

One government, two directions

I HAVE never seen a prime minister upstage his own government's budget announcement the way Imran Khan did on Tuesday night. It was a surreal experience. The calm, almost schoolboy-like earnestness with which Minister of State for Revenue Hammad Azhar announced the budget provided an almost mirror opposite to the fire-and-brimstone address delivered only hours later by the prime minister through clenched teeth.

Something more important than any of the numbers in the budget documents was revealed in this moment. In a brief flash we all saw the two faces of what is now clearly a bifurcated government. On Tuesday night I actually had to check whether or not there is a full moon, because not many other explanations were working.

Fortunately though, one line in Khan's address gave the game away. That was the line in which he said "now that the economy has been stabilised" before going on to promise bolts of lightning for his political opponents, upon whose vilification he has built his entire political persona. With these words he made it clear that he has nothing to do with the economic management of the country. Those decisions are now being made exclusively in his financial adviser Hafeez Shaikh's camp, and his entourage. And probably a good thing too, because Khan was likely to be too much of a bull in Shaikh's china shop.

We'll come to Shaikh's china shop in a moment. First consider Khan's address. It seemed to be hastily arranged, given the technical glitches and large amount of editing it had undergone before being allowed to be aired, probably the reason why it was delayed by almost three hours. He said that since 2008 the country's debt burden rose by Rs2,400 billion, "and during these years the wealth of these two households also rose by the same speed". Then he clinched it: "The rise of the debt burden is because of corruption."

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The story he built goes like this. "These people" engaged in corruption, made money, sent the money abroad via hundi and hawala channels, and whenever they wanted to bring it back they did so through a remittance sent from a fake account, and sometimes into fake accounts. In the Hudaibiya case, for example, he said something like Rs1bn was involved in such a scheme, and in a later example he said Shahbaz Sharif's two sons laundered Rs3bn in such manner. Never mind for the moment that the details he was sharing in a televised address are part of ongoing court proceedings. The numbers involved provide a sharp contrast to the numbers that were being discussed in the budget speech.

Consider for example that in all the corruption examples one can possibly add up, the amounts involved never go beyond a few billion rupees. Yet the increase in the debt burden that the ruling party enjoys talking about is Rs2,400bn. So something far more than just pocketing this money is going on. Sometimes Khan talks about \$10bn being laundered annually out of the country, though I'm unable to find a clear source as to where this figure is stated.

Azhar's speech a few hours earlier showed some idea of the fact that larger, impersonal and powerful macroeconomic forces exist. He spoke instead of a fixed exchange rate policy that drained the reserves, growing expenditures without concomitant revenues to pay for them, the rising circular debt in the power sector and so on. The budget speech described the problems left behind by previous governments in entirely different terms. The play of macroeconomic forces and critical decisions in economic management were responsible, and the government will seek to rectify these deficiencies beginning with this budget.

This is Shaikh's china shop — a revenue target of Rs1.5 trillion to chase by quite literally grabbing potential taxpayers by the scruff of their necks and making them pay up. The government intends to criminalise non-filing of tax returns, said Azhar on the floor of the assembly, and prosecute people who are not filing and possibly seek jail terms for them. Industry that was used to enjoying sales tax exemption via SRO1125 has been slapped with 17pc levy starting from July 1. The tax plan reads like a war plan almost, so what exactly makes it a china shop you might ask.

It's a china shop because in significant measure the revenue effort depends on people agreeing to cooperate with the government, a bit like the dam fund. The amnesty scheme, which kicks off the entire exercise, is a classic example and it is drawing an anaemic response thus far (though the last few days are usually when the bulk of the response comes in such affairs so let's see). If people don't step forward, the government's message to get tough will stand a bluff called.

The finance bill similarly criminalises a large number of actions, but whether or not the FBR will be able to use these powers to produce revenues (as opposed to settling scores) is yet to be decided.

The revenue plan will not work to the extent that it is supposed to if traders don't step forward to get themselves registered, if businesses do not agree to let their tax-evaded activity become visible to the taxman, if high-net-worth individuals do not declare themselves and so on. Without some level of a game-changing tide of people and entities stepping forward to participate in this plan, the government will be left to tax those who are complying even further.

On how many fronts are they intending to fight? The government cannot fight the political opposition, a growing movement in Khyber Pakhtunkhwa and the media, and at the same time, open a front against the business community, traders and other powerful groups. At some point, it will have to fold. How and when that moment comes will be determined by which face of this bifurcated government is carrying the day when necessity knocks.

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