Pakistan Peoples Party budget imposes further IMF-dictated austerity

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The austerity budget that Pakistan's PPP-led coalition government is implementing in the July 2011 to June 2012 fiscal year is a conspiracy against the country's workers and toilers. It combines drastic cuts to power and food subsidies with a massive increase in military spending.

Included in the Pakistan Peoples Party-authored budget are right-wing "reforms" demanded by the International Monetary Fund. And while the cash-strapped government is determined to raise revenue at the behest of the IMF, it will do so principally through increased indirect taxes on ordinary people rather than direct taxes on the wealthy.

The $31 billion budget was passed, without amendment, by the National Assembly in June after months of maneuvering by the PPP. Attempts by rival parties to posture as opponents of IMF austerity, especially on the part of Nawaz Sharif's Pakistan Muslim League (N), produced a months-long political crisis for the PPP. Although the entire political establishment supports austerity, privatization and other pro-business reforms, the PPP's rivals have sought to distance themselves from the implementation of policies that they know will incite opposition from the working class and rural poor.

Had the National Assembly rejected the budget, the coalition government would have been forced to resign. Ultimately, the PPP was able to get the budget passed with the support of the Pakistan Muslim League (Q) and the Karachi-based Muttahida Quami Movement (MQM).

The MQM had previously left the coalition in May forcing the PPP to invite the PML (Q)—which served as a civilian veneer for the Musharraf dictatorship— to join the government so as to provide it with the parliamentary votes needed to adopt the budget and share the burden of imposing unpopular measures. The MQM subsequently rejoined the government and helped pass the budget.

The PPP-led government is determined to narrow the budget deficit in order to bring an end to a freeze on IMF credit. The IMF has refused to disburse any money to Pakistan since May 2010, citing the government's failure to implement draconian pro-market reforms, including a Goods and Services or VAT-type tax. The government is desperate to secure the remaining two tranches of an $11.3 billion loan originally issued in 2008, about $3.2 billion. It has also indicated it will soon be seeking additional IMF funding, at least in part so it can begin paying back the 2008 loan.

During the past year, the state has increasingly relied on borrowing from the central bank to fund its budget deficit, stoking inflation to 13 percent. According to Finance Minister Abdul Hafeez Shaikh, the government hopes to reduce the deficit to 4 percent of gross domestic product during the 2011-2012 fiscal year, down from 5.7 percent of GDP for the financial year that ended June 30. It plans to achieve this by decreasing its expenditure and broadening the country's tax-to-GDP ratio, which, at around 9 percent, is one of the lowest in the world.

After failing to secure the requisite political support to impose a new goods and services tax, the government created a Reformed General Sales Tax (RGST), ending sales-tax exemptions on about 500 items. This is expected to bring in additional revenues of about 200 million Pakistani rupees, even while the government lowers the sales tax rate by one percentage point from 17 to 16 percent.

The RGST and other indirect taxes whose burden fall most heavily on the working class and toilers are supposed to raise 64 percent or close to two-thirds of the government's 2 trillion rupees ($23.2 billion) in tax revenues.

In an attempt to deflect public anger, the government has announced with great fanfare that it has identified 2.3 million wealthy citizens who have escaped paying taxes. In June, Finance Minister Shaikh pledged that the government will issue tax notices to 700,000 of these individuals over the next three months and claimed that 10,000 have already been issued such notices.

However, the budget does not include measures to tax agricultural income, which remains tax-exempt. Many of the wealthiest Pakistanis are semi-feudal landlords whose fortunes were made through agriculture. While the PPP claims it is up to the provinces to tax agricultural incomes, the reality is the political establishment is unwilling to impinge on the privileges of this influential parasitic layer, which for decades has bitterly resisted all attempts to tax its income and wealth.

The Pakistani elite's impunity from taxation has caused the state to punish the poor with an array of indirect taxes and to rely heavily on debt. A quarter of budget revenue is now being used to service interest payments on borrowings, meaning a further squeeze on funding for health care, education and other basic social needs.

Recently the government has been borrowing heavily from its own banking system, which has led the country's corporate elite to complain that the government is making it difficult to acquire credit thereby stunting economic growth. The economy grew by just 2.5 percent for the year ending June 30, far below the rate of growth needed to create enough jobs for the 2 million new job-seekers entering the market each year. According to the IMF, Pakistan must sustain an annual economic growth rate of 8 percent to create enough jobs for its burgeoning workforce. The government claims that the economy will grow by 4.2 percent this fiscal year.

On June 30, the Federal Board of Revenue (FBR) announced that the government had surpassed the revised tax collection target for fiscal year 2010-2011, after missing it for the past three years.

The PPP-led government hopes that meeting this target will help convince the IMF to restore the suspended $11.3 billion loan program. "The collection would help restore the IMF program as the government would now be able to restrict the budget deficit at 5.2 per cent (excluding 0.6 per cent of circular debt payments) along with curtailing expenditures," claims FBR Chairman Salman Siddique.

While no date has been publicly announced, the IMF is expected to meet with Pakistani officials soon. Government officials have told the media they expect the agency will agree to release one of the remaining two tranches of the 2008 loan, about $1.6 billion.

"Pakistan has successfully managed to implement Plan B against the

Reformed General Sales Tax from the upcoming financial year 2011-2012 by removing tax exemptions. Similarly, a lot of reforms have been done in power sector," a government official told *The Nation*. "Plan B" refers to the broadened sales tax—the imposition of taxes on agricultural inputs, several export-oriented sectors, and dozens of other items including Compressed Natural Gas kits and mineral oil.

The imposition of taxes on agricultural inputs has sparked protests among farmers, many of whom are finding it increasingly difficult to make ends meet due to the rising cost of fertilizer and gas. The tax levy on agricultural inputs is likely to translate into higher food costs.

Whether the IMF will restore the suspended loan program and release the next tranche is far from certain, since the government has only partially fulfilled the IMF's demands, even leaving aside the tax on services issue. The government has raised power tariffs, but they remain 20 percent less than the cost of power generation. The IMF has also been pressuring Pakistan to implement regressive capitalist restructuring of its public sector, demanding that the country sell-off its loss-making public sector enterprises. During earlier discussions with the IMF, the government had agreed to dissolve the Pakistan Electric Power Company (PEPCO) by June 30, but has yet to do so.

The budget includes massive cuts to food and power subsidies that will severely impact on the lives of Pakistani workers, most of whom earn less than $2 per day. Spending on food and power subsidies is to be reduced to 166 billion Pakistani rupees, a reduction of 58 percent despite rampant inflation.

The PPP leadership claims its budget is "pro-poor" but this is a sham. The budget does not include any meaningful measures to reduce poverty, control food prices, or provide jobs for the country's rapidly growing workforce. Pakistan's unemployment rate was estimated to be 15 percent in 2010 by the CIA *World Factbook*, and is believed to have increased during the first half of 2011. A large percentage of Pakistani workers are also under-employed.

The budget contains a 15 percent pay rise for public sector workers, barely enough to keep up with inflation. Public sector strikes have become a frequent occurrence in recent months, with workers demanding pay rises far in excess of 15 percent.

According to some estimates, rising prices have driven 40 percent of the population into poverty in the last five years, with the poor spending over 50 percent of their income on food.

While the basic needs of Pakistan's workers and toilers found no expression in the budget, the government incorporated a Senate amendment granting plush privileges to retired lawmakers. According to the *Express Tribune*, "The retirement plan for legislators includes perpetually free medical treatment for all parliamentarians, access to VIP guest houses, use of VIP lounges at airports, special passports and permanent access to all government departments and offices with special privileges on getting government appointments."

Defense spending is to be increased to $5.76 billion, a 12 percent increase. This increase is substantially greater than the 8.1 percent overall increase in the budget. According to *Asia Times*, "A separate allocation for security-related expenses and the amount given over to pensions of military personnel have not been included in the 495 billion rupees (US$5.76 billion) in budgeted defense expenditures. If added, these bring total military and security costs to 900 billion rupees" or more than $10 billion.

The enormous defense budget reflects the PPP-government's and the Pakistani bourgeoisie's deference to the military, and their commitment to continuing the brutal counterinsurgency war in the northwestern tribal areas that Islamabad has mounted since 2004 so as to support the US-NATO occupation of Afghanistan.

Earlier this month, the Pakistani military launched a major offensive against Taliban and Taliban-aligned militants in the Kurram agency of the Federally-Administered Tribal Areas (FATA). The operation is an attempt by the Pakistani elite to improve relations with the US which deteriorated dramatically in the first half of the year, particularly after the US mounted an illegal raid deep inside Pakistan to summarily execute Osama bin Laden.

The military operation in Kurram has already displaced more than 9,000 families or at least 85,000 people.

Under the budget, the government is allotting 730 billion rupees for development. This constitutes a 58 percent increase from last year's Development spending, but only a 2.2 percent increase on last year's allocation for Development.

Citing economic difficulties and the need to mobilize financial resources to deal with the fallout from last year's devastating floods, the government repeatedly cut the Development budget during the course of the 2010-11 fiscal year. Many predict a similar outcome this year.

Only 6 percent of federal development spending this year will be on new projects. Out of the total development budget, the provinces are to receive Rs. 430 billion, but it is unlikely that the federal government will make the necessary funds available. Local politicians from Balochistan and Sindh have repeatedly charged the federal government with failing to disburse development funds.

Meanwhile, spiraling inflation and a worsening energy crisis continue to suffocate Pakistan's economy. Pakistani workers have become increasingly infuriated over the government's failure to ensure sufficient power supplies for private and industrial use. Relentless power cuts continue to cripple production and spark protests across the country. In Faisalabad, a center of textile-manufacturing, power cuts lasting up to 12 hours a day have led factory owners to shut down operations and sell their looms for scrap, leaving tens of thousands of workers jobless.

"Almost 800 units of a total of around 2,000 factories in Punjab province have closed down and many more are likely to be shut," Sheikh Abdul Qayyum, former head of the city's chamber of commerce and a factory owner, told AFP. "Around 500,000 workers lost their jobs in the province— about 100,000 in Faisalabad alone due to the closure of the factories," he added. The textile industry accounts for 60 percent of Pakistan's export revenue.

On July 4, two people were killed and 30 wounded by police when about 8,000 people marched toward Chashma Nuclear Power Plant in Mianwali to protest against power cuts. 35 people were killed in Karachi earlier this month when power cuts led to protests in the country's largest city, where the population has been contending with about 10 hours of power cuts each day. Similar protests against loadshedding (power cuts) were held in Peshawar a week before the protests in Mianwali.

Last month, a 40 percent cut in generation forced PEPCO to carry out eight to 10 hours of loadshedding in urban areas and 12 to 14 hours in rural areas. The government has been forced to concede that it has no plan to resolve the energy crisis, and has stated that the power cuts will continue for at least seven more years.