The budget's 'social footprint'

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There was a misplaced euphoria in some social sector circles last year over the expansionary fiscal policy evidenced in Budget 2009/10 and the increase in allocations for the social sectors indicated therein. However, as months unfolded, budgetary cutbacks became apparent owing to grinding fiscal constraints and the donor pledges upon which initial social sector projections were hinged remained unrealized.

Learning from this example, not many rational analysts were perturbed by the scale of outlay this time round in the 2010/11 budget books, given that it appeared comparatively more realistic. In any case, the impact of a budget on social outcomes is not an exclusive function of aggregate social sector allocations, as broader fiscal drivers and other factors can also play an important role.

For example, this year the government's attempt to achieve macroeconomic stability as a priority in the budget is important as that is a precondition for generating growth, which can have a positive knock-on effect on employment with a direct bearing on socio-economic outcomes. A concerted attempt aimed at reducing the budget deficit and debt burden can lower interest rates, thereby facilitating access of businesses to finance, with the resulting increase in economic activity generating employment. The important emphatic focus on reforming Public Sector Enterprises (PSE) in the budget speech, if implemented effectively could ease the burden on the national exchequer by rationalizing subsidies, which have crowded out the space for productive investments and redistributive allocations—fiscal space could be freed up as a consequence, which could then be used for social sector programs. The proverbial example of the subsidy to one PSE amounting to more than the entire Public Sector Development Program (PSDP) budget of the federal government outlined in the budget speech helps to put things in perspective. Similarly, with the envisaged VAT tax reform commencing in October 2010, it is projected that the tax base and hence the volume of revenues will increase with the expectation that allocations towards development expenditures would be enhanced.

Whilst all these broader economic measures hold promise, there are many caveats in relation to pinning hopes on them. Beyond achieving macroeconomic outcomes, which by themselves are also not straightforward, the success of these measures in terms of accruing equitable benefits depends on a number of institutional, political and geo-strategic factors independent of fiscal handles—there are just too many unanswered questions within that space.

Would the government be able to restructure/privatize PSEs effectively? That too when every restructuring option would involve tough decisions with job layoffs? Would it be possible for a political government to opt for such decisions when they are resorting to massive public sector job reinstatements in other areas? Would there be a way to counter the culture of collusion in big ticket public procurements in PSEs? Which by the way are the most expedient way of recovering election 'investments', albeit at the cost of massive fiscal hemorrhage of public resources.

With provincial governments presenting deficit or balanced budgets (for 2010/011) in the midst of massive transfer of resources from the center under the National Finance Commission Award and with them signaling lack of commitment to mobilize their own resources through the 'tax-free-budget' rhetoric, would it actually be possible to curtail fiscal deficit within prescribed limits and ingrain fiscal discipline—critical elements of macroeconomic stability? Would the investment climate vis-à-vis the internal security situation be facilitative for businesses to prosper even if policy changes are able to bring interest rates down? Most importantly is there any hope of the energy crisis relenting? As of now, the domino effect of the latter has had catastrophic consequences at the economic and social levels. Would the government be able to successfully implement VAT as a replacement of GST and get past provincial sensitivities and technical issues with implementing the reform? Even if these bottlenecks are overcome and the base of revenue is broadened, the priority it seems, for the use of these additional revenues would be to balance budget books. There is a risk that people may end up regressively paying for public sector inefficiencies and pervasive rent seeking. There are no guarantees that the additional resources would be made available for social sector services such as health and education or that they would be effectively allocated towards grass roots projects which impact the lives of poor. Then is the question of epochal significance related to the quality of overall governance—with elite capture deeply entrenched over the last six decades, the chances of accruing benefits of any positive macroeconomic change equitably to the masses would be limited in any case.

Secondly, concerns about allocations for the social sectors per se, also remain important in their own right. This time round also there is reliance on Official Development Assistance to fund social sector projects, which can be risky if it is outside the tested and committed traditional bilateral and multilateral channels. There are no guarantees that the additional revenues forthcoming would be provided as budget support or under sector-wide approaches thereby being of help to the government vis-à-vis easing pressure on the PSDP. Concerns have also been raised that scaling down of federal allocations for the social sectors might not be covered up, by the provinces correspondingly increasing allocations on their side. Whist this may be true there is no way of documenting this owing to paucity of data in the public domain.

Most importantly, issues of resource utilization will continue to persist. In today's resource-challenged environment getting the best value for money through measures aimed at cost control, plugging pilferages in the system, limiting abuse, and maximizing efficiencies should be a priority. It appears that the potential impact of these measures is not being fully appreciated. The federal government tends to view the National Finance Commission Award as a way of passing on the responsibility of utilizing resources transparently to the provinces. Provinces, however, are plagued by the same, if not more severe public finance management constraints as the federal government. Without recourse to needed reform in this area that institutionalizes transparency and efficiency, the full potential of additional resources will not be actualized.

Moreover, there are issues in relation to priority areas towards which allocations have been earmarked, as for example, in the case of the approach through which health coverage is being structured for BISP families, a discussion around which has appeared in these columns on June 19.

Lastly, the impact of polices outside of the budget on social outcomes merit attention. Two of the expenditure heads that are backbreaking for the common man these days are inflation and power tariffs. Both are influenced by polices outside of the budget. Inflation has complex determinants outside of fiscal and monetary factors. As far as power tariffs are concerned, regulatory agencies have been created, so that oil prices and power tariffs can be changed outside the budget framework, all year through as and when the need arises.

In sum, it is accepted that there are indeed some measures for social relief in the budget, especially the income support safety net program and revision of pubic sector remuneration. However their impact could be offset by withdrawal of subsidies, indirect taxation, and impact of policies outside the budget. Governance constraints and institutional factors may also undermine the impact of macroeconomic measures pursued through the budget instrument on the equity objective. Broader macroeconomic and fiscal measures may have potential, but their impact depends on many factors, which are not technocratic but largely political in nature. Only time will tell if the well-intentioned policy pursued through the budget instrument has had any impact on the life of a common man.

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