



## Pathfinder Economic Flash

### **More Privileges for Privileged: Penalizing the Less Privileged *Permit Raj Sri Lankan Style***

#### **Rise and Fall and Rise Again of Permit Raj?**

Sri Lankans have seen the rise of the “Permit Raj” during 60s and 70s. From the late 70s, there has been a steady removal of permits, licenses and other bureaucratic approvals. This has made Sri Lanka one of the most liberal regimes in the region, though there has been some reversal in recent years.

At the present, the country is striving hard to become one of the easiest places for doing business in the world. However, there are a few areas where permits and licenses have been accepted as norms of our day-to-day business.

The most notable element of the current permit regime is the “Duty Free Permit” for vehicle imports. Historically, Duty Free Permit Schemes were introduced as a way of providing incentives for the professionals (doctors, engineers and other public servants with recognized postgraduate qualifications) to retain them in the service of the country. Of course, time and again our politicians and officialdom have proved that they are very talented at devising schemes to benefit themselves. In the case of the vehicle Permit, first the definition of professionals was diluted to include every as many as possible. This was followed by the political leaders discovering that Duty Free Vehicle Permits were a most lucrative way of distributing patronage, initially at the national level and later at the provincial and Pradesheeya Sabah levels. As we all know, any rent-seeking or corrupt scheme spreads faster than any virus known to human beings.

#### **Most Scandalous Scheme approved by and Silenced All**

Now, the so-called Duty Free Vehicle Permit Scheme has become the most scandalous government sponsored scheme. First, the politicians, professionals, bureaucrats and other influence-wielding and influence-seeking segments of society have become the recipients of this

undue privilege. Most unfortunately, even highly respected opinion-makers and religious dignitaries have become the beneficiaries of this Duty Free Raj.

If the recipients are the real, genuine users of these Vehicle Permits, one could argue that there is some justification for providing this privilege, though it is undeserved for many recipients and creates severe distortions and corrupt the vehicle market. The way this scheme operates is no secret to anyone in Sri Lankan society, from school children to elderly persons, top politicians and senior policy-makers to clerks and peons of the government service. Even the private sector and people in remote villages are very much aware of this Duty Free Vehicle Permit scandal, as the vehicles imported on these Permits are regularly visible on their roads and by-roads. Of course, the de-facto beneficiaries and users of these mostly luxury and extremely fuel inefficient vehicles are the most privileged segment of society who, in any case, have the purchasing power to buy a luxury vehicle paying the applicable taxes. In effect, the government ends up subsidizing the affluent class of people in addition to the politicians, professionals, religious dignitaries etc. Also this scheme provides incentive to corrupt entire business community, professionals, and politicians and bureaucrats at all levels.

### **Increasing the Vehicles Tariffs while Expanding the Duty Free Permits?**

Most disturbingly, the government has, from the 2012 budget, increased the tariff on all car imports from smallest, lowest prized cars to the largest luxury ones- including fuel saving hybrid vehicles. In practice, this government policy has disadvantaged the less privileged, lower middle class who can barely manage to purchase even a small vehicle or a hybrid, which are low cost not only for the buyer but for the economy as a whole.

### **Towards a More Sensible and Honourable Policy**

The current Vehicle Permit Policy raises a number of inconvenient questions:

1. Can this policy of increasing vehicle duties and simultaneously issuing Duty Free Permits to the privileged, who in turn, illegally transfer them to another set of privileged so called businessmen or mudalalis be justified in any way?
2. Is there discrimination taking place against private sector professionals who have the same qualifications?
3. Can the revenue loss be justified at a time when the government is finding it difficult to find the money to maintain the current level of service provision to the poor and vulnerable?
4. Can subsidizing fuel-intensive vehicles be justified at a time when the government is having difficulties in meeting the oil import bill?
5. Is distorting the car market by discriminating against low cost fuel efficient vehicles and hybrids be acceptable from an environment or economy wide cost efficiency perspective ?

This raises the question as to what should be the solution. Ideally, a reduction in the overall tariff on all vehicles would serve to address some of the distortions in the market, as well as inequities in terms of beneficiaries. It is also likely to mobilize more revenue for the government.

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