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AN ESSAY ON THE POLITICAL ECONOMY OF FISCAL POLICY MAKING IN PAKISTAN

Manzoor Ahmed[1] --- Khalid Khan[2]

[1]*Faculty of Social Sciences, Management and Information Technology, Lasbela University, Balochistan, Pakistan*

[2]*School of Economics, Huazhong University of Science and Technology (HUST), Wuhan, China*

ABSTRACT

This paper investigates the political economy of fiscal policy making in Pakistan, and analyses the key political and economic factors that potentially affect the fiscal policy making and its implementation. The paper argues that the role of the state institutions is paramount for economic growth and social development in Pakistan. While reviewing the trends of public expenditures and revenue the paper shows that the performance of the economy on average has not been abysmal though social development remained poor in terms of pervasive poverty and income inequality in spite of having a big public sector. The paper figures that the key reason of this contrast is the political economy structure of Pakistan, particularly the fiscal policy, which is largely designed to promote and protect the vested interests of an elite group and dominant province(s) within the federation. Finally, while explaining the key participants of fiscal policy making the paper argues that the military as a strong institution plays a primary role, albeit in uncoordinated and authoritarian manner, to reorient the fiscal policy in order to safeguard and promote its institutional interest by directing disproportionately excessive public resources at the expense of greater social and economic development of Pakistan.

Keywords: Political economy, Fiscal policy making, Pakistan, Resource bargain.

1. INTRODUCTION

State plays a pivotal role in determining the economic growth trends and development course the economy. Particularly In least developing countries the very nature of underdevelopment validates for a strong role of state in economic matters. In underdeveloped counties where market forces are weak and dysfunctional, the determinations of macroeconomic issues like sustainable economic growth, income distribution, employment and price stability, theoretically are the prime objectives of policy making circles. Nevertheless, through ostensibly political representatives adopt and implement policies that are best suited for macroeconomic development, fiscal policy literature of majority of developing countries shows that the implemented policies very often fall short in meeting the targeted goals. The reason is largely that politics invariably determines the economic courses, and various groups in political arena compete for maximum shares from the available resources. Consequently, only policies with sizeable supports from all stakeholders get implemented. Ichimura (1989) argues that in underdeveloped countries economic factors are not only considered while shaping economic policies, instead non-economic factors play a key role in this regard. Pakistan being a developing country has those characteristics in term of political economy of fiscal policy as other developing countries do. This paper hence attempts to underline how political economy determines the fiscal policy in Pakistan. Political economy of fiscal issues is examined on three stages. Firstly, considering the economic condition of the country, it shows how the policies are designed and resources are mobilised. Secondly, it underlines that the approval of the prescribed policies are undertaken through majority support, in case of "Collegial[1]" scale, or "Hierarchical[2]" scale. Thirdly, it presents the determination of political economy in the implementation of the policies. In all three stages of fiscal policy and budget making the underlining political and economic factors play a key role.

Pakistan with an estimated population of around 200 million is a federal country composed of four provinces: the Punjab, Sindh, Khyber Pukhtunkhuwa (KP) and Balochistan; the Federally Administered Tribal Areas (FATA), and the Capital Territory, Islamabad. Like the United States, federal units in Pakistan, differ largely in terms of population and geography. For instance, while the Punjab inhabits more than half of the country population (58%), Balochistan with 45% of total national territory homes only 5% of population.

The political economy of Pakistan is complex with dynamic but uncertain politics. Since 1947 the country was ruled by the military and intermitted only with civilian dispensations; even during civilian rule the military played a pivotal role in national politics discourse. With opportunistic political class the country failed to produce a constructive and vibrant political process that could strengthen the political institutions. The economy of Pakistan is one of the great contrasts; it fabricates sophisticated nuclear weapons and missiles yet fails to manufacture a crankshaft. The country has only one inefficient and antiquated steel plant, established with the help of the former Soviet Union in 1970s, but yet to establish indigenous industries for chemical, automobile and electronic goods (Cohen, 2006). Economy on average has succeeded to grow 6% rate since 1950, yet as recent as 2014 more than 50% of her population lives in poverty (Pakistan, 2013-14). The factors which contributed to the state of imbalance in the economy and the prevailing inequity and disparity in different regions and sections of the population include many. Among them the concentration of the economy in the hand of few families and regions in early decades, lingering efforts of nationalisation in 1970s, piling up of domestic debt and gross negligence of social sector in 1980s, widespread corruption and irresponsible and excessive

[1] The collegial rules is one in which more various groups with heterogeneous preferences are in involved in budget making process.

[2] Hierarchical budget making process is that when the power of stakeholders and ministries are limited and only ministry of finance or treasure department finalise the budget (see Alesina and Perotti, 1999. for more discuss).

spending in 1990s and the burgeoning defence expenditure and creation of a bubble economy in 2000s.

Although a substantial amount of literature (see for example, (Noman, 1988; Burki, 2007)) is available that discusses various aspects of politics and economics of Pakistan, nevertheless after a thorough review we came across to the fact that a critical research is required to discuss the political economy of Pakistan in order to bring some vital issues that cause to hinder the evolution of political process to maturity, and jeopardized the social development and economic prosperity. Albeit numerous factors caused this weak state of economic and social development, chief among them is the lopsided fiscal policy. Therefore, this paper attempts to provide an academic discourse on political economy of fiscal policy making in Pakistan. The analysis presented here is relevant to the greater public finance and political economy literature. It makes an academic contribution by critically evaluating certain crucial but academically ignored political economy issues in Pakistan.

This research aimed at providing an in-depth analytical survey of the dynamics of fiscal policymaking in Pakistan. The available literature on the issue although discusses various aspects of fiscal policy making in Pakistan, however, the literature has not discussed the crucial issues related to the political economy of fiscal policy making. Thus, the key contribution of this paper to the related literature is to critically discuss a range of political economy issues that in fact affect the entire fiscal policy making process in Pakistan. In addition, the paper contributes to the literature by highlighting the importance of various institutions in the social and economy development of a country.

The rest of the paper is as follow. First, it provides a brief account of public finance and fiscal policy making in Pakistan, and investigates economic and political factors that affect the process of fiscal policy making. Second, it discusses certain hindrance the fiscal policy may face and the key participants of its making. In addition, it illustrates the strengths and weaknesses of policies and their potential impact on other key indicators of the economy.

2. POLITICAL ECONOMY OF RESOURCE BARGAIN

In a federation like Pakistan the resource sharing takes place under the game theoretic bargaining game principles. In the bargaining game among various stakeholders the weaker stakeholder(s) has less probability to gain optimal resources. This leads to create a situation where the interests and preferences of a dominant group and certain groups are more reflected in public policies [in fiscal policy making process in Pakistan dominant province has higher probability of gaining more resources from national budget than]. The inclination of public policy making towards powerful lobbies and influential province therefore would adversely affect the resource allocation to social sector, which inherently affects poor the most, and smaller provinces. The fiscal policy decisions not only determine allocations to social and economic services it equally affect resource distribution between federal and provincial governments.

Looking at Pakistan's fiscal history one can easily notice that higher public expenditures, particularly the non-development expenditures, caused a burgeoning and unsustainable fiscal deficit. It mainly because the country is a typical example of Weingast *et al.* (1981) theory of "distributive conflicts", where the geographical diversity and social and ethnic heterogeneity make the bringing of the public sector expenses to a manageable level a formidable task. During the budget making each geographical region and vested interest groups in the realm of the federation try to maximise the projects' allocation in the favour of their respective regions, ethnic groups and classes.

Structure of Pakistan's political economy partially resembles Lockwood (2002) model. The model explicitly discusses the domination of one province over other provinces of federation in terms of population. The dominant province, the Punjab, leverages its disproportionate legislative and administrative representations for project selection and fund allocation. Punjab with 58%[3] of country's population enjoys a paramount dominance in public policy making. During democratic regimes the province remains the favourable destination for projects selection due to its majority seats in the National Assembly.[4] In the same way, during dictatorial regimes, the Punjab again has the lead in attracting disproportionately a bigger part of public resources since majority of military and civil bureaucracy personnel hail from the same province. Thus in a "non-cooperative" kind of a federation where one federating unit has more than half of the country's population excessive representation (even more than its population) in public institutions and geographical concentration inherently happens.

However, in order to avoid polarisation amongst the provinces, and for that reason to accommodate other provinces, the dominant province allows some projects to other provinces. It is worth noting that it is very unlikely for the smaller provinces to receive projects at the cost of dominant province. On the contrary, the projects allocated to the latter are in addition to what would already be given to the dominate province. This, therefore, leads to increase the size of the national budget and worsens the budget deficit.

The budget deficit remained higher whenever the country is governed by democratic dispensations. This phenomenon somewhat adheres to the predictions of the Alesina and Tabellini. (1990) political economy model. The model describes that public expenditure and budget deficit is remains higher during elected governments because politicians with different preferences and priorities exert for greater share to their constituencies and regions (Alesina and Tabellini., 1990). The incumbent politicians in the fear of being voted out by their contenders with different fiscal preferences tend to finance the unproductive projects in order to garner new supports or maintain the current one. If opposition party replaces the incumbent, it has to bear the fiscal burden of such public service projects. Thus, during democratic period Pakistan is likely

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[3] See Economic Survey of Pakistan (2013-14).

[4] The annual national budget presents to and passes by simple majority by the National Assembly.

to witness a bigger budget deficit compare to the autocratic regimes. However, unlike dictatorial regimes the democratic dispensations, because ostensibly of their reliance on public support to come to the power, are likely to spend more on public sector development programmes-without cutting the unproductive expense like defence. This therefore causes a huge budget deficit.

2.1. Public Revenues and Expenditures

Being a centralist federation majority of revenues (more than 80%) is collected by federal government with 65% to 70% share of total public expenditures (FBS, various issues). The provincial governments gather 17% to 18% of total revenues while the local governments raise around 2% revenues (Provincial Budget documents, various years). The federal government transfers the collected resources to the provincial governments through the National Finance Commission (NFC) Award[5], such transfers include direct transfers, loans and credits, revenue shares of the provinces and special grants (Pasha and Fatima, 1999).

The Federal Legislative List (FLL) of the 1973 Constitution specifies taxes and duties that the federal government can collect. What is not included in the FLL is collected by either provincial or local governments.[6] Table 1 shows a breakdown of direct and indirect taxes collected by various tiers of government.

Table-1. Direct and Indirect Taxes: Federal, Provincial and Local Level

Government(s)	Direct taxes	Indirect taxes
Federal government	Income tax Corporate tax Wealth Tax Property tax	Sales tax Excise duty Imports duty Exports duty Gas and petroleum surcharges Foreign travel tax
Provincial governments	Land revenue Urban immovable property tax Agriculture income tax Capital gains tax Tax on professions, trades and callings	Stamp duty Motor vehicle tax Entertainment tax Excise duty Cotton fee Electricity duty

Source: Zaidi (1999)

It is worth pointing out that the fundamentals of tax system in the country are full of loopholes with low bases. Further, the tax administration has also failed to bring the agriculture sector, a big part of service sector (capital gain is not taxed, for instance) and the influential class

[5] NFC Award is a formula based mechanism of resource distribution between federal and provincial governments and among the provincial governments.

[6] The provincial governments have the power to make laws to delegate some of their legislative functions to the local governments, including tax collection.

of Pakistani society – tribal and landlords, businessmen, wealthy politicians – under the tax net (Aziz, 2009).

Certainly the tax structure in Pakistan needs a drastic reform but looking at the political economy of taxation one may observe that vested interests have always thwarted any kind of reforms that may challenge their established privileges. Many scholars including Pasha (1995) argue that in the past all intended reforms in the tax system have been frustrated by the influential class. Pasha believes that:

> …behind each major tax exemption or concession there is a strong, entrenched vested group in Pakistan. Each group has organized itself as an effective lobbying entity. Which has not only blatantly demonstrated its power in political terms, but in more subtle terms also has played the game of patronage seeking through party donations, supporting influential politicians, etc., and developed credible arguments for the retention of these exemptions and fiscal incentives in the greater national interest (Pasha, 1995).

Another tax loophole is the tax holidays granted to various industrial zones seemingly to encourage new investments in specific regions. However, these free tax zones failed to boost businesses and investments; instead they provided a safe haven to many businesses for not paying any taxes.[7] Thus, stagnant or even declining tax-to-GDP ratio (see table 2) in addition to the increasing domestic and international debt has limited the size and magnitude of public expenditures that could provide fiscal space to the government to increase or maintain economic stimulus.

Table-2. Tax to GDP ratio (Overall and For Individual Taxes of The Federal Govt.)

year	Direct Taxes						Indirect Taxes						Total Tax-to-GDP ratio
	Income Tax	Corporation Tax	Wealth Tax	Gift Tax & Estate Duty	Workers Welfare Tax	Capital Value Tax	Customs Duties	Federal Excise Duties	Sales Tax	Surcharge	Stamp-non Judicial	others	
1979-1983	1.972	0.570	0.039	0.006	0.011	0.000	5.646	4.131	1.115	0.595	0.002	0.000	14.086
1984-1988	2.084	0.036	0.001	0.000	0.013	0.000	6.068	3.397	1.218	0.000	0.000	0.000	12.816
1989-1988	2.291	0.010	0.035	0.000	0.050	0.000	5.887	2.888	1.992	0.000	0.000	0.000	13.152
1994-1998	3.586	0.000	0.101	0.000	0.033	0.037	4.133	2.537	2.403	0.000	0.000	0.000	12.831
1999-2003	3.216	0.000	0.058	0.000	0.107	0.022	1.693	1.441	3.641	0.000	0.000	0.000	10.178
2004-2008	3.246	0.000	0.000	0.000	0.104	0.051	1.711	0.845	3.945	0.000	0.000	0.009	9.911
2009-2010	3.854	0.000	0.000	0.000	0.108	0.043	1.299	0.949	3.905	0.000	0.000	0.378	10.536

Source: Handbook of Statistics on Pakistan Economy, State Bank of Pakistan (2010)

As indicated in table 3 below, the total expenditure share to GDP increased from 16.21% in 1979-83 to 21.42% in 1984-1988, though afterward it has had a decreasing trend except during 1994 to 1998. Pasha and Fatima (1999) give the following reason for defense expenditure rises during this period:

> ….during the initial first or two years in office, democratic governments tend to reduce this ratio as they perhaps feel sufficiently secure. It starts increasing when they begin to

[7] See, Pasha, Hafiz. (1995). Political Economy of Tax Reforms: the Pakistan experience. *Pakistan Journal of Applied Economics,* vol. II, for a detail discussion on this issue.

experience intensifies political opposition that they tend to increase the defense expenditure-to-GDP ratio, as the first Benazir government did in 1989-90 and the Nawaz Sharif government did in 1992-93 (Pasha and Fatima, 1999).

Expenditures on economic and social services were the first victim when the country started downsizing her national budget size in 1980s that further accelerated in subsequent decades when international financial institutions pushed hard to reduce the size of the government to narrow down the fiscal deficit. The reduction of these expenditures in the interest of debt serving mainly has led to reduce the already marginalised social and economic services, adversely affecting the millions poor.

Table-3. Expenditure to GDP Ratio (overall and for Individual Exp. of the Fed. Govt.)

Year	Current											Development Expenditure	Total exp. To GDP ratio
	General Administration	Defense	Law & Order	Community Services	Social Services	Economic Services	Subsidies	.Debt Ser., Investible Funds and Grants	Grants to Provinces	Un-allocable	Others		
1979-1983	0.75	6.35	0.40	0.32	0.50	0.54	0.90	4.16	0.00	0.00	0.00	2.28	16.21
1984-1988	1.05	7.63	0.40	0.34	0.68	0.39	0.78	7.98	0.00	0.05	0.00	2.11	21.42
1989-1993	0.93	7.33	0.41	0.30	0.66	0.33	0.91	7.87	0.59	0.21	0.00	1.95	21.49
1994-1998	0.97	5.99	0.36	0.26	0.46	0.12	0.31	8.69	0.58	0.27	0.00	1.00	19.02
1999-2003	1.01	4.00	0.25	0.21	0.29	0.20	0.60	8.25	1.01	0.41	0.00	0.63	16.86
2004-2008	N/A	3.24	N/A	0.00	0.00	0.00	0.00	2.11	0.00	0.00	10.18	1.92	17.45
2009-2010	N/A	2.65	N/A	0.00	0.00	0.00	N/A	N/A	0.00	0.00	11.46	2.13	16.24

Source: Handbook of Statistics on Pakistan Economy, State Bank of Pakistan (2010) and author own estimates

3. CASUES OF WEAK FUNCTIONS OF PUBLIC SECTOR

Elite monopoly and corruption pose serious challenges to the effectiveness of public sector in Pakistan because they cause the public expenditures to get diverted to the unproductive and regressive projects with adverse impact on overall budgetary position. For instance, despite looming budget deficit and poor resource generation the military expenditure consumes on average one-third of the total national budget over the years (Siddiqa, 2007; Pakistan, various issues). Given the budgetary constraints and high non-development public expenditures successive governments were forced to keep low target or reduce the investments on social sector (health and education are the key example), physical infrastructure (roads, bridges, ports etc.) and poverty alleviation projects (such as Pakistan Poverty Alleviation Funds). It indicates "an unproductive fiscal priority" is largely brought in place in order to accommodate the interests of specific vested groups rather than the public in general.

Moreover, whatever development expenditure has been carried out, the selection criteria for the majority of public sector projects may not adhere to the needs and preferences of the targeted groups. Consequently, these projects remain failed in providing adequate and effective social services. Thus, the over-centralised institutional structure and weak planning, implementation and monitoring mechanism has led to misappropriating the social services provisions that encouraged the supply-driven instead of demand-driven approach. Supply is channeled in accordance with the responsiveness to the recipients. The centralised planning system has perhaps failed to identify the projects consistent with the needs of targeted communities. Housing schemes and credits for agricultural machinery in 1990s are the prime examples of misplaced priorities. As a result, because of the myriad problems leakages and misappropriations confront the public funds almost always end up in the pockets of the established elites (See (Bengali and Ahmed, 2001; Fatima and Ahmed, 2001; Hasnain, 2008; Hussain, 2008)).

Bengali (2002) pungently puts forward a solution to better social sector delivery in Pakistan by arguing that public sector should mandatorily be decentralised to the provincial and local governments. Such argument gets support from the main stream literature on fiscal federalism, which assets for greater decentralisation of core public sector investments. Oates (1972), for example, shows that the sub-national governments with sufficient amount of funds and developed institutional capacity are far more effective in public service delivery. This argument is based on the strong assumption that such expenditure if undertaken by the decentralised governments with better local knowledge will be tailored to the needs of greater society, and consequently the public sector can be more prudent in playing a redistributive role.

4. PARCIPIPANTS OF FISCAL DECISION MAKING

The political and economic affairs of Pakistan are predominately controlled by the 'establishment'. The establishment ties up together high ranks military and civil bureaucracy personnel, key members of the judiciary, big landlords and other elites (Cohen, 2006). Like other key areas of the politics and economics of Pakistan, the elite or in another word the vital members of the establishment also play the central role in shaping the fiscal policy. In addition, because of the heavy dependence on foreign lending and assistance from International Financial Institutions and donor countries, the fiscal policy also incorporates the directions and suggestions of these institutions. Furthermore, Waheed (2001) believes that courts and media also have an influential role in fiscal decision making. Ahmed and Amjad (1984) include civil society and labour unions in the equation. Despite the historical role of labour unions in key decision making in Pakistan, our research shows that they are no more effective in making any influence to the strategic decisions of the political economy of Pakistan. Similarly, albeit the civil society commands relatively an assertive role in the political economy of Pakistan, yet it needs mobilization and a vibrant organisation to play an influential role in principal national issues including in wielding a meaningful pressure to change the course of the fiscal decision making in their favour.

The *military* that ruled the country for most of the period of her existence has a preponderant and mighty role in every aspects of the political economy.Sherani (2006), Hussain (1999) and Waheed (2001) are in the view that even during civilian rules the military behind the scene played not only a significant power broking role but had a paramount fiscal decision making power. Supporting the same argument Khan (2003) suggests that military is the most important decision making body. Hence, regardless of being on direct governing seat or not, it directs the course and path of the political economy of Pakistan. Looking at the evidence of the military expenditure that on average increased at the rate of 10% in each fiscal year since 1950s (Pakistan, various issues)[8] underlines the military's vital role in fiscal policy making. The military establishment has remained influential in influencing the politicians and civilian bureaucrats in an 'authoritarian and uncoordinated' manner to ensure funneling public finance to certain big businesses owned directly by the military, such as Askari Bank and National Logistic Cell (Siddiqa, 2007).

Second important player in fiscal policy making is the *political class*. Because of the frequent and stringent military intervention in political economy, the political culture failed to take strong roots, which consequently in turn encouraged the politicians to join direct military dictatorship or military-engineered democratic dispensations to gain and retain office in order to expedite or preserve their vested political and economic interests. Therefore, the politicians intend not to challenge the prime decision maker, the military, in fiscal policy decision making. While in office, the politicians are only ostensibly in charge of budget making, in fact they leave the core policy decisions to the military and to some extent to strong business class. Instead, they are more interested in safeguarding and promoting their personal privileges and ensuring to prolong their incumbency. Thus, the politicians' role in fiscal policy making neither has been growth and development-oriented nor redistributive-driven. Rather it has been confined to the insurance of their greater access to the public finance and consolidating personal gains. Another important thing to note regarding politicians' role in fiscal decision making is owing to the fact that they are not accountable to their constituents mainly because of the weak culture of electoral politics and perpetual meddling of undemocratic forces into the political domain.

Fiscal policy is largely reflected in annual budget, and the budget making constitutionally is the responsibility of the *Ministry of Finance and the Planning Commission* with the consultation of public representatives. The role of *Ministry of Finance and the Planning Commission* in fiscal policy is more professional and technocratic. The main function of the Ministry of Finance is to protect the state treasury, prepare federal government annual budget and pursue economic policies aiming to ensure the macroeconomic stability. However, professional role of the ministry of finance is often jeopardized and succumbed to the political and institutional needs of the ruling class. Some policies suggested and pursued by the politicians may have populist support but not necessarily be that of vital interest to the sustainable economic growth and development. As a result politically motivated decisions couple with frequent bureaucratic interventions have largely overshadowed professionalism of the ministry and impeded its role in providing a coherent, sound and sustainable fiscal policy.

The Planning Commission compare to ministry of finance is a young body and has gone through major transitions since 1958, when it was first established. It is a highly technical body which composed of technical members whose expertise ranges from various specialised fields of

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[8] In terms of its share to GDP, the defense expenditure in Pakistan is the highest in the region. See Hasan (1998).. and Siddiqa (2007) for more details.

social sciences with diverse approaches and capabilities (Khan, 2003). During the initial years of its establishment, particularly during 1960s, the commission played a central role in the economic development of the country relating to the setting up the strategy for transforming economy into a rapid industrialisation. However, in ensuing years it lost its scope of central planning and competency of its personnel. This later on led to the failure of the commission in providing guidance to the federal government regarding the country's wider planning issues related to the sustainable macroeconomic and socio-economic development. To Ahmed and Amjad (1984), and Ansari (2001) the prime culprit for making the planning commission's role dysfunctional has been the ruling political and military class that has consistently intercepted into its working to gain personal or departmental favour often at the cost of greater economic and developmental requirements.

Another important participant in fiscal policy making is *bureaucracy*; that is essential for smooth functioning of government machinery in any country (Shafqat, 1999). The main function of bureaucracy is to ensure the implementation of decisions that are made by the incumbent government. Theoretically the role of bureaucracy in Pakistan is to carry out the policy enacted by the public representatives in the government, like in any other country. But ironically in practice it is not only not limited to the delivering policies, instead over the years it also succeeded to leverage a significant role in policy making for itself. As the bureaucracy not elected, but recruited permanently as civil servants, it is not accountable in case it fails to to deliver to the public. Therefore, it would be very naïve to believe that policy making decisions of the bureaucracy can reflect the aspirations of general public (Kennedy, 1987; Shafqat, 1999).

In addition, International Financial Institutions (IFIs) also play a pivotal role in fiscal policy making by the virtue of their large amount of funds provided to Pakistan for budgetary support and other development projects. More than 80% of total multilateral aids to the country came from The World Bank, the International Monetary Fund (IMF) and the Asian Development Bank (ADB) (Anwar, 2006). The World Bank (2004) statistics show that Pakistan is among the top 10 aid recipients of the Bank, which makes the Bank the largest external financial source of the country. The second largest source has been the ADB. The ADB (2002) places Pakistan the second largest borrower of the Bank after Indonesia.

The majority of lending from these institutions fed programmes like Structural Adjustment Programmes and, Social Action Programmes, which were aimed at reforming the financial sector, widening the tax net, reducing unproductive public expenditures and narrowing down the twin deficit – trade and budget deficits.[9] The IMF that has a great deal of influence in fiscal policy making, entered into the picture in 1988, when the first agreement between the IMF and Pakistan

[9] See Anwar, (2006). Structural Adjustment and Poverty: The Case of Pakistan., for positive and adverse role of IFIs in social and economic sector of Pakistan.

was made.[10] Ever since, the country signed numerous tranches with the IMF, mainly seeking to cushion the balance of payments related problems and widening up the burgeoning budget deficit.

The IFIs not only play a key role in rescuing the country from balance of payment problems and supporting its structural adjustment malaise, they also have a significant role in reorienting the fiscal policy of Pakistan. This argument is reinforced by the fact that most of the federal finance ministers, during civilian and military regimes alike, hailed either from the World Bank or from the IMF. For example, Mehbul Haq, former Director of the World Bank, was the Finance Minister in 1988, Sahid Javed Burki, Vice-President of the World Bank, was the Finance Minister during 1990s, Moen Qureshi, Senior Vice-President of the World Bank was the caretaker Prime Minister of Pakistan in 1993 and Dr. Afeez Sheikh, country Director of the World Bank, was the Finance Minister in last Pakistan Peoples' Party led government (2008-2013). The appointment of these officials as the in-charge of finances in Pakistan has largely been VIEWED as a part of the conditionality that the IFIs attach when they embark upon a financial agreement with Pakistan. Thus, it may arguably be asserted that these institutions have a good maneuvering power in fiscal policy making in Pakistan.

Lastly, the functionalities of *businesses* as an organised pressure group in the country are very much ineffective due to its inefficient and disarray organisational structure. However, major business organisations like professional Chambers and Bourses have a role in fiscal policy making, and have the potential to thwart certain policies undermining their interests. For example, because of the fierce resistance from business organisations, the capital gain tax despite attempts by successive governments has not been implemented yet. Particularly Whenever Pakistan Muslim League-Nawaz reins to the power; its business friendly policies implicitly pave a way for big businesses and hence incorporate the business class major suggestions into the final budget.

5. CONCLUSION

Decisions on fiscal policy have always been under the influence of military and civil bureaucracy. The heavy reliance on bureaucracy for fiscal policy making may well be due to autocratic nature of Pakistan's political economy. The public representatives have invariably been kept at arms' length from the key policy decisions including fiscal policy making. Thus, historically the fiscal policy making remained under control of the key elements of the establishment. Certain pressure groups, businesses, politicians particularly with their weak financial and political positions are not effective enough to influence the fiscal policy making. However, recently they gained some power to influence the process. Nevertheless, it is worth pointing out that these pressure groups with increasing power do not reflect the general tendency

[10] Though Pakistan signed an agreement for the time in 1958 with IMF, but due to reasons not known to author, the agreement was not materialized.

of the country. Therefore, under present political and military structure it is unimaginable to expect any public-centered fiscal policy in Pakistan.

The country, notwithstanding having of a reasonable average economic growth rate, performed poorly in terms of human development, compare to other developing countries, and hence lagged far behind in all human development indicators.

The vast majority of the population is poor and marginalised and, have no, or very limited access to the healthcare system of Pakistan. The country spends less than 1% of her GDP on healthcare, which is far from enough to support a huge and rapidly growing population. Moreover, whatever health infrastructure the country has is concentrated in urban centres, despite the fact that more than 60% of the population lives in rural areas.

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