DIMENSIONS OF SELF-RELIANCE FOR SOCIO-ECONOMIC DEVELOPMENT OF PAKISTAN

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INTRODUCTION

Most discussion on national self-reliance refers to our material dependence on foreign nations. This is essentially of two kinds. First, we depend on foreign nations to provide us loans for buying goods and services in amounts for which we do not have money to pay. Second, we depend on foreign nations to supply us goods and services which money alone cannot buy, such as defence equipment and other sensitive high-techonology items.

In addition to material dependence, we are also dependent on foreign nations, especially the West, for our non-material needs. We depend on them for ideas on morals, ethics, laws, and patterns of social, political and economic organization and conduct. In many ways, our material dependence on foreign nations can be traced to this lack of self-reliance in idea and thought. This paper addresses mainly the material aspects of self-reliance; the larger issue of moral and intellectual self-reliance is touched more briefly towards the end.

SELF RELIANCE

In meeting both our material and non-material needs, self-reliance does not mean complete autarky: a condition in which we do not import anything. This is neither possible nor desirable in the present world. Presently, for example, we are more or less self-reliant in food, with exportable surpluses in rice, but dependent on imports of edible oil. In natural fibres, yarn and textiles, we have exportable surpluses. But we depend on imports of crude oil, fertilizers, and machinery and equipment. An attempt to be self reliant in all these commodities would impose an unnecessarily high cost on the economy. As long as we can keep our trade balance in manageable proportions, we can say that we are self-reliant even though we do not have autarky.

Self-reliance does mean, however, that we should have the freedom to choose on whom we rely on, when, and by how much. Unfortunately, we do not possess this freedom . It is important to understand the exact nature of our material dependence in order to formulate a path toward self-reliant national development.

MATERIAL DEPENDENCE

In the simplest of terms, we can say that we consume so high a proportion of what we produce that our savings are far below our investment requirements, forcing us to borrow from abroad. But why are saving rates low? When we look deeper, we find that the private sector saves enough, it is the government which dissaves in amounts far in excess of private savings. In the last five years, for example, over the Sixth Plan period, private citizens saved about Rs.130 billion in excess of their investment requirements, but the public sector invested some Rs.200 billion more that it saved.

At a deeper level then, we can say that although the economy is fundamentally self-reliant the government is unable to mobilize revenues in amounts adequate to meet defence, development and other public expenditure requirements, forcing the government into ever-increasing domestic and external debt. The lack of financial self-reliance in the economy can therefore be traced exclusively to the government's inability to raise enough revenues to meet its expenditures.

The deficit between government's revenues and expenditures can be financed by borrowing from foreigners, from the general public, or from the banks. In the past, the government's revenues had been greater than its current expenditures, so that a small revenue surplus had been available to finance development expenditure.

In the non-Plan period, from 1972 to 1978, the revenue surplus had been Rs.16 billion. In the Fifth Plan period, against a target of Rs.74 billion, the revenue surplus had been Rs.38 billion. As current expenditures rose much faster than revenues, however, the revenue budget went into deficit in 1982-83, and in the Sixth Plan, against a target surplus of Rs.56 billion a deficit of Rs.36 billion remained; a swing of Rs.92 billion.

The situation arose not because revenues did not grow fast, but because expenditure growth has been rapid. Although revenue growth has lagged behind the growth of national income, through discretionary measures each year the government has maintained high revenue growth: in real terms, annually, almost 4 percent in the non-plan period; 9 percent in the Fifth Plan period; and 8 percent in the Sixth Plan period.

Non-development expenditures, however, have grown rapidly: in real terms annually, from 3.6 percent during the non-Plan period to 10.8 percent in the Fifth Plan period and an estimated 11 percent in the Sixth Plan period. In the Sixth Plan period, this is largely a reflection of rapid growth in non-defence expenditure, ranging from 13 to 17 percent per year, while defence expenditure has grown by 6 percent per year.

As a result, the revenue budget has been in growing deficit since 1982-83. This deficit was Rs.12 billion in

1985, and just under Rs.8 billion in 1987-88, the revenue deficit could rise to Rs.16 billion by 1992-93, and total Rs.136 billion by 1992-93, and total Rs.13 billion over the Seventh Plan period. In the Seventh Plan, revenue growth of 7 percent per annum is proposed, one percentage point below the expected growth during the Sixth Plan, implying a tax effort of Rs.80 billion. Even so, the revenue budget would not be balanced until 1992-93, and would be Rs.21 billion in deficit for the five years of the Seventh Plan.

It should be realized that the revenue proposals of the 7th Plan are to finance the shortage of resources to meet non-development expenditures alone and not for development expenditure alone. Thus even if we were to cut the proposed 7th Plan outlay of Rs.350 billion by the Rs.80 billion of revenue effort proposed, the revenue budget would remain in deficit. Moreover, the cut in Plan outlay would also reduce foreign borrowing, so that the deficit is not likely to be reduced by as much as the cut in Plan outlay.

It is, therefore, essential to balance the revenue budget, quite separately from the issue of the Plan size. Apart from other reasons, this is also essential to lessen our reliance on expensive borrowing through the national saving schemes, on which the government pays almost 15 percent per year tax free interest. This not only inhabits private investment activity, but also creates a vicious circle in which high debt service payments enlarge the deficit, leading to higher interest rates required to raise the requisite amounts.

In order to examine the extent of the government's budgetary difficulties in somewhat more concrete terms, let us look at the Budget of 1987-88. The consolidated federal and provincial budget for 1987-88 proposes total expenditures of around Rs.190 billion: Rs.48 billion for development; Rs.44 billion for defence; Rs.32 billion for social, economic and community service; Rs.14 billion for administration; Rs.37 billion for debt servicing; and Rs.15 billion for non-development subsidies and others. This would be financed by some Rs.123 billion in revenues, some Rs.43 billion in domestic borrowing and some Rs.24 billion in gross foreign borrowing.

These numbers are broadly representative of the orders of magnitude likely to be involved in the coming budgets also. Some 35 percent of government expenditure would, therefore, be financed by gross borrowing. Greater financial self-reliance would call for reducing this percentage quite substantially. How can this be done? Either by reducing expenditures or by increasing revenues.

Defence

The scope for expenditure reduction has been examined separately under its principal heads: defence, development, economic and social services, administration and debt payments.

Defence expenditures, after adjusting for price changes, grew every year by over 11 percent during the Fifth Plan period and by almost 6 percent during the Sixth Plan period. In the non-Plan period, 1972 to 1978 when prices had risen rapidly, defence expenditures had fallen in real terms by 2.4 percent per year. In the Seventh Plan it is proposed that for the first year of the Plan, defence expenditures be frozen in nominal terms at 1987-88 levels, and thereafter their real growth rate be restricted to 3 percent per year.

There is, of course, some scope to lessen our dependence on imports of defence material. At present we import the bulk of our material requirements, and with effort this ratio can be brought down. But given the scale of optional plans in the defence industry, a very major reduction in import requirements does not seem possible except in the long term, and only where a friendly government allows the technology transfer involved.

Development

The second, equally significant, item of public expenditure is development. Development expenditures, after adjusting for price changes, grew every year by over 3 percent during the Fifth Plan period and by almost 4 percent during the Sixth Plan period; earlier, they had risen by 9 percent per year in the non-Plan period. In the Seventh Plan it is proposed that for the next five years this growth rate be restricted to slightly over 3 percent per year.

The dependence introduced by our defence predicament is carried over into our development strategy. It is part of the strategic doctrine, and in some cases national laws, of our Western suppliers of arms that military assistance must be provided in combination with economic assistance for development. They also require that economic plans be prepared, to absorb this assistance which must be spent on imports of capital goods from these countries. In this way our choices in development strategy has become restricted to those compatible with the foreign policy of our major donors.

This has had two effects. First, this had led to levels of imports which are higher than our own export earnings. In time, the burden of interest payments on these development loans has widened the gap between our foreign earning and expenditures, thus increasing our dependence. Second, the additional imports induced by foreign assistance have not been confined to capital goods alone; as the gap has widened, the investment opportunities declined, the availability of foreign aid has released resources which have been spent on additional imports of consumer goods. As a result, saving rates in the economy have fallen.

While we do not have to like it, the fact is that foreign assistance is provided not by way of charity, but as apart of the foreign policy of donor countries within the realities of the situation. However, the extra resources, which became available, were used to finance projects which enhanced physical and social infrastructure and increased the productive capacity of the economy. As a result, the economy has registered one of the highest rates of growth anywhere in the world, and even though there may be questions about the relative shares of various sections of society in the benefits of this growth, no one can deny that over the last forty years the life styles of all Pakistan have improved in greater or lesser degrees. Still, the fact remains that foreign aid has made us less self reliant in more ways than one.

In sum, we have argued that our military dependence gives rise to compulsion which leads us to pursue development strategies which are less self-reliant than others. The pursuit of more self-reliant paths of economic development requires a coordinated planning of defence and development, with a much greater coordination of public and private sector efforts and less liberal trade and industrial policies in selected areas, which for many reasons would not be acceptable to our foreign sources of military equipment and development finance. In addition, as with the more radical military options, it would also call for major shifts in socio-political structure.

Economic and Social Services

After defence and development, the third major item of expenditure is social and economic services. These expenditures, after adjusting for price changes, grew by over 15 percent during the Fifth Plan period and by almost 12 percent during the Sixth Plan period, earlier they had risen by 9 percent per year in the non-plan period. In the Seventh Plan it is proposed that for the next five years this growth rate be restricted to 8 percent per year.

Administration

Expenditure on administration, after adjusting for price changes, grew every year by 3 percent during the Fifth Plan period and by almost 10 percent during the Sixth Plan period; earlier, it had risen by over 5 percent per year in the non-Plan period. In the Draft Seventh Plan it is proposed that for the first year of the Plan these expenditures be frozen in nominal terms at 1987-88 levels, and thereafter their real growth rate be restricted to 3 percent per year.

Clearly, this would impose a severe constraint on growth of administrative expenditure. As should be clear from the numbers, however, the amount of saving possible here is likely to be small, in terms of the overall budgetary problem. Moreover, 90 percent of government employees are in basic pay scale 16 or below, with the result that there are about 19 support staff for each officer. Any saving that can be made would, therefore, be not so much at the expense of the senior officer, whose life style rightly offend public sensitivities but expenses of lower paid employees, who often have few avenues of alternative employment.

Debt Services

Finally, debt service payments are an obligation which we are honour bound to meet. In effect, they represent the failure of past efforts to raise genuine revenues. While there is no doubt that there is waste in government expenditures, the scope for savings from waste reduction is much exaggerated. We come, therefore, to the heart of the matter: the government's inability to raise resources.

TAX REFORM

Tax reform is not so much a matter of economic techniques as that of forging a political concensus on equitable burden sharing. Ideally, every Pakistani should pay taxes according to the size of his income, no matter what its origins. Central to any meaningful discussion of tax reform is the realisation that taxes are paid by persons and not by sectors. They are collected from persons, either directly on the basis of their incomes, or indirectly at the point at which they buy, sell or import something. Because of collection difficulties, however, the government has found it easier to levy taxes at the point mainly of imports or of production. As a result, there are very rich people in Pakistan who pay no taxes, and less well off people who pay quite high taxes.

According to the Household Income Expenditure Survey of 1984-85, today there are some 25.6 million income earners, in a population of about a 100 million with 6.2 persons per household and 1.6 earners per household. Of these, 3.8 million persons (14.7 percent) are estimated to have a monthly income of over Rs.2000, the minimum taxable limit. At present, some I million persons pay income tax, leaving 2.8 million who do not. Out of these, 2 million are in agriculture, while 0.8 million are in other activities.

To broaden the tax base significantly it would require the bringing of both the 2 million rich agriculturists, accounting for 8 percent of all earners holding over 40 percent of all land, but being exempted from income tax, and the 0.8 million persons engaged in non-agricultural activities, especially in the informal sector, presently paying no income tax. Not all of them need to be taxed at once. To begin with, a major increase in tax effort can be effected if only the top 10 percent - the richest 200 thousand farmers and 80 thousand urban self employed-can be persuaded to pay income tax.

There is, considerable unanimity of opinion among all responsible analysts that the rich landlords should pay tax on their income. The National Taxation Reforms Commission says: "It defies one's sense of fairness to see a person who himself claims that his agricultural income runs into hundreds of thousands of rupees every year is not paying tax on that income". The inequity of situation is obvious from the fact that while land is valued at Rs.13 per produced index unit (PIU) for wealth tax, so that no land-owner is above the Rs.100 thousand exemption limit, the same land is valued at Rs.200 per PIU for collateral against loans.

It is said that the yield from taxation of agricultural income would be low, and the political costs high. This may also not be correct. According to the calculations provided to the National Assembly Committee on the Taxation Commission Report, based on the 1980 Agricultural Census data, it is estimated, for example, that the 5000 largest farms in one prosperous district in Punjab alone cover an area of around 500000 acres and have an average net income of over Rs.3600 per acre for progressive farmers. Even if they all paid ushr, and in addition to ushr took a deduction of Rs.48000 as recommended by the

NTRC at twice the normal level, they would be liable for over Rs.450 million in income tax.

Much the same is true of the 80 thousand urban self-employed, who are taxable, but simply evade taxes partly because they see that people with similar incomes from agriculture do not pay income tax. The issue here is one of enforcing compliance, but it is difficult to enforce compliance because the income tax law is widely regarded as unjust and tax evasion is looked at as a heroic act against injustice.

With the government's inability to institute a broad-based income tax, it has also to resort to indirect taxation, or to the levy of import and excise duties. This has distorted the structure of incentives to industry in two ways. First, with the imposition of import duties on raw materials and capital goods, industrial cost has been raised inhibiting export competitiveness. Second, domestic prices of imports have been raised above international levels, so that political exports have been diverted to the domestic market. As a result, the disequilibrium on the balance of payments has been increased.

Now the nation stands at cross-roads. We need not only to control our government expenditure but also to eliminate waste corruption which has grown to an intolerable extent. At the same time, we cannot continue to go on along the way we have been going: borrowing from our citizens at 15 percent per year tax-free under bearer schemes which encourage a particular group which is in a position to avoid paying taxes; with 15 percent tax-free returns available on government paper; with no question asked,, a private investor would be foolish to undertake long term investment, involving government permissions and labour relations, unless the returns are much higher than the 25 percent or so, gross returns provided by government. The government must balance its books, if self-reliance is to be promoted.

SEVENTH PLAN PROPOSALS

Our defence predicament forces upon us the need for modern equipment which are not available without political strings, one of which is to pursue an aid-financed development strategy. This raises both imports and government expenditures, leading to a dis-equilibrium both our balance of payments and our budget, one, because of restrictions against our export, and the other, because of internal reasons we cannot arrive at a political consensus on an equitable share of the tax burden. Moreover, the government's reliance on indirect taxes distorts the pattern of incentives to industry so that exports are inhibited, and its recourse to high interest tax free bearer schemes encourages tax evasion and discourages long-term private investment.

There are no easy ways out of this situation. Certainly, the old solutions would not work much longer. Yet governments are seldom the agents of radical change. The path to self-reliance lies, therefore, in concurrent action on two fronts. First, ways have to be found to meet the urgent crisis in public finances. Second, immediate steps have to be taken to formulate and implement a major change in the grand strategy of national defence and development in a coordinated way.

The Draft Seventh Plan proposed a set of measures to deal with the budgetary crisis. In view of the limited scope for raising revenues within he present structural setup, the thrust of the Plan's proposals is on expenditure reduction. At the same time, the Plan has proposed a revcome package of Rs.80 billion to be collected over the next five years, which relies mainly on 12.5 percent sales tax on imports and domestic production and tightening of tax administration and elimination of income tax exemption. A presumptive tax on trade and services and on agriculture, to be levied by the provinces, is also proposed, as is the elimination of subsidies and the imposition of user charges on education and health.

However, the deeper structural problems which restrict self-reliance are both of a non-economic nature and require immediate but sustained long term effort. This effort, must begin as soon as possible.

NORMAL AND INTELLECTUAL SELF-RELIANCE

In many ways, the concern for development, and even for self-reliance, is itself a reflection of our dependency on foreign nations. This is a moral and intellectual dependency which is far more pernicious than mere material dependency because all our ideas about economic development, modernization, and social change come from the historical experience of the European people over the course of about 150 years before World War-I.

Our experience suggested that there were broadly three routes to modernization: democratic, followed by England, France and the United States of America; authoritarian, by Germany, Italy, Spain and Japan; and communist, by the then Soviet Union and also China.

Democratic Capitalism

Because of our colonial heritage and subsequent defence relationship, the domestic path has had the greatest hold over our minds. In the West, this was accomplished first by a triumph of secular values over religion.

and second, by a bloody revolution in each of the three countries, in which fundamental conflicts over values and over questions of social and political philosophy were settled. On the basis of this democratic revolution, three things were accomplished: arbitrary rules were checked replaced by just, rational and objective laws, through the establishment of the rule of law; the power of the legislature was maintained; and finally, mechanisms were established by which the people could influence the making of these rules, such as the right to vote, freedom to speech, the right to peaceful assembly, and finally, the use of the people.

This path is clearly not open to us for a variety of reasons. Islam is still a living force in Pakistan, and secular values are shared by only a handful of individuals. As a result, fundamental values have not been settled by a democratic revolution as they were in the West. No way has yet been found to check the coercive powers of the bureaucracy, which were inherited from the British. Nor has agreement been reached on whether the sharia or colonial laws shall prevail. Nor, for that matter, have effective ways been found to provide for popular participation in the making of law.

The result, however, has been that a class of people has been created who, in Macaulay's unforgettable words, are "Indian in blood and colour but English in tastes, in opinions, in morals, and in intellect" but in the rush of history the truth of the dispatch that "any acquaintance with improved European knowledge which is to be communicated to the great mass of the people can only be conveyed to them through one or the other of these Vernacular languages" has been lost.

As a result, two nations live within the boundaries of Pakistan today. They hold entirely different views of the purpose of human existence, the nature of "good" society, and the proper use of natural resources. They see different mechanisms active in human history, draw different conclusions from it, assess differently the diagnosis of the human condition and the prognosis of human civilization; the greatest problem of Pakistan today is the search for a via media between these two classes: the vernacular class and the anglophile class.

This unfortunate division in the value schemes of these two classes in Pakistan rule out the pursuit of the second route which Western nations took to the modern world- the route which has been characterized by self reliance.

Fascist Modernization

Both Germany and Japan were able to avoid the bloody revolution which preceded both democratic and communist modernization by the use of traditional social relationships and attitude to bring about a peaceful revolution from above, in which big industry and big agriculture were promoted at the expense of agricultural labour, peasants and consumers.

On this basis, four things were accomplished in Germany and Japan: a strong central government, a powerful bureaucracy and uniform administrative system were created; a uniform law code and system of courts perceived as being just by all were established; a powerful military machine was built up, on a scale large enough to stimulate industrialization under heavy tariff protection; and agriculture and industry was transformed into capitalist forms, by keeping peasant and labour wages low by preserving customary social arrangements.

This path too is not open to us because of the sharp divide between the anglophile and the vernacular classes.

Popular Revolution

The only other path to modernization, if Western experience has any guide, lies in popular revolution along the lines of the then Soviet Union and China. The likelihood of a popular revolution is also small because of the Islamic character of the vernacular class. The Muslim community, throughout the world, has not revolted because of poverty or loss of power; it has revolted when its way of life has been threatened.

Although it has become clear to say that we must find our own way yet the discussion above should make it clear in concrete terms why Pakistan will have to find its own path to the development.

SUGGESTIONS

The major cause of our inability to act decisively in any area of social action is the division of society into two antagonistic classes: a large vernacular class and a very small anglophile class.

As long as the anglophile class refuses to share the tastes, opinions, morals, and values of the vernacular class, it is futile to tackle problems which are essentially colonial in character, and then to arrive essentially at similar solutions.

A major reform of the educational system must be the highest priority, for self-reliance We must institute a system of education, especially at the primary and secondary levels, which provides a uniform content of education in a single language across the nation.

A programme of fundamental education whose results would only emerge in fifteen to twenty years, should be supplemented by a more purposeful use of mass media, which can be more effective in the short term. Today, in the absence of any worthwhile information policy, the media is unknowingly promoting imported images and symbols, which undermine traditional sources of authority and promote a taste for alien life style, and feelings of inferiority in the common citizen.

Together with a radical reform of information and education, efforts must be made to establish effective checks on the civil and military bureaucracy through the establishment of a sound judicial and police system, and institutions of representative government and politics. The common citizen must be assured of the safety of his person and property; he must be confident of being able to obtain justice when wronged; and above all, have a share in the making of laws, seen widely to be just. Again, this requires the anglophile class to respect the democratic wishes of the people, no matter how poor in taste they may seem to them.

A coordinated effort can be made to develop self reliance in defence and in development by harnessing the energies of the people to the achievement of their dreams. The essential precondition to this is the setting up of truly participative social and political institutions. Without a firm base for politics and government, economic development and defence preparation are both built on sand.

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