

•• Evolving a Limited and Responsible Federal Government: 14 POINTS FISCAL CHARTER

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WHY, A CHARTER?

There is an increasing demand for developing consensus on an economic charter in Pakistan. At this point in time, all major political parties except PTI, many business associations, leading academic institution PIDE, prominent economists, and other stakeholders have demanded an agreement on a set of economic policies for the sake of stability. We have also seen various publications in the name of the Charter of Economy, notably by PIDE and by Dr. Hafiz Pasha.

There are at least three challenges in developing any charter and developing consensus on reforms. The first challenge is a philosophical one: why should there be a consensus? Why should we not allow free competition of ideas which can take place through public discourse, media, and electoral choices? While it is a valid objection, I have a counter argument. We do have a working consensus on the constitution, fundamental human rights and on Islam as a code of life. Now we ought to develop a national consensus on economic governance.

The second challenge is a practical one: should there be consensus on the charter itself i.e. should there be a prior agreement amongst economists, academia and think tanks on a set of principles before it can be presented to political parties and government? While it can be argued that there should be a consensus here, I oppose this view. There should be an open debate on the merits and demerits of the charters and we should expect not one, but multiple charters at the discourse level. It is impossible to develop a consensus amongst various schools of thought and each such charter deserves critical debate.

The third challenge is defining the scope of the charter where the economy is hugely complex. At the most basic level, in an economy, we have a government, consumers and producers. While existing charters are quite comprehensive in the sense that they cover both state and markets, I envision it differently. An over-reach of a charter becomes its weakness. The focus should be on economic governance.

NEXUS OF STATE ARISTOCRACY

The federal government, with its fiscal, monetary, and regulatory policies directly influences the outcomes of economic interactions. The government itself is controlled by a handful of political, constitutional, and bureaucratic institutions. Over time, the government has built strong barriers to challenge its rule which has been strengthened and consolidated by judicial outreach. It has become very difficult to weaken this institutional hegemony. The space and voices for private citizens, and their businesses and their associations has shrunk. The institutional hegemony has taken formal and informal measures to strike down any potential forces of alternatives. My friend Dr. Khalil Ahmad calls this state aristocracy, or riyasati ashrafiya.

The main actors in this state aristocracy are the members of the parliament, political parties, civil and military bureaucracy, superior judiciary, banks, multinationals, and large companies. They all draw power from access to the state and thus reinforcing the state itself is their *raison d'être*. They have the power to allocate credit, currency, taxes, and expenditures and are not ready to give up this power. They collude and collide but only to bargain a share. In the due process, economists, NGOs, media and think tanks have become partners and contractors to the same state, exceptions only proving the rule.

How to break this institutional hegemony? The key to the allocation of credit, taxes and expenditures almost exclusively lies within the ambit of the fiscal policy of the federal government. The monetary policy is only notionally independent. Therefore, in my view any demands for reforms should be focused on breaking this nexus. We can leave matters of greater economic complexities to the choices of consumers and producers and trust on markets to deliver in most areas of life. Markets do fail, however first they need to be functional.

Finally, in this momentum of disproportionate economic and political crises, which present all of us a great opportunity to offer solutions, I present 14 points: drawing mainly from my fiscal conservatism. This fiscal agenda can significantly weaken the state aristocracy, institutional hegemony, and political control – unleashing new sources of entrepreneurial wealth creation for a prosperous Pakistan. These ideas are drawn from a larger effort that is currently underway at PRIME.

14 POINTS FISCAL CHARTER

1. A single rate of income tax, general sales tax and customs duty set at an optimal revenue collection level may be levied. No other taxes are to be levied on a permanent basis. All other taxes may be either abolished or merged.
2. The federal and provincial governments should not undertake new development projects for at least five years and should allocate all development funding to complete or fast track completion of on-going projects to minimize throw-forward and to reduce cost escalation on pending projects.
3. The government should stop the practice of provision of free petrol, free electricity, and free or subsidized plots to public officials and public representatives.
4. Primary deficit should be kept to 0% and instead of levying new taxes for this purpose, expenditures will be cut.
5. The Parliament should make a constitutional amendment to bring agricultural income under the federal government.
6. The government should withdraw all exemptions from income tax, sales tax, and customs duty.
7. All businesses in the industry, services, and agriculture sectors, whether owned by private citizens or by the state bodies, should pay the same rate of taxes.
8. All kinds of withholding and indirect taxes on utilities should be discontinued.
9. The government should not provide subsidies to the public or firms/businesses unless in the case of national emergencies.
10. The government should close federal departments and ministries for any functions which have been devolved to provincial governments.
11. The government should stop all kinds of concessionary finance and discrimination of businesses through fiscal incentives.
12. The government should not intervene in prices and allocation of commodities, currency, and credit.
13. The government may continue to use income transfer as an option for social protection. It should also reform/centralize zakat collection and re-direct 80% of zakat receipts, to be spent on recipients. The government should not incur any debt to fund such a program and should only use taxation and private charities for this purpose.
14. The government should use the method of Negative Income Tax, by targeting those households which are earning below the income tax threshold: imposing a 25% Negative Income Tax Rate. This will not extend to the recipients of income transfer.

POLITICAL STRATEGY

The most obvious question is why will political parties and state institutions let any of these policy ideas come to fruition?

There are three possible paths. One possibility is that the reformist voices within these parties and institutions are given due weightage. Recent events in mainstream political parties suggest otherwise. The second possibility is the emergence of new political parties. There are already 250 plus political parties, and it will take a long time to see development of a new party or parties, but I will welcome this.

Third possibility is that political leaders face external pressure and existential threat. This is likely in two ways. First, the state from which these parties and institutions derive power may crumble in a financial sense. It is happening. The second way, which complements the first, is through the emergence of a broad national consensus on a minimal reform agenda, in which the private sector, the business associations and civil society leaders play an important role, come forward and lay on tangible pressure.

I hope we can all join hands in realizing this possibility.

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