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Pakistan

After the Floods, the IMF

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PAKISTAN IN RECENT years has found itself in the headlights of the international press with increasingly regularity. As Obama's surge into Af-Pak has taken shape over the last 12 months, the country and its people have been thrust to the forefront of political discussion for forces left, right and center.

Almost without exception, of course, this attention has been framed by the idioms of the Great War on Terror — a narrative which pivots on breathless, asinine panic at beards and burkhas in a nuclear state.

The result of this confusion is that often even the Left has difficulties making sense of Pakistan as it might strive to understand other countries — as a society rent into competing classes, racked by ongoing conflicts over production and distribution. If we understand, however, that the first requirement for any response to the iniquities of the right-wing and the State is the revival of class politics, a familiarity with a few of the key structural and political questions in Pakistan is indispensable to solidarity.

The recent floods, in particular, have laid bare a sordid history of State incapacity and ruling-class rapaciousness. What's more, an ongoing austerity program, under the aegis of the International Monetary Fund, ominously threatens more of the same.

Neoliberalism and the IMF

Neoliberalism has a storied history in Pakistan. Since 1988, the country's economic policies have evolved in close consultation with the IMF. More than a dozen programs of varying scope and significance were in place through the 1990s and early 2000s.(1)

The majority of the central agreements were scandalously anti-democratic in their implementation. The first set, a Structural Adjustment Facility (SAF) and Stand-by Arrangement (SBA) in 1988, was decided upon by a caretaker government the day before the accession of the already-elected Prime Minister, Benazir Bhutto. She had little choice but to ratify them upon her arrival in office. The second, an Enhanced Structural Adjustment Facility and SBA in 1993-1994, was the handiwork of another interim government, headed by an ex-World Bank staff member, Moeen Qureshi. (Zaidi, 337-338)

The plans embodied all the orthodoxies of the day: the fiscal deficit was to be cut, the public sector was to be downsized, subsidies removed, trade liberalized, the tax structure reformed, etc. The results were predictably devastating. The overall growth rate of the economy fell well below trend levels, and appreciably below the average of the 1980s.... (Zaidi, 444)

The rate of growth of manufacturing plummeted, falling to 4.9% from an average of 9.1% between 1980-1988.(2) Public sector employment halved, from 1991 to 1998(3) — a trend which took a grave toll on the trade union movement.(4) And the percentage of the population living under the poverty line more-or-less doubled, between 1988 and 1999.(5)

In effect, the neoliberalism of the 1990s finished what the militarism of the '80s had started. Zia ul-Haq's coup had, after all, marked the beginning of a transition away from a development model headed by an activist State. While the pace of this change was slower than many had expected at the time of the takeover, its general trajectory was unmistakable.

In the verdict of one economist, "the major contribution by the Zia government in the early years was to give a clear signal to the private sector that the government expected future growth to come from its increased participation in industrial activity." Both of Zia's predecessors "Ayub Khan (1958-1969) and Zulfikar Ali Bhutto (1971-1977)" had represented (in different ways) an economic liberalism that now had little place in the shifting climate of the 1980s.

With the advent of the IMF program in 1988, development expenditure, which had already begun to make way for defence and debt in the federal budget,(6) bore the brunt of hawkishness on the fiscal deficit. From a high of 10% of GDP in 1976-77 (Hasan, 251), it had collapsed to 2.1% by 2000-01. Spending on health and education stagnated; the former averaged 0.7% of GDP in the 1990s and 0.6% in the 2000s, while the highest estimates of the latter put it at a woeful 2.1% of total GDP in the 1990s and 2000s.(7)

Because these programs make the provision of loans conditional on policies that over and over again have been shown to impair the economic health of the country undergoing adjustment, by the end of the decade Pakistan found itself in the throes of a devastating debt crisis. Despite having paid \$36.611 billion to foreign creditors in the '90s, Pakistan added \$15.541 billion to its debt stock, bringing its total outstanding external debt to over \$32 billion in 2000.(8) (The present decade has proceeded along similar lines: Despite paying US \$45.6 billion in servicing on its external debt between 2000 and 2010, Pakistan has added roughly \$20 billion to its debt burden.)

Natural Defenses Degraded

It is in the context of this history, then, that the floods must be understood. About the scale of the devastation that the waters have wrought, of course, little needs to be said. The lives of more than twenty million of Pakistan's poorest people were totally uprooted. At its peak, one-fifth of the country had been submerged, devastating a staggering number of schools, hospitals, bridges, roads, homes, and more.

Estimates of total reconstruction costs vary widely "the most-often quoted estimate of \$15 billion dwarfs the amount of aid offered by the international community thus far (even as it represents less than half of the money Obama has committed to fund the surge in Afghanistan).

In the aftermath of the disaster, several reports have called attention to underlying structural problems that greatly exacerbated the toll exacted by the floods. Danish Mustafa, an economic geographer, has been vocal in highlighting longstanding flaws in the planning infrastructure, which relate to the fact that the river has been adversely walled-in by the canal and dam network, causing it to silt up.(9)

Mustafa and other analysts have also rightly decried the degradation of Pakistan's natural defenses, exploited by big farmers and industrialists, and/or mismanaged by local authorities. In 2005, for example, the World Bank reported that 66% of Pakistan's wetlands were facing medium- or high-level threats, many due to the unregulated dumping of sewage and industrial waste.(10)

An additional, arguably more basic structural cause of the disaster, however, lies in the aforementioned pillaging of State capacity in Pakistan over the course of the neoliberal era. A 2006 World Bank report on the condition of the irrigation infrastructure chronicles colossal neglect:

[On the basis of international standards,]... Punjab should be investing an average of about US\$0.3 billion a year in replacement and a similar amount in maintenance. In fact there is no budget for replacement, and the Government of Punjab's budget for maintenance is about 1.2 billion rupees, or about 6.5 percent of the above benchmark estimate of the cost of maintenance.(11)

Certainly a sustainable, ecologically-sensible solution will demand more than dramatically elevated levels of government spending. But there is no denying that the shortage of funds has been a leading reason behind the devastation. Moreover, this state of affairs also raises serious doubts about the ability of the government to lead rehabilitation efforts of the scale and scope necessary in the years ahead.

The IMF's Austerity Program

What's more, the deficit hawks today find themselves in charge of the country's economy. All indications are that Pakistan will re-enact the two central trends of the 1990s: a drive to austerity justified by the reigning and misguided policy orthodoxy, and precipitous increases in the debt burden as a result of international loans.

In view of the devastation wrought by the flooding, of course, it bears emphasizing that it is absolute madness to launch an austerity program. What Pakistan needs is a massive, internationally-assisted, State-led reconstruction plan, which can rebuild and upgrade infrastructure, lead a recovery in the industrial and agricultural sectors, and put people to work in the process.

But thanks to our high priests in Washington and Islamabad, what the country can expect instead is retrenchment, inflation and stagnation. The funds that will be made available for reconstruction are going to be cut from the development budget, which was ordered frozen at last year's level.⁽¹²⁾ Recent indications are that it will actually be cut, rather than simply frozen.⁽¹³⁾

After the SBA was signed in November 2008, the IMF had ordered fiscal and monetary tightening in the name of fighting runaway inflation — in other words, lower government deficits and higher interest rates. The former will be done mainly by slashing subsidies on food, fuel and electricity.

The fiscal deficit, which was 7.6% of GDP in FY 2007/2008,⁽¹⁴⁾ was to be reduced by one-half as of this year (the target was made moot by the floods). This, of course, has meant that Pakistan's poor have borne the brunt of the country's fiscal adjustment, without any serious efforts to compensate for these increased costs elsewhere.

At the time of writing, the plan was in abeyance after the Pakistani government dallied on reforming its anemic tax structure, one of the agreement's central conditions.

At first glance, the importance the IMF accords to this goal is difficult to fault: tax revenues in the 1980s and 1990s only averaged around 13-14% of GDP (Zaidi, 212), and have come down to an exceedingly paltry 8.9% in the aftermath of this most recent economic crisis.

But the reform counseled by the IMF is utter lunacy, and demonstrates well the class character of their project. The instructions to the government are to implement a broad-based Value-Added Tax (VAT) by November.⁽¹⁵⁾ VATs, of course, are basically anti-poor sales taxes, as the burden they impose is borne by consumers.

This will only exacerbate a taxation structure that is already highly regressive: in 2008-2009, roughly 62% of all tax revenues came from indirect taxes (sales, excise, and custom duties).⁽¹⁶⁾ According to one recent estimate, when it is finally implemented, the Reformed General Services Tax (as the VAT has been re-christened) is expected to result in price hikes in the region of 15-17%.⁽¹⁷⁾ This, remember, comes on the heels of more than two years of unprecedented inflation.

Absent from the discussion, of course, is the necessity of expanding the number of people who pay income tax (a woeful 1.6 million, or 1% of the population), and the urgency of imposing varying forms of progressive taxes on a miserly elite. By one (possibly fanciful) estimate, the tax-to-GDP ratio could double if the government found the political will to tax speculative transactions in real estate and on the stock market.(18)

Another issue, unaddressed by the RGST, centers on the generosity shown towards politically influential agricultural elites, whose income is ineligible for taxation. According to the Federal Bureau of Statistics, despite the sector contributing 22% to GDP, taxes specifically levied on agricultural activity generate only 1% of total taxation revenue.(19)

All the while, indirect taxes "not considered in this figure" do apply, so that overall taxation on the rural population is extra-regressive in nature. The floundering on these issues only clarifies that the problems of the taxation structure are not amenable to technical or administrative solutions, but demand urgently the pressure and direction of a popular movement.

The plan also threatens to rekindle a debt crisis on both the internal and external fronts. The Government was directed by the IMF to eliminate dependence on credit from the State Bank, and as a result borrowed heavily from commercial banks to fund its deficit in the last fiscal year.(20) The decision to raise interest rates this summer (which means that government securities pay higher returns) thus meant even rosier balance statements for Pakistan's banks "not soon after the flood crisis began, it was reported that banks' profits were up 33% as compared to the year before.(21)

This trend (which, let's remind ourselves, amounts to redistribution from the poor to the rich) has contributed to an ominous re-accumulation of domestic debt. In the current fiscal year, a full 23% of the federal budget has been allocated to the servicing on these obligations alone. If you include payments on the external debt and the defense budget, you have accounted for at least half of all federal expenditure.(22)

What's more, this figure does not take into account recent ad hoc amendments to the budget: specifically, the aforementioned announcement that development spending may be cut by anywhere from 30 to 50%,(23) and the as-yet unexplained memorandum (released only to the IMF) that the defense budget had been increased by an astonishing Rs. 110 billion. This last figure itself is about 73% of the amount the government hopes to collect by implementing the RGST.

The ongoing arrangement with the IMF is slated to end by December. While it's always difficult to predict next steps in Pakistan, the condition of the economy and the government's finances are such that a second agreement is very possible, if not likely.

The Left and the Way Forward

All this leaves the Pakistani Left with a challenge of historic proportions. It is worth noting that it has mobilized: Sizeable protests have been held in two of the country's largest cities, around demands relating to debt cancellation, war spending (both U.S. and Pakistani), climate reparations and land reforms. This comes on the heels of some of the country's most trenchant strikes in years, this summer, which hopefully portend a revival of the labor movement after decades of decline.

Yet it pays to be realistic, too. The current balance of forces is such that, despite widespread dissatisfaction in the country, the near future promises little respite "given the venality of the ruling class and the hawkishness of its international allies, austerity and retrenchment are here to stay. As an all-too-similar policy cocktail makes its way around Europe and the United States, our immediate task is to build solidarity on the basis of these real, shared

grievances. The challenges that confront working people across the world are the same, even if the remedy is today out of reach.

Notes

1. Akbar Zaidi, *Issues in Pakistan's Economy* (2005), 337.

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2. This failure to increase output or produce job growth hardly vindicated the government's decision to shift the burden of investment to the private sector (private sector fixed investment in real terms almost doubled over 1988-1996 and provided more than two-thirds of the total expansion in fixed investment). Parvez Hasan, *Pakistan's Economy at the Crossroads* (1998), 274.

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3. Asad Sayeed and Ayesha Ibrahim, *Country Background Report: Trade Unions in Pakistan* (2006), 9.

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http://www.researchcollective.org/Documents/trade_unions_exec_summary.pdf.

4. Aasim Sajjad Akhtar, *Privatization at Gunpoint*, *Monthly Review* (Oct. 2005)

<http://www.monthlyreview.org/1005akhtar.htm>.

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5. Tarique Niazi, *Rural Poverty and the Green Revolution: Lessons from Pakistan*, *Journal of Peasant Studies* 31, No. 2 (2004), 253.

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6. At the beginning of Zia's rule, public sector development spending had been nearly double the level of defence outlays. A decade later, development spending had come down to the same level as defence. Repayments of government debt, too, were the fastest growing element in government expenditures during 1977-1988, most of this comprised of increased interest payments on domestic debt. Parvez Hasan, *Pakistan's Economy at the Crossroads* (1998), 252.

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7. *Economic and Social Indicators*, *Pakistan Economic Survey 2009-2010*.

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8. An outflow of \$36.611 billion, inflow of \$15.451 billion (Zaidi, 250).

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9. Interview with Daanish Mustafa (August 18, 2010)

http://www.bbc.co.uk/worldservice/news/2010/08/100818_mustafa_wt_sl.shtml.

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10. John Briscoe and Usman Qamar, *Pakistan's Water Economy: Running Dry* (World Bank/OUP 2006),

71-72.

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11. World Bank 2006, 60-61.

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12. The government has decided to freeze federal and provincial public sector development programmes (PSDPs) at last year's position to create fiscal space to cover the requirements of the current crisis. <http://www.dawn.com/wps/wcm/connect/dawn-content-library/dawn/the-newspaper/front-page/imf-begins-macroeconomic-review-pakistan-seeks-three-waivers-480>.

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13. The cost of immediate flood relief will delay those efforts, said Hoti. "We have compromised on our annual development plan and yesterday I suspended the entire new portfolio for our development plan for this province worth about 17 billion rupees (about \$200 million) because of the floods," he said. <http://in.reuters.com/article/idINIndia-51037420100824>.

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14. Explained in large part by aforementioned subsidies on food and fuel, which had alone amounted to 3.9% of GDP that year, when oil prices were at their peak (World Bank, Pakistan-Country Partnership Strategy for the period FY 2010-2013, (July 2010, <http://go.worldbank.org/JWQ7GXDYR0>, 5).

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15. The reform was supposed to have been completed by July, but has been held up by a disagreement between the provinces and the Center over who can collect taxes on services. <http://brecorder.com/index.php?id=1059675&currPageNo=1&query=&search=&term=&supDate=>.

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16. World Bank 2010, 57.

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17.

<http://www.dawn.com/wps/wcm/connect/dawn-content-library/dawn/the-newspaper/front-page/reformed-gst-to-cause-price-hike-of-1517pc-090>.

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18. Huzaima Bukhari and Dr. Ikramul Haq, "Tax-to-GDP ratio: FBR's Waterloo," The News (August 2010) <http://www.jang.com.pk/thenews/aug2010-weekly/nos-01-08-2010/pol1.htm#8>.

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19. Economic Survey 2009-2010, 56.

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20. See <http://brecorder.com.pk/index.php?id=1097873&currPageNo=1&query=&search=&term=&supDate=>. It should be noted that, particularly since the floods, the Government has returned to the State Bank, borrowing Rs. 220 billion since July 1 (twice as much as it borrowed in the same period, last year). This, however, hasn't necessarily signaled the end of borrowing from the commercial sector, who have few alternatives in an insecure

economy: as DAWN reports, âEurosoerising NPLs and relatively low private sector credit demand may provide incentive to the already risk-shy banks to meet governmentâEuros"s borrowing requirements at the cost of private investment in the economy.âEuros

<http://www.dawn.com/wps/wcm/connect/dawn-content-library/dawn/news/business/44-pakistan-central-bank-rate-fa-06>.

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21. <http://brecorder.com.pk/index.php?id=1097873&currPageNo=1&query=&search=&term=&supDate=>.

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22. <http://tribune.com.pk/story/19101/half-of-the-budget-allocated-to-defence-debt-servicing>.

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23.

<http://www.dawn.com/wps/wcm/connect/dawn-content-library/dawn/news/business/psdp-may-be-cut-by-30-to-50-na-informed-jd-01>.

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