

Practice of Coalition Government and its Effect on Current Economic Policy of Nepal

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Abstracts

In the context of Nepal, economic policy is guided by constitution and law. However, to some extent economic policy is guided by the manifesto of political parties and interest of key political leader. Theoretically, Nepalese economic policy is broadly guided by either socialist or capitalist ideology. Since the establishment of republic in Nepal, economic policy is guided by agenda of communist party. In this context, the study analyzes how the policy of coalition government impact overall economic plan of Nepal. The study followed the qualitative research design that analyzed the issue raised in research questions. Secondary sources of data were used for this study and conclusion of this study has been made on the basis of secondary source of the data. On the basis of data analysis, it is found that coalition government directly influenced on the economic policy of Nepal because political parties try to incorporate their minimum policy in governmental policy.

Keywords: Nepal, economic policy, impact, coalition government

1. Introduction

Economic policy of Nepal is guided by liberalization, however, after promulgation of the constitution of Nepal 2015, principle of liberalization changes and the nation lead to the way of socialism. Main legal document of Nepal, the constitution of Nepal 2015 clearly mentioned that economic policy of Nepal shall based on the principle of "socialism-oriented". The following lines of the constitution mentioned the provision as:

The economic objective of the State shall be to achieve a sustainable economic development, while achieving rapid economic growth, by way of maximum mobilization of the available means and resources through participation and development of public, private and cooperatives, and to develop a socialism-oriented independent and prosperous economy while making the national economy independent, self-reliant and progressive in order to build an exploitation free society by abolishing economic inequality through equitable distribution of the gains. (Constitution of Nepal, 2015, Directive principles, Articles, 30, 3)

Above lines indicate that Nepalese economic policy is guided by the principle of socialism and only the way of socialism economic prosperity of the nation will be ensured, however, the constitution could not maintain consistency on its' principle because in next clause same constitution mentioned contradictory version as, "...to achieve economic prosperity by way of optimum mobilization of the available means and resources, while focusing on the role of private sector in economy. (Articles, 51 d., 2). In socialism, the role of private sectors is controlled and the role of state in economic development is increased but constitutionally our economic policy neither leads into socialism nor capitalism. During the time of Panchayat system economic policy of Nepal had met same fate that neither followed the principle of liberalism nor socialism. Political leaders later blamed the political system

and changed the system with the establishment of democracy in 1990. The constitution of Nepal 1990 clearly mentioned that, "Entrepreneurship develop through private partnership" (Articles, 25). The constitution of Nepal 1990 firstly opens the gateway of government and government funded public company and organizations were converted into the private company. Some of the government funded companies were dissolved and state led into the path of capitalism. Such practice could not lead smoothly because Maoist civil war began in Nepal in 1996 and they targeted and hit private companies and business institutions. In that situation neither government funded nor private enterprises well functioned in Nepal. At that time Nepal adopted the policy of privatization because privatization act had enacted in 1994. Nepal government ensured that government should concentrate on public welfare rather than involved in business so that many public companies were converted into private company. During the period of 1990 there were 63 public companies in Nepal and it reduced and limited in forty in 1995 (Adhikari, 2000). At the time of that government national economic policy was guided by the motto of the enhancing private sector. In this regards, K.C. (1999) highlights:

Several major influences have propelled the privatization movement: pragmatic, economic, ideological, commercial, and populist. The goal of the pragmatists is better government in the sense of a more cost-effective one. Economic affluence reduces people's dependence on government and increases their acceptance of privatized approaches. (24)

At that time Nepali congress ran the government and the party followed the principle of privatization. Government policy also made on the basis of the guideline and principles of the party. Opposition political party, Nepal communist party was against the policy and debate had gone side by side and people were confused on the economic policy of the government. At that time of government, privatization act was enacted in 1994 and defined the privatization as, "privatization's "involving private sector in the management of the enterprise, or to sell or lease it, or to transfer government ownership into public ownership, or an act to infuse participation by any means, either wholly or partly, or private sector or of the employees or workers, or of all desirous groups" (Article, 2.b.). Generally, the term privatization refers to the transfer of state ownership from government to private sector. It also refers to narrow down the government activities and broaden or widen private sector activities and efficiency in the economy (Alesina, 1987). Privatization also the means to reduce the government involvement in the economy and adopt the market driven, liberalization, and free economy policy (K.C., 1999). Through privatization, government brought various policy and program to handle economic policy. Nepali Congress adopted the privatization as main economic agenda.

Various communist groups follow the policy of nationalization of business organizations. They have given the name socialism and set the economic agenda on the basis of socialism. In early period Nepali congress also mentioned socialism as main agenda for economic development but now Nepali congress seems silent in economic condition and is involved in communist agenda.

In Nepal economic policy has been formulated in five years as five years development plan and annually as form of budget. After promulgation of interim constitution of Nepal 2006, Nepal constitutionally entered into the stage of republic and new economic policy has been formulated. The policy neither totally accepts the liberalization and capitalism nor adopts socialism. Interim government had been formed in 2007 with coalition between Nepali Congress and communist groups including CPN UML, Maoist. Since then Nepal formally began practice of coalition government with common economic policy. Communist

groups and Nepali congress jointly worked during the time of promulgation of constitution of Nepal 2015. In the constitution making process both Nepali congress and communist group tried to comprise their interest. So, the constitution neither followed agenda of communist nor congress. Constitution had been made in weak legal foundation and economic policies that are formulated on the basis of the interest of key political leaders. The study analyzes how coalition government (government of Nepali congress and communist groups) play role to formulate economic policy in Nepal and how they maintain their agenda in economic policy.

2. Methodology

The study has been based on qualitative research paradigm and secondary and primary sources of data were used for this study. Books, articles, thesis, dissertations and reports were the main secondary source of data. Secondary information has collected through library research method. Interpretive technique was used for this study and highlighted the issues through interpretation of the information in natural setting and situation.

3. Impact of Coalition Government in Economic Policy of Nepal

Current government was formed with joint effort of major four political parties including Madhesi political party people socialist party (Janata Samaj Badi party), CPN United Maoist, CPN (Unified Socialist) and people socialist party plays major role to formulate government in the leadership of Sher Bahadur Deuwa, chairperson of Nepali congress. In the leadership of Sher Bahadur Deuwa, CPN, United Maoist, CPN (Unified Socialist) and people socialist party are involved. Parties have formulated and mentioned economic policy in their manifesto but in coalition government, no one can assure the agenda of party in national economic policy. May 27, 2022 Finance Minister of coalition government Janardhan Sharma presented the budget of nation for the fiscal years 2022/23. He as finance minister of coalition government, presented some of the programs which are related to the agenda of CPN united Maoist. Similarly, he is also compelled to include the agenda of Nepali congress such as agenda of privatization of public enterprises. Privatization is the main agenda of Nepali congress and it sees the dream to bring prosperity of the nation through privatization. Agenda of privatization is main economic issue of Nepali congress. Like that socialism is the main agenda of communist groups. In the formation of economic policy the following elements play role in Nepal.

- a. Agenda of Political Parties: political parties are the major agency of democratic government so that agenda of political parties always plays vital role in the formation of economic policy. In the context of Nepal major three political parties, NC, CPN, UML and CPN United Maoist play vital role on economic policy. Political party tries to incorporate the agenda on the basis of manifesto, however, only few cases political party can fit in agenda in economic policy. For the first time Man Mohan Adhikari, the first prime minister of Nepal fit in his agenda in economic policy (Budget of fiscal years 1995/96) and managed old age allowance. Like that Nepali congress also fit in the privatization policy in the budget of fiscal years 1993/94 and privatized some public enterprises. It showed that the impact of the agenda of ruling party in economic policy of Nepal.
- b. Donor Interest: Interest of the donor also play role in economic policy formation of Nepal. Nepal cannot handle large scale program and infrastructure. Large hydro power project, road construction projects are handled according to the interest of donor agency. MCC project is one of the examples that are running on the interest on American government and American donor agencies. Some economic policies are formulated on the basis of international development agencies and financial institutions like IMF, ADB and World Bank.

- c. **Regional Development Policy:** Regional development policy like the policy of India plays essential role to formulate economic policy in Nepal. Economic policy of Nepal also has influenced by regional organization like SAARC, BEMISTC and ASSAIN. However, regional organization like SAARC has not actively performed its role for economic development. India and china relationship, economic policies of china and India, regional conflict and peace create a situation which also impacts of economic policy of Nepal.

4. Other Factors

Price factors, interest and attitudes of finance ministers also play role on economic policy. In the context of Nepal, role of finance minister is effective in economic policy formation. During the time of KP Oli, finance minister Yub Raj Khatiwada incorporated certain agenda in whole economic policy. Like that Ram Sharan Mahat, Finance Minister of Nepali congress also set his agenda in Economic policy. In current budget 2022/23 some aspects are also incorporated by the interest of finance minister. Budget (2022/23) Highlights:

The minister of Finance, Janardan Sharma announced the Budget of Nepal for Fiscal Year 2022/23 after approval of the cabinet meeting in the coalition sitting of the federal parliament.

Budget Goals: Stability, productivity, and employment growth.

The major purpose of the budget is to decrease imports by 20% and increase export by double.

Budget Size: 17.93 Kharba, Re-Current Expenditure 7.53 Kharba. Capital Expenditure 3.80 Kharba (21.2%). Financial Management 2.30 Kharba (12.8%). Financial Handover to Province/Local Government-4.29 Kharba (24%) (Budget Bulletin, 2022/23).

Above budget also addresses the common agenda of coalition government so the size of the amount of the budget is larger than the previous years. Source of the budget also different from last years as, "through tax - 12.40 Kharba, through grants -55.46 Arba, through foreign loans- 2.42 Kharba, through internal loan- 2.56 Kharba (Budget Bulletin, 2079/80). Nepal Budget FY 2022/23: Key Highlights and Takeaways following program as:

NPR 14 billion for the Ministry of Labor, Employment and Social Security. NPR 45.09 billion for the Ministry of Agriculture. NPR 180.04 billion for the Ministry of Education. NPR 1.20 billion for women, children, and senior citizens. NPR 7.60 billion for concessional loans to farmers. NPR 12 billion to establish chemical fertilizers. NPR 4 billion to procure health and medical supplies to combat COVID-19 pandemic. NPR 400 million for skill development training. NPR 2.5 million for the security of educational security certificate. NPR 4,000 for senior citizen allowance per month. 33% rise in all types of social security allowances. 50% subsidies in farm insurance premium. NPR 12,000 transport allowance to the health volunteers ((Budget Bulletin, 2022/23).

Above data shows that the priority of the budget has determined by the interest of both communists and Nepali congress. Agenda of privatization is related to the economic issue of Nepali congress and other programs like distributive budget to the people through social welfare programs are the agenda of Communist. In economic policy like budget, we can see the direct impact of the party agendas that involved in current government.

Due to rising development expenditures, Government expenditures during the Plan have more than doubled. In a low income country like Nepal, a large part of any increase in income is spent on the purchase of food and other essential consumer goods. This tends to

push the prices of these goods upward. Prices are also under pressure due to increasing population. As Nepal has been lagging in socioeconomic development compared to other nations of similar ranks in the past, it is imperative to make giant strides in the pace of socioeconomic development (Government of Nepal, 2019). Mainly Nepal set four economic policies as Monetary policy, fiscal policy, supply-side policies, microeconomic policies, tax, subsidies, price controls, housing market, regulation of monopolies, labor market policies and tariff/trade policies. Among them price control, tax policy, trade policy are annually revised through annual budget. Fiscal policy is developed through two model that Jones and Skinner (1992) notes :

The model has two main blocks real sector and fiscal sector. The real sector block starts with specifying sources of economic growth followed by fiscal sector which provides estimates for government resources, expenditure, budget deficits and sources of deficit financing. The model develops strong inter-linkages between these two blocks as government capital expenditure becomes one of the important sources of economic growth while revenue is the function of Gross Domestic Product (GDP) in the public finance block. In addition to this, budget deficits and domestic borrowings are linked to GDP. Thus, the model comprises both the direct and feedback effects.

Fiscal policy has determined by two factors such as affluent on resources and capital expenditure. Real sector of the economic plan is guided by the political agenda of the political parties and fiscal sector of the policy has prepared by the administrator or economist (Schofield, 2001). In the context of Nepal governments at all levels use information, especially input and process information, to decide upon revenues and expenditures, and to assess performance. From the prospective of political party, the information is managed by agents to advance self-interest. For the economic policy political parties create agenda on the basis of field experiences and availability of the resources. Stevens, (1994) notes, Managing the exchange of information is likely to be a challenge, however, because principals and agents often have conflicting interests, have "different types and amounts of information, and have different incentives to reveal that information". The agency dominance perspective is very appealing, especially from a conservative economic point of view, but it is not without criticism. Frey & Jegen (2001) explains "It has a deep and rich theoretical basis that, like the legislative dominance perspective, is based upon a conflict that its supporters say characterize the decision-making process, but its impact on actual policy making may be overstated" (p.6). The information is exchanged so that both sets of participants might adapt and learn in a dynamic, yet resource constrained environment.

In the context of Nepal, currently economic policy has been on the basis of the agenda of political parties. Political parties are the active agency of policy making process. In present time government was formed by Nepali congress, people socialist party, and other two communist groups CPN United Maoist and CPN (Unified Socialist) party. Fiscal policy of Nepal made on the basis of the common agendas of these parties that can be seen in fiscal policy of 2022/23.

5. Conclusion

Political party plays great role on economic policy formation. They are the active agency of implementing fiscal policy, however, personality of finance minister, global economic scenario, influences of donor agencies, interest of developing partner, influences of regional economic agenda also affect economic policy. In the context of Nepal, economic and fiscal policy of India also plays role because Nepal has fixed value with Indian currency. In



the context of fiscal policy of 2022/23 both poles of politics, democratic and communist poles equally contribute to incorporate the agenda in budget.

6. References

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