

Who Wants Reform?

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Most serious analysts would concede that the structural drag on Pakistan's economic growth and the country's budgetary dilemmas can only be addressed over time through deep-seated fundamental reforms and an election year is hardly the propitious moment to initiate this process. They would also accept that the reforms are opposed by powerful interest groups and that the period for undertaking these is out of sync with the time cycle of political governments or the legitimate concerns of those affected. However, I would argue that whereas the technocratic solutions are well known, there is no constituency for serious reform, considering the long slog out of this valley of despair and the pain that will have to be administered to correct these wrenching imbalances, albeit on the basis of the ability of different social classes to bear this burden of adjustment. Who, and how, will these fundamental reforms be launched, because it is chronically difficult to tell home truths to people whose votes are being courted. Most of us are not aware that sacrifices will have to be more broad-based than hitherto realized. The top five percent account for, at best, 12 percent to 15 percent of national income. Therefore, some contribution will also be required from households earning Rs. 20,000 per month.

Each economic group or social class blames others for the mess that we find ourselves in and contends that while they are bearing more than a fair share of the burden of a bloated, incompetent and corrupted state structure, it is the other interest groups who now need to contribute more to the running of the state and to the creation of a more equitable and a just social order.

For instance, take the case of the Pindiwallahs who continue to expect the nation to bankroll their failed concepts of security state and strategic depth. They regard the politicians as inept and corrupt but want them to find the resources for the shiny metal toys that they want to buy (of course, over and above what is required to expand the nuclear arsenal) and to maintain their privileges of free agricultural land and urban plots. They are seemingly adamant that the effectiveness of their defence polices cannot be compromised, whatever the costs. Confronted with such a hypothesis, it is difficult to have a meaningful debate even at a time our distorted priorities have resulted in 4.5 soldiers per doctor.

Next take the case of the farmers (read: the vast majority of non-tax paying parliamentarians) who pay no taxes but believe that they are 'over-taxed' on the bizarre plea that more than 50 percent of their income goes out in the form of wages for farm labour, irrigation water charges

(abiana) and for running their tubewells. And while demanding continued exemption from taxation, they insist on their fertiliser being subsidised and their wheat being bought by the state at a price higher than in international markets.

Moving on to the representatives of the chambers of commerce and the entire range of sectoral/industrial associations, we find that they resist even the most innocuous attempt to document economic transactions. It is instructive that compared with 400,000 industrial electricity connections, there are only 47,800 companies that have a tax ID, of which only 16,800 filed tax returns last year. Despite this fact, not only do they claim to be overtaxed, they demand a host of other concessions and protection from all kinds of external competition (for example, the car assemblers want to thrive at the expense of the consumers because they cannot compete even against five-year-old cars!).

Similarly, retailers and wholesalers want everyone but themselves to pay more taxes, And what they are not prepared to admit as scandalous is that whereas there are 3.2 million commercial electricity connections, only 34,000 retailers and wholesalers filed tax returns last year. Similarly, hotels and restaurants simply do not deposit the GST they collect from you and me when we eat or live there.

In the same spirit, the rich renting out their properties (including bureaucrats in Islamabad) refuse to pay the full tax on their incomes, forcing the state to levy just a nominal 10 percent tax on such income, while stock brokers and their clients continue to be lightly taxed on their capital gains and exempted from any questioning on their source of investment in traded shares. The bureaucrats have recently had their transport perquisite monetized but not only do they continue to use official cars they are paying a mere 5% tax on their monetized 'car allowance'!

The expenditure side of the budget is a big black hole, starting with the general orientation of government as an employment agency. The resulting extra employment over the years has left a permanent mark on budgets through salary revisions (which have been doubled since 2008/09) and higher pension and terminal benefits to those retiring.

Whereas there should have been a downsizing of the federal government with the hiving off of several functions to lower formations of government under the 18th Amendment, perish the thought that the politicians who voted for this amendment would be willing to give up any of the ministries. Resultantly, Islamabad has three times the number of ministries to cover the same

subjects the US does, despite the fact that the US has 140 million more people and an economy 75 times ours.

We all know the solution for electricity theft and also who protects those with ‘kunda’ connections – political parties and the powerful labour unions of the DISCOs. The same is the case when it comes to the grossly overstaffed Steel Mills, PIA, Railways, PASSCO, TCP, etc., which are a massive drain on state revenues. All these institutions should either be wound up or privatized. But who will do this and take on their unions?

Those living in their own homes, even in the up-market localities of major cities, pay less than Rs.300 per month as property tax (clearly inadequate to maintain roads, streetlights and arrange for the disposal of solid waste) and also resist any attempt to raise this amount.

So, who wants reform? All economic classes and groups oppose any reform and the potential gainers from reforms – the ordinary citizens – are simply too weak to influence the debate and policy direction. The cacophony of noise unleashed by sectional interests simply drowns all other voices. And please don’t tell me the mainstream political parties will: they won’t even agree to nominate only taxpayers to cabinet positions! Meanwhile, ‘verbal reforms’ will continue to outnumber actual reforms while growing disparities, perceptions of rising poverty and protests and divisiveness within society increase and more attention is paid to the manipulation of fiscal statistics than to cutting the real budget deficit.

To conclude, our history confirms my contention that the constituency for reform is rather narrowly based. The political, economic, military and bureaucratic elite have perpetually looked towards the international community for handouts to pay the bills of the event managers who facilitated this seemingly never-ending ball. Our track record suggests that on receiving this help, like spoilt brats or unrepentant addicts, we go back to our merry ways, as if the swinging party had only been suspended for few days while the host was a bit under the weather. In fact, we view such assistance as our right – being too important and too big to be allowed to go under – and behave as if we have an open-ended license to mismanage our affairs. We carry on business as usual and expect the Friends of Pakistan to own the responsibility of rescuing us each time from our own brazen excesses. They rescue us because of our nuisance value, knowing that we are happy being in the ICU, while the rest of even South Asia, including Bangladesh (who our elders pontificated in the 1970s was a “basket case”), bypasses us.

We have been holding a gun to our temple and threatening the international community to pay up. I think they would do us a favour, were they were to call our bluff. Faced with self-inflicted crises without external support, we will either swim across to the Promised Land or drown with no one having any desire to attend the funeral.