

# Outsourcing of mini-budgets

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THE annual budget is regarded as the most important economic event of the year, because the decisions relating to taxation, relief measures, transfer payments, investment or export incentives, grant or withdrawal of subsidies, pricing of public sector supplies and services affect every household and every business entity, directly or indirectly.

Notwithstanding its inherent importance, the process of budgeting in the developing countries tends to be ad hoc and incremental, both revenue and expenditure being related to the preceding year's budget or "actuals". There have been suggestions from time to time that we should move to zero-based budgeting, in which all demands for grants, whether existing or incremental, would have to be justified in the same manner as a new proposal. These suggestions have seldom been fully implemented in any country. The pattern tends to regress to the type with remarkable frequency.

The taxation measures also reflect an incremental process. These incremental

counter to the practice of mid-year budgetary interventions. The promise of the finance minister that there shall be no mini-budget in the coming year, has to be seen in this context. Yet it has been greeted with a measure of cynicism. The critics contend that "his assurance is of no significance, because this has been the theme song of all finance ministers." Such cynicism may be unjust, but is understandable, as history underlines many mid-course changes germinating from the gaps between promise and performance. The efforts to close these gaps had several shapes and forms, but fall largely into three broad categories.

The most arduous of the mini-budget

The most arduous of the mini-budget processes are "additional revenue measures", a euphemism for more taxes in the course of the year. Pakistan has gone through this experience repeatedly since it began to negotiate agreements with the IMF in 1988, the purpose being to protect the deficit target or to achieve the level of revenues committed to the donors.

but the cynics have fixed their gaze on history.

A favoured hunting ground of the deficit chasers has been the public sector development programme. The following comparison of the size of PSDP (Public Sector Development Programme) and the size of the fiscal deficit reflects the detours of our macro-economic management. See Table-II.

Over the course of a decade, there has been a drop of 4.1 per cent of GDP in the resources allocated to the development programme, while the reduction in the fiscal deficit is only 2.3 per cent of GDP. The squeeze on development was larger than the reduction in the fiscal deficit, the implication

being that development budget had to accommodate the excesses of the current expenditure, in addition to offering space for reduction of the deficit. The downgrading of development is the softest form of mini-budgeting, because it requires no marketing, no persuasion. "The moving finger writes and having writ moves on", but who pays the price for the neglect of development? The posterity. But posterity does not protest.

The third tactical device has been, in nature a territorial adjustment — shifting the

process. These incremental accretions to the framework tend to disfigure the basic design, necessitating a periodic overhaul of the system to reestablish its character as a part of coherent fiscal policy.

More recently the multilateral institutions have been urging the developing countries to fit the annual budgets into a medium-term framework in order to attain a measure of direction. This three-year rolling framework also offers a substitute for the five-year plan mechanism which often ran into midcourse uncertainties emanating from its unrealistic premises and postulates.

The current budget incorporates some of the needed changes in approach and perspective. The document entitled Budget in Brief contains a separate chapter on the medium-term budgetary framework, outlining the horizon for 2004-05 in terms of growth rates, the rate of inflation, investment and savings, balance of payments and the budgetary outcomes. The total revenue is estimated at Rs 830 billion, CBR taxes at Rs 566 billion, development expenditure at Rs 185 billion and the total expenditure at Rs 1,010 billion. The fiscal deficit would be Rs 180 billion equivalent to 3.7 per cent of GDP.

This movement to a longer timeframe runs

processes are "additional revenue measures", a euphemism for more taxes in the course of the year. Pakistan has gone through this experience repeatedly since it began to negotiate agreements with the IMF in 1988, the purpose being to protect the deficit target or to achieve the level of revenues committed to the donors. Frequently these unhappy developments were the product of over-pitching tax targets (without measures) to avoid a political backlash against excessive taxation. But inevitably the breach of conditionalities forced recourse to mid-term taxation. An earlier intervention would have been prudent. A stitch in time saves nine. But we tend to be overoptimistic and often look to "that potent hand divine" to help us muddle through. It is instructive to witness how unrealistic tax revenue targets were fixed year after year. The figures can be seen in Table-I.

Shortfalls of this magnitude reveal a serious governance deficiency. Nobody is taken to task for the inflated estimates or for the lack of achievement. The absence of accountability perpetuates the syndrome. The current performance of the CBR in fully collecting the budgeted revenues stands out as an exception. This is a welcome change,

home of some mini-budget constituents away from the ministry of finance. This applies to public sector utilities and petroleum products. The concerned agencies have been, given the autonomy to organize price increases of electricity, gas, diesel and kerosene on their own. This arrangement has provided larger flexibility in the scope, frequency and timing of price increases. And price increases have been substantial, as would appear from the following figures in Table-III.

The intimate relationship of these services and commodities with the budgetary prospects cannot be denied, as they have a bearing on the level of subsidies to be paid or the surcharges to be received. The increases in these prices have an impact on the cost of living. The people usually attribute these increases to the government, notwithstanding the new administrative fiat that sanctifies them. The main advantage is fragmentation of resistance. But that is no more than a tactical device that cannot change the substance of things. The advantages that it offers can only be peripheral and transient.

*The writer is a former deputy chairman of the Planning Commission.*

Year	Budgeted increase	Actual increase	Shortfall
1996-97	60.0	14.1	76.5%
1998-99	60.4	14.0	75.3%
2000-01	88.6	45.2	49.0%
2001-02	65.4	21.9	66.5%

*Source: CBR*

Year	Fiscal Deficit	PSDP
1991-92	7.5	7.6
2001-02	5.2	3.5

*Source: Economic Survey 2002-03*

	15.05.1999	15.05.2002	Increase
First 50 units	1.34	1.34	—
Next 100 units	1.64	2.21	35 per cent

  

	17.09.1999	25.10.2002	Increase
Upto 3.55	49.09	67.95	38 per cent
3.56 to 7.1	50.76	102.37	102 per cent
7.11 to 10.86	69.30	163.78	136 per cent

  

	10.04.1999	1.04.2003	Increase
	9.44	21.06	123 per cent