

Pakistan president appeals to opposition to support IMF austerity measures

Sampath Perera**28 December 2010**

Pakistani President Asif Ali Zardari has personally appealed to Nawaz Sharif, the head of the Pakistan Muslim League (Nawaz), the country's largest opposition party, to help his Pakistan Peoples' Party-led government impose a series of International Monetary Fund diktats, including punishing tax increases.

Sharif has thus far spurned Zardari's appeal, while at the same time rejecting overtures from other parties, including elements hitherto aligned with the government, to make a bid for power. A rightwing businessman who began his political career as a protégé of the US-backed dictator General Zia-ul Haq, Sharif knows full well that the Pakistani bourgeoisie is beholden to the IMF and Washington. But he wants Zardari and the Pakistan Peoples' Party (PPP)-led government to bear the full brunt of the public anger over the IMF austerity measures.

For the better part of a year, the PPP-led coalition has been trying to introduce a Reformed General Sales Tax (RGST)—one of several measures the IMF has said Islamabad must take if it is to release the final, fifth and sixth, tranches of an \$11.3 billion standby loan.

The RGST has provoked widespread popular opposition as it is designed to wrench money from ordinary Pakistanis, whose meager incomes have already been squeezed by 15 percent inflation, including IMF-ordered energy price increases. (Since the PPP coalition took office in the spring of 2008, electricity rates have gone up more than 100 percent.)

Much of Pakistan's business elite also opposes the RGST, for it fears the tax will dampen economic activity and raise business costs under conditions where Pakistan's economy has already been hard-hit by the world economic crisis and last summer's devastating floods.

The Muttahida Quami Movement (MQM), the second largest party in the government, is opposing the RGST. A rightwing, ethnically based party that previously

supported the US-backed dictatorship of General Pervez Musharraf, the MQM says that it favors a tax on owners of agricultural land instead and has accompanied this with demagogic denunciations of "feudalism." The Jamiat Ulema-e-Islam-F, a religious party that recently withdrew from the governing coalition on another issue, also claims to oppose the RGST.

Of the parties with representation in Pakistan's National Assembly, only the Pashtun nationalist Awami National Party (ANP), the third partner in the governing national coalition, has said it is prepared to vote in favor of the introduction of the RGST.

Consequently, the government has been forced to temporarily delay a vote on the RGST—effectively abandoning its oft-repeated pledge to have the tax up and running by the new year.

Yesterday, the IMF's executive board approved a nine-month extension in its standby loan arrangement with Pakistan, so as to give the PPP government time "to complete the reform of the General Sales Tax, implement measures to correct the course of fiscal policy, and amend the legislative framework for the financial sector."

Under the government's current plan, the RGST is to be set at 15 percent, lower than the 17 to 25 percent charged under the existing General Sales Tax (GST). But the new tax would fall on many essential goods and services exempt from the GST, including pharmaceuticals, agricultural equipment, fertilizer and pesticides, and some food products, and has been designed to significantly boost government revenues.

Along with a temporary "flood tax"—a 10 percent income tax surcharge on those earning more than 300,000 rupees per year (about US \$3,500)—and a Special Excise Duty of 1 percent on many widely used imports, the RGST is supposed to raise close to \$1 billion per year in additional revenue in its first year.

In arguing in favor of these tax increases, IMF officials

and leading representatives of the Obama administration like Secretary of State Hillary Clinton have observed that Pakistan has one of the world's lowest tax to GDP ratios—9 percent. They are urging Islamabad to raise this to 15 percent in three to five years, purportedly so as to provide the government with more monies for development.

That Pakistan's venal bourgeois elite has systematically escaped taxation through both legally mandated and illegal means is common knowledge. But the IMF's and Washington's claims to be concerned that the Pakistani elite pay their fair share are hypocritical, to say the least. The RGST is a regressive sales tax, not a progressive income tax. More fundamentally, the IMF, with Washington's backing, has time and again demanded Islamabad slash social spending in the name of reducing the deficit. And for decades, Washington, under Republican and Democratic administrations alike, has partnered with the Pakistani military, supporting its claims to a huge share of the country's resources, and helped sustain in power rightwing dictatorships that have fleeced the people on behalf of the US-allied ruling class.

With the US's blessing, Pakistan's defence budget was boosted by a further \$1.28 billion in September to \$6.41 billion, with the monies coming, according to documents submitted to the IMF, by slashing the development and non-development budgets by 50 percent and 20 percent respectively.

The IMF and Washington have used last summer's devastating floods, which displaced more than 20 million people and caused at least \$10 billion in damages and economic losses, to step up the pressure for capitalist restructuring in Pakistan. Despite the devastation caused by the floods, the IMF increased its demands on Islamabad following the floods and agreed to only a slight increase in the country's deficit-to-GDP ratio target for the coming year, sanctioning a ratio of 4.7 percent as opposed to the previously agreed on 4.3 percent.

In addition to implementing the new sales tax, the IMF has insisted that Pakistan further slash social spending and eliminate all energy-price subsidies so as to adhere to the "adjusted" 4.7 percent deficit-to-GNP target. Citing the sums needed for both immediate flood relief—four months after the floods 14 million people still require emergency assistance—and long term rehabilitation, Islamabad sought permission from the IMF last month to allow the deficit-to-GDP ratio rise to 6 percent, but this was rejected out of hand. As a result, reports the *Business Recorder*, official sources are saying the government will now cut the

"Public Sector Development Programme (PSDP) budget by 46 per cent to 150 billion rupees (\$1.75 billion) for fiscal year 2010/11."

In his letter to Sharif, Zardari asked the PML (N) head to nominate senior party representatives to work jointly with the government in taking "difficult decisions." He also reminded Sharif that Ishaq Dar, the PML (N)'s chief spokesman on financial matters in the Senate, the upper chamber of the Pakistani parliament, had voted in favor of the introduction of the RGST and had been a stern critic of price subsidies when he had been Pakistan's finance minister.

In addition to appealing for the PML (N)'s support for the expanded sales tax and elimination of subsidies, Zardari urged the Official Opposition to assist the government in restructuring the country's public sector enterprises (PSEs) to increase their profitability through disinvestment, privatization, and job cutting. Those PSEs that Zardari made specific mention of as restructuring targets included the power sector companies, Pakistan Railways, Pakistan International Airlines, and Pakistan Steel Mills. "We will be grateful," wrote the PPP cochairman Zardari, "if your party facilitates the government in its restructuring plans for these entities and extends support to our policy to promote public-private partnership to protect Pakistan's national interests."

US officials have been lobbying hard for Pakistani politicians to rally around the government in implementing the RGST and other IMF diktats. This has led to complaints from the PML (N) of US interference. But just as sections of the Pakistani elite will publicly denounce US drone attacks inside Pakistan, while privately reassuring Washington of their support for them and more broadly for the US-NATO occupation of Afghanistan, so the opposition to the IMF-US economic diktats is grandstanding.

Only through the building of an independent political movement of the working class armed with a socialist program can the reactionary AfPak war and the attempts of foreign and domestic capital to make the workers and toilers of Pakistan pay for the economic crisis be opposed.



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