer them subsidies and profit guarantees.

The new government is also promising that large tracts of land will be set aside for foreign investors to develop agribusiness. The budget offered no details as to where the government will find unoccupied arable land. The Pakistani state and military have a long history of dispossessing peasants of their land.

The government is giving great prominence to a new program for 3.3 million desperately poor households named in honor of PPP life chairperson Benazir Bhutto, who was assassinated last December. Under the 34 billion rupee ($507 million) Benazir Income Support Programme, qualifying families are to receive 1000 rupees—$15 per month—along with medical insurance and job training.

By contrast, the defence budget was set at just under 300 billion rupees, or $4.7 billion. Critics of the military establishment claim that the real military budget is considerably higher since not all military expenditures appear as such in the budget. The government has said it will break decades of secrecy about the military and provide a detailed breakdown of the military budget, but there was no evidence of that in the budget documents released last week.

The budget provided for a 20 percent pay increase for central government employees, a far cry from the 100 percent pay hike demanded by the unions and the 50 percent increase they reportedly agreed to in negotiations with the government in the run-up to the budget.

The public development budget has been cut in real terms, since under conditions where inflation is well into double-digits, it was increased by just 5 percent. The development budget stands at 549 billion rupees, or about $8.2 billion.

Debt servicing will consume 513.1 billion rupees, or $7.65 billion of the Rs. 2.01 trillion ($30 billion) budget.

The PPP has defended the budget as a "major stabilization effort," necessitated by Pakistan's perilous economic situation. "We are presenting the budget at a difficult time," said Qamar. "We have inherited a mutilated economy."

Musharraf and his cronies claimed to have presided over a period of unprecedented economic growth. But the expansion in Pakistan's economy has been concentrated in the service sector, including in construction, real estate and financial services, and very much associated with an increase in foreign remittances and US military aid, as well as an influx of foreign capital attracted by the privatization boom.

All the key economic indicators have taken a sharp turn for the worse over the past 18 months. The State Bank recently said that GDP growth in the 2007-8 fiscal year, which concludes at the end of this month, will drop below 6 percent, the first time GDP growth has fallen below 7 percent in

© World Socialist Web Site

five years. Last week's budget predicted GDP growth in the coming year will be 5.5 percent. The trade deficit is expected to reach a record $19 billion by the end of the 2007-8 fiscal year. During the first three-quarters of the current fiscal year the current account deficit rose by more than 75 percent to $11.6 billion.

The PPP-led government claims the measures it has taken will reduce the budget deficit from a projected 7 percent of GDP in the fiscal year ending this June to 4.7 percent in the 2008-9 fiscal year.

Many business observers, however, claim that much more radical austerity measures are needed if the government's deficit target is to be reached. They have criticized the government's growth forecast as overly optimistic, but have especially attacked the budget's projection that the government will increase revenue by a whopping 25 percent in the coming fiscal year.

The budget included tariff increases on 300 luxury items, but much of the revenue increase is to come from increased taxes on ordinary people, especially a one percent increase in the general sales tax from 15 to 16 percent.

Last week also saw a major agitation initiated by the country's principal bar associations and aimed at pressuring the new government to restore the supreme and superior judges Musharraf purged when he imposed martial law for 6 weeks beginning last November 3.

On Monday, June 9 a "Long March"—actually a caravan of protesters—set off for the country's capital from Sind in the south and Quetta in the northwest. Hundreds of thousands reportedly descended into the streets to support the caravan when it reached the capital, Islamabad, and its garrison, sister city, Rawalpindi last Friday and Saturday.

Long bitter rivals, the PPP and the Pakistan Muslim League (Nawaz) formed a shaky anti-Musharraf alliance in the run-up to elections last February—elections which resulted in the rout of the pro-Musharraf party and their emerging as, respectively, the largest and second largest parties in the National Assembly.

Subsequently, the PML (Nawaz) made it a condition for joining a national "consensus" coalition government that the PPP pledge to quickly pass a parliamentary resolution restoring the purged judges to the bench.

A conservative, big business party, created in the 1980s under the mentorship of the military, the PML (N) deeply resents that the Bush administration sidelined it last year when the US to tried to strengthen Musharraf by brokering a deal between his military regime and the PPP.

In last February's elections it made the judges question its primary rallying cry and has since sought to rally popular support by making calibrated appeals to popular hostility to US interference in Pakistani affairs and by painting itself as the most resolute anti-Musharraf party.

The PPP, now head by Benazir's Bhutto widower, Asif Ali Zardari, meanwhile, has come under intense US pressure to work with Musharraf.

Last month the PPP reneged on its deal with the PML (N), saying that the judges could only be legally restored as part of a much broader reform of the constitution, which would both strip Musharraf of virtually all his powers as president and limit the power of the judiciary. But the PPP in all likelihood lacks the necessary two-thirds majority in both houses of Pakistan's parliament to amend the constitution.

The PPP's ambivalence on the judges question is also underlined by its determination to maintain on the bench the judges Musharraf installed last November. Last week's budget includes a stipulation that the number of supreme court justices be increased from 16 to 29, so the Musharraf-named judges can be maintained even if the purged judges are restored to the bench.

In early May, the PML (N) withdrew from the cabinet in protest over the PPP's failure to restore the purged judges. Nevertheless, it continues to support the government from the outside. But this is becoming an untenable situation, as Sharif, buoyed by the popular hostility to Musharraf, becomes increasingly aggressive in demanding the government not only restore the judges but move to impeach the president.

Zardari and his PPP, for their part, are finding that their political maneuvering room is rapidly disappearing due to the mounting economic crisis, popular anger over Musharraf's dictatorial regime and its subordinate alliance with Washington, pressure from the US for Pakistan to aggressively suppress the anti-US insurgency in the traditionally autonomous tribal region that lies next to the Afghan border, and demands from the Pakistani military high command that, whatever Musharraf's personal fate, its economic and political interests be taken care of in any new political set up.

In late May, Zardari signaled he might be preparing for a confrontation with Musharraf. He quickly backed down, but not before US President Bush had telephoned Musharraf to assure him of continued US support.

The PML (N) has said next to nothing about last week's budget, just as it has failed to advance any progressive measures to deal with the economic crisis. Instead it has ratcheted up its rhetoric in regards to the judges issue.

While the PPP leadership stood aloof from last week's Long March, Nawaz Sharif identified himself and his party with it. Sharif's was hardly the only party to join the march—it was supported by, amongst others, the Islamic fundamentalist Jamaat-e-Islami and the Tehreek Insaf of ex-cricketer Imran, and the Pakistan Labour Party.

But Sharif was invited to address the concluding rally outside Parliament House in Islamabad and he and his PML (N) increasingly came to politically dominate the march.

To widespread applause, Sharif declared that Musharraf should be placed on trial, not simply allowed to resign or go into exile.

"The president," he said, "must be held accountable for the killing of innocent children in the Jamia Hafsa and the Lal Masjid, unprecedented price hikes, shortage of flour, the killing of 50 people in Karachi on May 12 last year, military operations in Balochistan and tribal areas and the virtual collapse of the economy."

In a reference to Zulfikar Ali Bhutto, the founder of the PPP and father of Benazir Bhutto, Sharif asked the crowd "Is hanging only for politicians?" To which many of the protesters responded "Hang him, hang him."

The irony, of course, is that Sharif began as a protégé of the dictator General Zia ul-Haq, who orchestrated the coup that overthrew Bhutto and his subsequent hanging.

Unquestionably the popular anger against Musharraf is genuine, but it is being manipulated by Sharif and other elite elements—including a group of former army officers who have emerged as prominent supporters of the campaign to restore the sacked judges—for their own reactionary ends.

Sharif and the lawyers are claiming that the restoration of former Supreme Court Justice Iftikhar Chaudhry and his fellow justices to the bench will mean a flowering of Pakistani democracy.

In reality the judiciary and the sacked justices themselves have a long record of supporting one military dictator after another. No less importantly, as justices they have served as the guardians of the wealth and privileges of the Pakistani bourgeoisie.

The struggle for democracy in Pakistan is inseparable from a struggle against the military establishment, US imperialism, and Pakistan's grossly unequal social order. It requires the independent political mobilization of the working class on the basis of a program that links the struggle for genuine democracy, including the separation of mosque from state, with a challenge to the rule of the Pakistani bourgeoisie.

© World Socialist Web Site

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact

© World Socialist Web Site