

FEDERAL BUDGET 2003-04: A RESPONSE TO CRITIQUES

BY

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Various articles have appeared in leading English dailies, criticizing different aspects of the Federal Budget 2003-04, including statistics pertaining to growth, per capital income, exports, industrial growth, employment etc. It is not uncommon to see articles appearing in newspaper and criticizing Budget or the general economic policy of the government. I believe, this is a healthy trend and must be encouraged as government never claims for having exclusive wisdom on economic policy-making. If criticisms are constructive and come along with useful suggestions/recommendations these are highly welcomed by the government. On the other hand, if criticisms are there just for the sake of criticism then no useful purposes are served.

The purpose of this article is not to respond to every critique because time and space will not permit. In this article, I have selected one report and one article which I believe need to be responded or clarified. The Social Policy Development Centre (SPDC) has released a report on the Budget and questioned various statistics. Mr. M. Ziauddin published an article in daily DAWN, questioning the statistics pertaining to exports, manufacturing and employment. The other articles have dilated more or less on similar theme.

Let me begin with the SPDC Report first. It has been observed for the last many years that after every Federal Budget, SPDC publishes numerous articles criticizing every facet of the budget and its statistics. The SPDC has remained true to its tradition this year as well. A report prepared by this Institution on the Federal Budget 2003-04 has been released in a press conference. The report questions the veracity of various estimates of the national accounts for the year 2002-03. In particular, it raises question regarding the basis of 5.1 percent growth in real GDP. It argues that the government has shown higher growth this year by reducing the last year's growth. In its opinion, the actual growth rate

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is 4.6 percent. By alluding to the elements of design in estimating the real GDP growth the Report has questioned the credibility of the members of the National Accounts Committee on the one hand and misguided the readers on the other.

Let me explain briefly the procedures of estimating national accounts for the general readers. There exists a National Accounts Committee (NAC) consisting of more than 40 members representing all stakeholders, including Federal and Provincial economic ministries, trade bodies, research institutions, academic institutions etc. There are hundreds of line departments who supply basic information to the Federal Bureau of Statistics (FBS). The FBS compiles these information in line with the International System of National Accounts and prepare working paper for the NAC. The Committee reviews and examines the aggregates prepared by the FBS and accords its approval for the formal release of the National Accounts. There is no way that the Committee can be influenced to manipulate the estimates. The SPDC report challenges the integrity of such a large numbers of highly qualified professional members of the Committee which is not justified on any morale ground.

Let me now turn to the estimates of 5.1 percent real GDP growth. The report argues that the higher growth rate is achieved because the last year's growth was revised downward. This assertion is highly misleading because the provisional estimates are always based on eight to nine months number and are subject to change when these are revised at the end of the fiscal year. Is this happened for the first time in Pakistan? The historical data speaks volume to the contrary as shown in Table1. The provisional estimates of the real GDP was revised downward nine out of twelve years while it remained more or less unchanged twice and increased only once in 1991-92.

This is an international practice that provisional data are revised on the basis of 12 months number and may change in either direction. Even in the United States, the most documented economy and with strong statistical organization, the real GDP growth number was revised after five years. SPDC Report, therefore attempts to distort the perception of the general readers.

Table-1
Fluctuations in GDP Growth
(% Growth)

	Provisional	Revised	Final
1990-91	5.6	5.6	5.4
1991-92	6.4	7.7	7.6
1992-93	3.0	2.3	2.1
1993-94	4.0	3.8	4.4
1994-95	4.7	4.4	5.1
1995-96	6.1	4.6	6.6
1996-97	3.1	1.3	1.7
1997-98	5.4	4.3	3.5
1998-99	3.1	3.2	4.2
99-2000	4.5	3.8	3.9
2000-01	2.6	2.5	2.2
2001-02	3.6	3.4	-
2002-03	5.1	-	-

As regards per capita income, the SPDC Report does not provide any new analytical dimension over what has already been recorded in the Economic Survey 2002-03. The relevant extract is reproduced here for the benefit of the general readers. “..... Most importantly, the real GNP registered a handsome growth of 8.4 percent in 2002-03 as against 5.3 percent last year, mainly on account of 472.2 percent increase in net factor income from abroad, which, in turn, is the result of a sharp increase in the inflow of workers’ remittances and foreign direct investment in the country” (page 3 para 1 of the Economic Survey, 2002-03).

The SPDC Report also argues that the base of manufacturing growth is too narrow and that 8.7 percent growth in industry mainly stems from textile, automobiles and sugar. This is factually incorrect and highly misleading. The industrial growth during 2002-03 has been broad-based and beside textile, automobiles and sugar there are a large number of industries which have registered a double-digit growth. For example, paper and paper board (15.7%), tyres & tubes (16.2%), metal products and machinery

equipments (18.4%), cement (20.5%), tractors (16.5%), bicycles (16.9%), TV sets (59.1%), Billets (14.0%), refrigerators (23.1%), soda ash (12.9%) etc.

As regards exports growth driven mainly by the textiles, the SPDC report does not go beyond stating the obvious. The Economic Survey 2002-03 has itself expressed concern on the concentration of export in few categories of items (see page 132, para 1).

Let me turn to the article written by Mr. M. Ziauddin entitled “Economic Survey: Tallying Claims Against Facts” published in the Economic & Business Review (June 9 – 15, 2003) of the daily “DAWN”. In this article the author has attempted to link export growth with industrial growth as well as with increased utilization of capacity in the manufacturing sector with employment. He has described substantial growth in exports (20.8%) as “nothing short of a miracle” because he could not find corresponding increase in growth of textile items in manufacturing sector. Furthermore, when he links with increased utilization of capacity in manufacturing sector he could not find corresponding increase in employment. Therefore, quoting the so-called independent economists the author argues that exports “cannot grow at the fantastic rate of over 20 percent in the face of depressed production of export goods in the country”. Similarly, he argues that if capacity utilization has increased “then why has this not been reflected on the employment scene. You do need extra hands to man the increased production activity”.

It is abundantly clear that this article has been written in the backdrop of lack of exposure to methodology and system of national accounts estimation pertaining to manufacturing as well as the knowledge about how the employment/unemployment numbers are collected in the country. The author argues that exports grew by over 20 percent and most of the growth has come from exports of textile items. However, manufacturing sector shows that production of textile items grew only by 5.2 percent. Therefore, he is not ready to accept such a higher growth in exports. The problem is that the author is trying to compare the exports growth of 2002-03 with manufacturing growth which is measured at the base year of 1980-81. What was the state of textile sector in 1980-81 (some 22 years ago)? Is it comparable of today’s textile sector? The answer is

no. The textile sector of today is much diversified and more modern than it used be some 22 years ago. Furthermore, the author has compared dollar value of exports which is the combination of quantity and prices. A growth of over 20 percent in exports is the result of growth in quantity and growth in dollar prices. For example the unit values in dollar term of various categories of textile exports are up in the range of 10 – 40 percent. Therefore, comparing dollar value of exports (combination of quantity and prices) with production of textiles items (in quantity only) in manufacturing will lead to wrong conclusions. Therefore, the linkage of exports growth and manufacturing is misplaced.

As regards increased utilization of capacity in the manufacturing sector and linking this with employment/unemployment number, is again misplaced. The increased utilization of capacity in 2002-03 cannot be linked with employment/unemployment statistics because the later is estimated through Survey. The last Labour Force Survey – the main source of employment/unemployment number, was conducted in 1999-2000 and was released only recently. Can we link the developments taken place in 2002-03 in one sector of the economy with employment/unemployment statistics of 1999-2000?

Fiscal year 2002-03 has brought additional sings of improvement. This has been acknowledged by various International Financial Institutions. Pakistan is beginning to recover from its difficult past but there is no room for complacency. There are many challenges that lie ahead and one of the key challenges is to sustain the gains. These gains can be sustained provided we keep good policies on track, remain fiscal responsible, maintain political stability and minimize regional tension. For critiques, let us learn to celebrate our success. Let us believe that things can improve in this country as well. Be positive and think positive but at the same time do criticize the government in a constructive way.