Reducing the public debt

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THE centre-piece of democratic dispensation is the Parliament. That is all the more so in respect of money bills. It is the Parliament which decides how much of taxes should be raised each year, how they should be spent, and how much the government can borrow to meet the deficit, if any.

Even in the presidential system of the US it is Congress which decides how much should be collected as new taxes, on what heads should that be spent and how much should the government borrow. And the Congress is very zealous in protecting this right. And when it cannot vote on the president's budget proposals, it approves ad hoc payments to meet the current expenditure.

But in Pakistan the Parliament has sought to exercise no such omnibus right. It simply approves the overall budget figures while deleting, at times, a few taxes found to be too unpopular or hurtful to the economy. It hardly expects details about the defence expenditure or scrutinizes the large expenditure on the president's secretariat. In fact the budget does not go through a proper scrutiny by the standing committee for finance of the National Assembly or the

constant neglect. Lip service was paid to these sectors but not enough funds provided from tax revenues or borrowed funds.

The World Bank and the IMF have hence been urging the government to enact a comprehensive debt management and reduction law. The government had agreed to that and ultimately the law was to come up in the shape of an ordinance in August, 2002. But preparation for the general elections and other political pre-occupations stood in the way.

Finally the Fiscal Responsibility and Debt Reduction Ordinance has been approved by the federal cabinet and is to be promulgated soon. Prime Minister Zafarullah Jamali preferred the law to be enacted by Parliament. But the decision is in favour of promulgation of the ordinance either because President

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A Debt Coordination Office is to be established in the Finance Ministry with Dr. Ashfaq Hasan Khan as director general to prepare a 10-year debt reduction path. And he is to submit a report to Parliament every year which should be debated by Parliament and the ministers responsible for overspending or excess borrowing pulled up and if found wantonly erring censured.

The ordinance not only seeks to reduce the public debt by 2.5 per cent every year but also ensure that social and poverty related spending is not reduced below 4 per cent of the GDP which is indeed a very low figure.

The government has already taken a number of steps to reduce the overall debt and the debt servicing cost of both foreign as well as domestic loans. Costly external debt is being paid off while the overall external debt has come down from 38 billion dollars to 36 billion dollars. It has been reported that out of the 3 billion dollars to be received from the US as

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Senate which is now empowered to discuss the budget.

Article 166 of the Constitution states explicitly that the Parliament should set the limits for the government to borrow and the government should conform to those limits, and if it exceeds them the Parliament can come down on the government heavily. But the Parliament over the years or decades has been too lax in this area, and did not object to the government printing currency notes merrily and paying half a per cent interest to the State Bank of Pakistan for providing such funds. As a result, the money supply increased a great deal, inflation became far worse and the people suffered.

In fact, the mood of reckless spending and wild money creation became far worse during the period we had the parliamentary system of governance as against military or arbitrary rule. The public debt went up from 66 per cent of the GDP in 1980 to 102 per cent of the GDP in 1999 when military rule intervened. At that level when the total debt servicing cost was Rs 330 billion the overwhelming debt became unsustainable or unmanageable.

The political governments presumed they should borrow now and spend, and leave to the successor governments to repay the debt or service the enhanced debt. Such governments also paid high rates of interest to borrow from the public or the banks and so the total debt kept on snow-balling.

The Parliament's laxity or frivolity was also in the area of casually approving large supplementary budgets at the end of each year. That unauthorised expenditure, approved later, was also met by borrowing. At the end of the year after the new budget had been approved the Parliament used to be told the excess expenditure had already been incurred and the money spent and there was no use crying over spilt milk. Hence the Parliament tamely approved the supplementary expenditure with some protests from the opposition, which were brushed aside.

As a result, the debt service cost exceeded 66 per cent of the tax revenues, and after meeting the defence outlay there was hardly any money left for other purposes. Heavy borrowing included the external aid and the unfunded national debt. Not only the development outlay went under 3 per cent of the GDP in a developing country with a large unemployed population but also education, public health and the environment suffered

Musharraf prefers the major initiative to come through him or as the Parliament is facing one crisis after another. Anyway within four months of the promulgation of the ordinance now it is to come before Parliament to be enacted as a proper bill so that Parliament can own it up fully.

It was, indeed, surprising that foreign minister Khurshid Kasuri and a few other ministers voiced fears at the cabinet meeting the ordinance could stand in the way of further funds for development. In fact, the law is being enacted with a view that the lower priority or useless current expenditure could be cut and far more made available for development, and for the social sector.

Dr. Mahbubul Haq had been crying hoarse since the 1980s for such checks on current spending which had risen to 20 per cent of the budget and had called for a moratorium on borrowing and accumulation of debt. Everyone agreed with him but no one was ready to bell that cat or check the excess current spending of the government.

The new law seeks to reduce public debt to 60 per cent of the GDP which is regarded safe, and which is the margin of debt prescribed for membership of the Euro area. It wants the public debt to be brought down from the current around Rs. 15.000 billion to 60 per cent by June, 2012 - or nine years from now.

It also wants the entire revenue debt of about Rs. 125 billion to be eliminated in four years — by June, 2007, while leaving aside the fiscal debt born out of borrowing for development. It seeks a reduction in the public debt by about 2.5 per cent per year for the next 10 years.

The draft ordinance as presented by the cabinet had proposed that if the ministers could not conform to the law their salary payments should be suspended. That was only a symbolic provision to make the law effective but the cabinet has dropped that provision as it is too apprehensive of its consequences.

The ordinance is pretty flexible and does allow for deviation from the debt targets prescribed during extraordinary years. But after two years the deviation should be corrected and the government should return to the prescribed debt reduction path. Or the government could obtain prior permission from Parliament for excess spending and borrowing, listing the valid reasons.

be received from the US as new aid — 600 million dollars a year — one billion dollars will be given back to the US to reduce its bilateral debt of 1.8 billion dollars, Interest rates on foreign debt have also come down, in keeping with the global trends.

Domestic interest rates have also been slashed. Interest rates for treasury bills and Pakistan Investment Bonds are also very low. Hence the debt servicing cost has come down this year to Rs. 256 billion from Rs. 319 billion two years ago.

The law while not very rigid, is very comprehensive. It forbids the government from guarantees to debt of public sector organizations like WAPDA, KESC or PIA, including rupee loans, for more than two per cent of the GDP.

After such guarantees the government gave a subsidy of Rs. 53 billion to WAPDA and KESC last year in view of their large losses and continued poor service to the consumers.

The government has also been successful in loan swaps getting countries like Canada and Norway to forgo their loans on condition they will be used for education and public health. More such loan swaps are being sought now to reduce the debt burden and increase the spread of education and public health.

If all goes well, or as envisaged, the debt servicing cost should be &sliding and eventually come down by at least Rs 100 billion from the current Rs 256 billion. Add to that the saving of Rs 50 billion, if not more, from the money spent on the public sector projects which are losing heavily, like WAPDA and KESC. Add to that a part of the incomes from privatization, which may vary from year to year, for the next three to five years.

All that should improve the fiscal picture a great deal and provide enough funds for the government to set up major infrastructure projects as well as promote education, public health and clean up the environment. Of course, the government has to work hard on all these objectives, reduce waste and save more money and root out corruption resolutely.

All that has to begin with promulgation of the ordinance and its implementation by the ministers and the Parliament in real earnestness. Here is a great chance to revere the stark negative trends of the past, and let us do the best of that for the next ten years, or at least the first five years.