

PAKISTAN'S ECONOMIC CHALLENGE AND THE BUDGET

Prof. Khurshid Ahmad

INSTITUTE OF POLICY STUDIES

JULY 1979

PAKISTAN'S ECONOMIC CHALLENGE
AND THE BUDGET

AN ANALYSIS OF THE BUDGET (1979-80)
IN THE CONTEXT OF THE MAJOR ISSUES
FACING THE PAKISTAN ECONOMY AND A
PLEA FOR A NEW ECONOMIC STRATEGY

PROF. KHURSHID AHMAD

INSTITUTE OF POLICY STUDIES

H. 3 ST. 56 SHALIMAR 6/4 ISLAMABAD
PHONE 24930 CABLE 'POLICY' IBD.

JULY, 1979.

| | | |
|----------------------|------|---|
| Publisher | | Institute of Policy Studies |
| Printer | | Hafiz Shafiqur Rehman at S.T. Printers, Rawalpindi |
| No. of copies | | 1,000 |
| Price | | Rs. 35.00 |
| 1st Edition | ... | July 1979 |

C O N T E N T S

PAGE NO.

PREFACE

PART-1

| | |
|--|----|
| INTRODUCTION | 9 |
| CHAPTER-1: GENERAL POLICY OBJECTIVES | 11 |
| Declaration of the 12th Rabiul Awwal and Economic Policy | 11 |
| Towards Socio-Economic Justice. | 12 |
| Objectives of Islamic Economic Policy | 13 |
| CHAPTER-2: THE STATE OF THE ECONOMY | 15 |
| Development Strategy that Failed | 15 |
| Failure of Socializing Experience | 16 |
| The Last Two Years | 17 |
| An Economy in Oxygen Tent | 20 |
| CHAPTER-3: MAIN PROBLEM AREAS | 21 |
| Agriculture and Industry | 21 |
| Structural change in the Economy | 22 |
| Labour and Related Problems | 23 |
| Balanced Regional Develop- ment | 24 |
| PART-2 | |
| A CRITIQUE OF THE BUDGET 1979-80 | 25 |
| CHAPTER-4: THE BUDGET 1979-80 | 27 |
| Strategy of the Budget | 27 |
| The Budget Size | 28 |
| Too many Gaps | 29 |

| | | |
|-------------|---|----|
| | The Budgetary Burden | 30 |
| CHAPTER-5: | THE BUDGET IN PERSPECTIVE | 32 |
| | The Budget Stereotype | 32 |
| | Major Problems Ignored | 38 |
| CHAPTER-6: | THE CHALLENGE OF ISLAMIZATION | 40 |
| CHAPTER-7: | BASIC CONCEPTS AND ASSUMPTION OF THE BUDGET - A CRITIQUE | 42 |
| | Consumption vs. Investment | 42 |
| | Government spending: An Unmixed Blessing? | 44 |
| | Taxation vs. Deficit Financing | 45 |
| | Is ban on luxury imports anti-economic and anti-social? | 46 |
| | Income Tax: Is it an effective instrument to reduce inequalities? | 47 |
| CHAPTER-8: | SOME CONTRADICTIONS OF THE BUDGET-OR ARE THEY "CONFIDENCE TRICKS" | 49 |
| | Trade Gap and Budgetary Policy | 49 |
| | Correcting Price Distortions | 50 |
| | The Fate of Self-reliance | 54 |
| CHAPTER-9: | SOME SOCIO-ECONOMIC CONSEQUENCES OF THE BUDGET | 55 |
| | Inflationary Effects | 55 |
| | Equity Consideration | 59 |
| CHAPTER-10: | NON-DEVELOPMENT EXPENDITURE | 63 |

| | | |
|------------------------|--|-----------|
| PART-3 | <u>WHAT SHOULD BE DONE?</u> | 71 |
| | CHAPTER-11: TOWARDS A NEW STRATEGY | 73 |
| | National Consensus Approach | 73 |
| | Policy Objectives and Planning Strategy | 74 |
| | Living Beyond Means | 76 |
| | Growth Targets | 76 |
| | Tax Reform | 77 |
| | The Problem of Income Tax | 78 |
| | Capacity Taxation | 79 |
| | CHAPTER-12: GUIDELINES FOR RECASTING THE BUDGET 1979-80 | 80 |
| | Objectives and Strategy of the Budget | 80 |
| | Identification of Action Areas and Some Proposals | 82 |
| | Development Expenditure | 82 |
| | Non-Development Expenditure | 85 |
| | Resource Mobilization | 87 |
| | Policy Towards Small Industry | 87 |
| | Foreign Remittances | 89 |
| | Taxation | 91 |
| | Conclusion | 94 |
| | | 95 |
| | Comments on Revision to the Budget 1979-80 | 97 |
| | A Public Opinion Survey on the Budget of 1979-80. | 100 |
| <u>APPENDIX</u> | | |

PREFACE

The real significance of the Budget of 1979-80 is that it is the first budget after the historic declaration of the 12th Rabiul Awwal, heralding the beginning of the introduction of the Islamic Social Order in Pakistan. But the budget, when announced on the 28th June, 1979, fell like a wet blanket on the new hopes the nation had nurtured for the day. The disappointment has been almost universal.

We are offering a critique of the budget and its underlying economic philosophy and development strategy. The present study tries to bring into sharp focus the economic challenge that besets the Pakistani nation, which has committed itself to establish a just and humane society based on Islam. What are the economic implications of adopting Islam as socio-economic order? How can they be realised in the context of Pakistan's present day socio-economic reality? What changes can justifiably be expected in the light of this change of direction? Has the new budget set the country along that road or does it represent a movement in the reverse gear? Are we heading for a radical transformation of economic policy aiming at achieving economic growth based on justice or are simply engaged in protecting and perpetuating the status quo?

The budget has to be evaluated in the light of these questions. This task deserves to be performed with intellectual honesty and academic rigour. We have tried to make a very humble effort to delineate the nature of the economic challenge we face. We have made a critical examination of the budget and have found that it has failed to meet this challenge. We have not confined ourselves to criticising the budget, we have also tried to spell out what needs be done. Ours is a plea for a new approach to the country's economic problems and for evolving a new strategy for development. We have tried to outline the major contours of the new strategy and have suggested how resource mobilization can be undertaken in the country to achieve the policy objectives suggested in this paper. We have also spelled out some guidelines for recasting the budget, if it is to serve the national goals.

The present study has been undertaken as a piece of academic research and is being submitted before the nation and its decision-makers. If it helps in gravitating the current debate on the budget around certain key issues and in giving it an ideological anchorage, we would feel more than rewarded.

This study was released on the 22nd July, 1979 and reached the public and the policy-makers in the midst of the debate on the budget. Its salient points were widely reported by the national press and the writer has been deeply impressed by the interest people have taken in this study. As only a limited number of copies of the complete study was produced, its supply could not match its ever-excelerating demand. An exhaustive summary was also produced but in view of an unending stream of requests for the complete study a new edition of the study is being produced. An opportunity has been taken to proof-read the material once again and to add the appendices to the new edition: first, a statement from the author on the charges made by the President in the budget (July 27, 1979) and second a public opinion survey on the Budget.

The views and suggestions contained in the study remain the exclusive responsibility of the writer. They do not reflect the views of any particular group, or even of the Institute of Policy Studies, which is non-partisan. All studies produced by the Institute represent only the views of their authors.

Before I conclude I would like to thank all my colleagues in the Institute of Policy Studies for working day and night to produce this study in time, enabling me to reach the nation and its leaders when they are struggling hard to decide the fate of the budget.

30 July, 1979
Islamabad.

KHURSHID AHMAD

P A R T - 1

I N T R O D U C T I O N

- o General Policy Objectives
- o The State of the Economy
- o Main Problem Areas

GENERAL POLICY OBJECTIVES

A budget is not simply an annual financial ritual; it is an index of the socio-economic objectives of the Government, a framework for rational policy decisions, a tool of effective economic and financial management and an instrument for translating its ideals and priorities into concrete programmes backed by financial sanctions. That is why a budget also represents in the life of a nation a time for taking important decisions. The budget of 1979, however has a special meaning for the people of Pakistan. It is the first budget after the historic Presidential declaration of the introduction of the Islamic Order on 12th of Rabiul Awwal 1399/10th February 1979, spelling out a strategy for making an orderly transition to the Islamic Order.

Declaration of the 12th Rabiul Awwal
and Economic Policy:

Islam is a complete way of life. It stands, not for the defence of the status quo, but for a complete transformation of human relations on the foundations of Tawhid, human brotherhood, the rule of law and socio-economic justice. What was the economic programme of Islam as enunciated in the 12th Rabiul Awwal declaration? It emphasised two key Islamic economic concepts: the introduction of Zakat and the abolition of Riba. Both of these constitute the pillars on which the superstructure of Islamic economic programme rests, symbolizing as they do, the Islamic ideals of a just society. Zakat means purification, leading on to growth - a special kind of economic growth which ensures moral and spiritual purification as well. By integrating the moral considerations with material pursuits, it makes economics to serve the spiritual and social objectives of an Islamic Society. It ensures an equitable distribution of income and wealth and aims at abolishing poverty and destitution, alleviating human misery and servitude, and breaking the hold of the few on national wealth.

Zakat is paid by every Muslim having a specified minimum of wealth. This makes it the most broad-based direct tax in the fiscal armoury. It is estimated that about one third of the households in Pakistan would be paying Zakat, while on the receiving end will be the poorest one third. This will ensure almost universal

participation of the population in the economic process. And since Zakat will be collected and disbursed at the local level, it will be a powerful policy instrument to promote rural regional development as well.

The abolition of Riba symbolises a national resolve to bring to an end the extant economic exploitation. Islam abhors Riba because it sanctifies capitulation to vested interest, preventing a just reward to all the participants in the economic processes. A system based on Riba ensures that a certain class of people, the capitalists, gets a fixed, pre-determined reward without sharing in the risks. However, it should be noted that the abolition of Riba does not mean that there would not be any reward on capital. Islam wants capital to participate in the process of production sharing in both the risks and the rewards. A Riba-free economy, which would be based on the principle of equity-sharing at all levels—depositors, borrowers, investors—, would be a more just, more efficient and more welfare oriented economy.

Towards Socio-Economic Justice:

It is, therefore, of great importance that the Government has taken the first step in the right direction. However, we must be watchful about the next steps without which the programme would not be able to bear fruits. Two points deserve to be noted in this connection.

First: these initial first steps should be followed by an efficient implementation of the Zakat programme in its totality, in all parts of the country and, most important, in its true spirit. Similarly, preliminary steps to eliminate interest from House Building Finance and Investment Finance must be followed by the development and introduction of viable schemes for the establishment of Riba-free financial relations and institutions in all parts of the economy. However, this is easier said than done. Imaginative research and sustained efforts are needed to implement the revolutionary economic reforms embodied in the institutions of Zakat and a Riba-free economic order.

Second: These two institutions are important, but are not the be-all and end-all of Islamic Economics. The major objectives of Islamic economic programmes will have to be formulated and efforts made to use all policy variables to achieve the specified Islamic economic objectives. It would be futile if on the one hand we try to introduce Zakat and abolish Riba, but at the same time our growth strategy and policies relating to production and consumption relations, fiscal and monetary matters, wages and

incomes structure etc. promote objectives which are anti-
 thetical to the letter and spirit of the basic Islamic
 objectives. Islam wants to establish a just and egalita-
 rian society, an ideal which should be pursued in the
 formulation of all aspects of socio-economic policy.
 There should be harmony and consistency among different
 policy prescriptions. The success of a national policy
 depends upon a smooth convergence of its different
 elements on national objectives.

Objectives of Islamic Economic Policy:

Without going into the details of the objectives
 of Islamic economic policy, which have been discussed in
 literature on Islamic economics,¹ we would like to state
 very briefly some of the objectives of economic policy on
 which there is universal consensus among Islamic scholars.

- a. The primary goal of Islamic economics is
 maximizing man's welfare. As such, concern
 for human resource development and creation
 of institutions that involve the active
 participation of all persons in the processes
 of economic change are fundamental to Islamic
 economic milieu.
- b. Islam guarantees freedom and initiative of
 the individual and ensures for him a life of
 security and dignity. As such, protection of
 human life and honour with equitable oppor-
 tunities for individual initiative and enter-
 prise are crucial elements of Islamic economic
 policy. The eradication of mass poverty
 and explicit provision for minimum human needs
 to all members of the society is an integral
 part of Islamic economic programme.

1. See, An-Sadr, M. Baqr, Iqtisaduna, Beirut, 1968; Maududi
 Abul Ala, "Islami Nizam-e-Maalshat Ke Usul awr Maqasid"
 (Principles and Objectives of Islamic Economic Order) in
 Maududi, Maashiyat-i-Islam, Lahore, Islamic Publication,
 1969, P-141-164; Chapra, M. Umar, "Economic System of Islam,"
 London, 1970, Naqvi, S.N.H. "Ethical Foundations of
Islamic Economics," Islamic Studies, Summers 1978 (Vol. XVII
 No.2), Ahmad, Khurshid; "Economic Development in an
Islamic framework," in Islamic Perspectives, Leicester,
 Islamic Foundation, 1979, P.223-240.

- c. Islam emphasises the importance of effort and prescribes for the optimal utilization of resources, personal as well as his physical environment, that God has endowed man with. This means that production policy must aim at producing goods and services which satisfy the basic needs of the people as well as ensure balanced development.
- d. Islam emphasises that providing maximum outlets for productive efforts be coupled with an equitable distribution of the produce both at inter-personal as well as inter-regional levels; and that it be used justly so that human relationships are built on the basis of Right (Haq) and Justice (Adl) to bring to an end the exploitation of man by man (Zulm) in all its forms. This means that an equitable distribution of income and wealth is an important Islamic Policy Objective. Its other dimension would be stabilization of prices and balanced regional planning and development.
- e. Islam emphasises useful production and an improvement in quality of life. This would mean that elimination of wastes, curb on luxuries and promotion of an austere mode of life would constitute a positive policy objective.
- f. Islam builds the economic strength of the Muslim Ummah and sees to it that its dependence on the non-Islamic world is reduced, within the framework of a greater integration of the Muslim World. As such, another policy objective would be to reduce ones dependence on non-Muslim countries and seek for greater cooperation within the Muslim World.

These objectives of Islamic economics should constitute the criteria for the evaluation of socio-economic and budgetary policies of a country like Pakistan, which is wedded to the idea of Islamizing the society within the shortest period of time.

CHAPTER-2

THE STATE OF THE ECONOMY

If the Islamic economic criteria set the goal towards which economic effort is to be directed, the physical economic reality constitutes the base from where the effort has to begin.

Development Strategy that Failed:

Pakistan has blindly followed a growth strategy which is based on the assumption that economic development is a function of capital formation alone. The higher the rate of investment, the faster would be the rate of economic growth. And as economic development is symbolized by the rate of growth of GNP, all efforts should be directed towards this end. Since investment is generated from savings, mobilization of domestic savings becomes the king pin of development programme. As the propensity to save of the poorer classes is low and that of the richer classes is high, an unequal distribution of income should generate a higher rate of domestic capital formation. The savings-investment gap could be met by generating functional inequalities and by postponing considerations of distributive justice and economic welfare. Furthermore, since a large part of the capital needed must be in the form of foreign exchange, so that machinery and technical know-how could be acquired from abroad, another constraint is added in the form of the non-availability of enough foreign exchange, described as the trade gap. The talisman that would remove, in one master-stroke, both of (2*) these gaps has usually been taken to be foreign aid. It has often been taken for granted that by pursuing the strategy of aid-propelled growth the developing countries can achieve a high level of economic development within a reasonable period of time.

2* See: Ranis, Gastow, "Theories of Economic Growth in Capitalist Countries," in Problems of Economic Development ed. by E.A.G. Robinson, London, Macmillan 1965; Myrdal, Gunner, Asian Drama, London, Alan Lane, 1968, Vol. III, PP 1843-2003, Haq, Mahbubul, The Strategy of Economic Planning, Oxford University Press, 1963; Mikesell, Raymond F., The Economics of Foreign Aid, London, Weidenfeld and Nicolson, 1968.

These hopes have proved to be illusory so far. After twenty five years of planned development not much has been achieved in Pakistan by way of real development since a vast majority of people has not been involved in the developmental effort. Even worse, the fruits of growth have not been equitably shared by the people in general. Top twenty percent of the population possesses 42 percent of total national wealth while the bottom twenty percent owns only eight percent of the national wealth. According to a recent ILO Survey, 31% of the households in rural areas and about 22% in the urban areas live below the "poverty line." (3*) Their per capita income remains miserably low, placing Pakistan in the lowest group of poverty-stricken countries of the world. While conspicuous consumption has increased among the rich with its adverse demonstration effects on many, the teeming millions in Pakistan are deprived of the basic necessities of life including proper diet, clean water, safe shelter, medical care and tolerable transport. And to add to these deprivations the nation has become indebted to other countries to the tune of \$7.6 billion i.e. every Pakistani, old, young or child, is indebted to the extent of Rs. 1,000 for no fault of his. Even worse, the unborne future generation must also suffer.

The path of economic development pursued by Pakistani planners during the last quarter of the century has proved to be a frustrating exercise in futility. This effort has resulted neither in growth nor in people's well-being. And to call it all, levels of efficiency in all sectors of economic activity are extremely low.

Failure of Socializing Experience:

The regime that came in power in December 1971 tried to super-impose a socialistic structure on to the economic base developed through capitalistic growth. The size of the public sector was expanded arbitrarily so much so that the share of the public sector in the total industrial investment, which stood at 10% in 1973 became 71% in 1977. The performance of this sector, however, has been

3* ILO, Pakistan: Project Findings and Recommendations, UNDP/ILO, Geneva, 1977, Also see: Naseem, S.M. "Mass Poverty in Pakistan, Some Preliminary Findings," - Pakistan Development Review, VOL.XII No.4, Winter 1973. Wasey, Abdul, "An Urban Line Poverty Estimate" PDR, Vol. XVI No.1, Spring 1977.

very poor with the result that overhead expenses have escalated, levels of efficiency have gone down. The profitability of the B.I.M. has reduced to 6.7% and public sector self-financing has gone down from 22.5% in 1971-72 to only 4.7% in 1976-77. In spite of increases in the money wage, the real living conditions recorded almost no improvement and some of the evidence available (ILO Survey, 1977) suggests that there has almost been no change in income distribution in the country between 1971-72 and 1974-75. Furthermore the socializing experience of the 1970's aggravated the economic malaise and burdened the economy with stagflation i.e. stagnation of the economy involving structural deformities coupled with run-away inflation.

The Last Two Years:

The Martial Law Government has tried to bring some life back into the economy. Although quite a few of its policy measures have been introduced in a somewhat ad hoc manner, the economy has begun to show faint signs of recovery. Agricultural production has increased, particularly that of rice and wheat. The output of cotton and sugarcane has gone down but there is an overall increase in production and a definite improvement in the supply situation. Industrial production lags far behind the schedule but is showing an upward movement, particularly in the cotton textile industry. Exports have recorded 29% increase. And stock exchange in the country has begun to pulsate with a new life with a revival in share prices.

However, it would be unrealistic to read too much into these trends. The structural deformities in the Agriculture sector have not been entirely straightened out. The quality of land is deteriorating because of rising water table and salinity. Agricultural inputs, mostly import-intensive, have not produced commensurate improvement in yield per acre and in overall agricultural output. Research and agricultural extension are in bad shape. Yield per acre remains low and far behind those attained in the Punjab across the border. (4*)

4* Crop Yield (Kg. per hectare)

| | <u>Punjab</u> <u>(India)</u> | <u>Punjab</u> <u>(Pakistan)</u> |
|--------|---------------------------------|------------------------------------|
| Wheat | 2508 | 1365 |
| Rice | 2078 | 1400 |
| Maize | 1718 | 1230 |
| Cotton | 376 | 286 |

Land reforms have failed to promote distributive justice and consequent incentives and improvement of agricultural productivity.

In industry the promised breakthrough has not come. In fact the rate of growth in the manufacturing sector has been almost half of that attained in the preceding year (4.8% increase in 1978-79 as against 9.2% in 1977-78). The overall performance of the commodity sector is roughly the same as in the preceding year (4.4% in 1978-79 as against 4.5% in 1977-78). The political uncertainty continues to becloud the economic climate. There is very little real new investment. Improvement in secondary investment, reflected in stock exchange activity, should not be construed as expansion in primary investment. Debt-equity ratio in industry has increased to alarming proportions. Technological obsolescence and managerial incompetence plague the public as well as the private sectors. Cost escalation has become an economic nuisance and the situation is being aggravated by high interest rates and enhanced liability on external loans because of the heavy 1972 devaluation and the sharp exchange rate variations during the last five years, particularly in relation to loans from the new hard currency areas. Low productivity of labour^(5*) and its excessive mobility are other disturbing factors spoiling the economic landscape. Tax structure has also failed to help industrial recovery, riddled as it is with gross anomalies and structural inequities.

5* According to Industrial Census (Year 1970-71 to 1975-76) labour productivity in chemicals manufacturing industry fell from Rs.9.9 per wage rupee in 1970-71 to 9.6 per wage rupee in 1975-76. In the iron and steel industries productivity fell from Rs.13.7 per wage rupee in 1970-71 to Rs.11.4 in 1975-76. According to these surveys labour productivity fell in almost every manufacturing industry except the pharmaceutical, rubber and electrical industries. In view of certain methodological limitations of the measure of productivity adopted in this survey the fall in productivity has been grossly under-estimated. Actual decline in productivity is much higher.

The encouraging performance of the export sector, particularly with respect to rice and cotton yarn has been marred by an import explosion resulting in a huge trade deficit, which is expected to swell to about \$2.1 billion in the current year. Increased foreign remittances have somehow propped up the balance of payments but the level of reserves is pretty low and there is very little manoeuvrability left in international monetary management. There is also a continuous deterioration in the terms of trade. Foreign indebtedness is mounting higher and higher with the result that current liability stands at \$7.6 billion and the annual repayment of loans and service charges come to around \$660 million. If the present trends persist and the Five Year Plan's strategy is pursued, Pakistan's international indebtedness in 1982-83 would be around \$14 billion.

Domestic resource mobilization is at a low ebb. Domestic savings are around 8 percent of the G.D.P., which is low even by Asian Standards. Marginal savings rate has even turned negative, with no possibility of its attaining the 25 percent mark stipulated in the Fifth Plan. Although the pressure of open unemployment has been reduced because of the export of skilled and semi-skilled labour, there is the unemployment of the non-professionals in urban areas and quite a chunk of disguised unemployment (around 25%) throughout the country, symptomatic of a structural deformity in the economy. There is excess capacity in the industry, on top of widespread unemployment and under-employment in the country. Human resource development and mobilization remain the most neglected areas of our economic life.

Foreign remittances have been a boom for balance of payment support but their overall impact on the domestic economy is highly uncertain, in terms of long run gain to the economy. The injection of around 20 billion rupees into the economy, without a matching expansion of goods and services is bound to accentuate inflation and distort consumption pattern. It has also resulted in a disproportionate flow of resources to real estate development with a consequent spiralling of land and property prices. All in all there is a mad race for conspicuous consumption. Only a very small part of these remittances is being channelized towards investment and towards expansion of the productive capacity of the country. The challenge posed by this resource inflow and the potential it bears for economic development and for reduction of the country's dependence on foreign aid has not been properly realised.

An Economy in Oxygen Tent:

This being the state of the economy, it would be highly unrealistic to make too much of the related figures of peripheral recovery. The relative weight of change factors has to be separated from the influence of fundamental movements in the economy. If any effort is made to gloss over the reality of structural disequilibrium and fundamental deformities and the effects of chance and transitory phenomenon are overlapped, this can prove to be disastrous. The country has not attained any reasonable degree of economic health at least, not yet. Pakistan's economy in mid 1977, was like a patient under severe heart attack. The last two years represent a careful and timely effort to put the patient inside the oxygen tent. Thanks God, the patient has survived and is showing some signs of life. But recovery and restoration of full health is still a far cry. It is only by bringing about some fundamental reforms that the economy can move in a new direction. A comprehensive package of imaginative fundamental economic reforms is needed to meet this challenge.

CHAPTER-3

MAIN PROBLEM AREAS

Before we touch upon some of the critical issues and suggest a proper approach to their solution, it may be worthwhile to recapitulate briefly the major problem areas, produced by failure of policy and planning in the past as well as by some structural changes that have taken place over the years. Identification of these areas is essential for developing an operational framework for future developmental planning in the country and for evolving a dynamic policy package.

Agriculture and Industry:

1. Agriculture remains the most crucial sector of the economy, providing over 30 percent of the G.D.P. and supporting 75 percent of the population. Its major problems relate to the quality of land, lower yield per acre, water management, improvement of inputs and their domestic production, modernization of unirrigated areas, organization of agricultural research and extension, streamlining of the distributive system and effective reorganization of the system of land tenure.
2. Development over the years has made industry the second largest contributory to the G.D.P. (around 14 percent). Although consumers goods industries are still in the lead, the country has developed a fair base of intermediate and investment goods industries. This situation calls for a fundamental re-examination of the country's production, consumption, commercial and fiscal policies to fully utilize the available capacity and to properly exploit the prospects that exist for further modifications in the pattern of production. Fresh thinking on the reformulation of these policies is long overdue. Delay in this respect has been responsible for generating a number of incongruities and deformities in the economy. Some inconsistencies in economic policies are also related to this changing economic scenario. Import substitution is still pursued in areas where this strategy is no longer needed. A thorough review and reappraisal of the present pattern of production is needed with a view to evolving a new growth strategy for the coming years.

3. The nature and role of the public and private sectors in the economy have also changed dramatically during the last decade. A clear policy in respect of their future roles and inter-relationship must be evolved. The private sector has to be revitalized but the presence of an efficient public sector is needed to ensure balanced development for the overall fulfilment of social objectives of the society.

Structural Changes in the Economy:

4. Trade policy and exchange rate and fiscal policies have also to be re-examined thoroughly in view of the chronic import-export gap. A readjustment between import restriction and export promotion is needed to face this situation.

5. Cost escalation, particularly in Industry, has reached a point where real profitability of new projects and export competitiveness of new industrial products are becoming doubtful. Forms and methods of industrial finance, trends in interest rates, import and excise duty structures, technological obsolescence, and managerial inertia, represent some of the features which the policy makers can no longer ignore. These new developments have influenced the very character of industrial effort in the country.

6. The steady flow of financial resources towards real estate and the development of construction industry also represent a structural trend. These developments are influenced not merely by international developments particularly in the Middle East but also by the impact of foreign remittances, of inflation, and of industrial slack, on the domestic economy. A new and realistic policy for this sector is needed.

7. During the last decade economic resources have switched over from industry to trade. This is a reversal of what happened in the fifties and what laid the foundation of industrialization in the country. Initially it was thought that this phenomenon might soon pass but it now seems that it may have come to stay. How to restore a new equilibrium between these two sectors is yet another challenge the country must face.

8. The growth of banking has been a significant development. However, it has not been an unmixed blessing. The utilization of banker's reserves for industrial and social sector development of the country has not been optimal. Channels for efficient utilization of some of the surplus

banking reserves have not been fully developed. Equity-based investment has suffered because of high interest rates and because of the availability of some of the easier outlets in the form of CDNS certificates, Khas deposits, etc. This Pseudo-investment deserves to be examined more thoroughly and new and purposeful investment outlets deserve to be developed to make the banking system play a more constructive role in building the economy.

Labour and Related Problems:

9. Labour policy also deserves a thorough re-appraisal. It must be realised that the days of cheap labour are gone. The economy will have to come to terms with the wage realities. A thorough overhaul of the education and training system is needed to cater for the manpower needs of the economy. Labour export policy will have to be synchronized with the labour placement policy within the country and with manpower training programmes. A new wage policy should be evolved as early as possible, ensuring substantial increases in money-wage which are tied to better labour attendance on work and higher productivity. A new approach to labour-industry relationship is needed.

10. The outward flow of skilled labour to foreign markets also represents, at least for the time being, a structural development, though it is not clear how long lasting this phenomenon will prove to be. It has produced labour deficiency in certain critical areas and has generated a new psychology where the pull from abroad is sapping the interest of labour in work within the country. Over a million Pakistani workers are presently employed abroad and the annual outflow is around a hundred thousand or so. It is not difficult to visualize that this employment boom, particularly in the Middle East, is not going to last for ever. It can not be ruled out that what has happened in the labour market of West Europe during the last decade may also happen in the Middle East. This would create many problems. How to make the best possible use of this opportunity without impairing the health of the domestic economy? How to utilize the remittances of the Pakistani workers abroad so as to contain inflation and expand the productive capacity of the country? How to suck-in consumption oriented remittances, as well as the hoarded savings of the Pakistanis abroad into investment channels? How to develop institutions and structures, preferably by utilizing remittance-resource, which could help in the re-absorption of this labour in the Pakistan economy, if and when eventually they return home. This

re-absorption will involve many economic as well as psycho-cultural problems. This is the time to plan for these developments which can be visualised without any aid from astrology.

BALANCED REGIONAL DEVELOPMENT:

11. Balanced regional development has been a rather disturbing missing dimension in Pakistan's planning strategy. All the new growth points are concentrated in certain areas with little or no linkages with the rest of the economy. Baluchistan, rural Sind, North and North Western areas of the NWFP and certain divisions of Punjab remain neglected areas. Planning is done only at the top. Provinces lack even a proper planning machinery. The planning process has failed to percolate to the lowest level. There is little federal involvement in the development of these undeveloped areas, where administration is not geared to proper developmental effort. Resource flows to the provinces are not commensurate with the needs of rapid regional development. The share of provincial Annual Development Programme as a per cent of the total ADP has declined during the last six years. From 37% in 1973-74 it fell to 21 per cent in 1976-77 and stands at 20% in 1978-79. Crash programmes for the development of less developed areas and for the introduction of proper regional planning is another pressing need of the country.

These are some of the structural problems which constitute most potent economic challenges, calling for fresh thinking, new approaches and daring initiatives. Over and above these the nation has unequivocally reaffirmed its resolve to establish the Islamic Order. This also calls for a new orientation and many more fundamental changes in thinking, policy and programmes of the government and its different organisations. The success of the economic policy of the government would depend upon its response to these challenges. And the budget of 1979, being the most important statement of the economic objective policy and programmes of the government, is to be evaluated in the context of these problems and challenges.

PART-2

A CRITIQUE OF THE BUDGET 1979-80

- The Budget 1979-80
- The Budget in Perspective
- The Challenge of Islamization
- Basic Concepts and Assumptions of the Budget - A Critique
- Some Contradictions of the Budget - Or are they "Confidence Tricks"
- Some Socio-Economic Consequences of the Budget
- Non-Development Expenditure

CHAPTER-4

THE BUDGET 1979-80

The Finance Minister has claimed that the main objective of the government is to prepare the country for "a well-functioning Islamic democratic system," involving "the strengthening of the economy and finances of the country together with social justice and equitable sharing of duties and responsibilities and rights and obligations as ordained by Islam." His recipe for attaining this objective consists of "correcting the course of the economy," improving and consolidating the finances of the country" and "building its production base." He is confident that the economy is moving towards normalcy, that "the economic stagnation of the preceding seven years has been broken" and that "export led growth is underway." Although he claims, that the government inherited a (development) programme which was unmanageable on the basis of resources in sight, he has therefore set out "to reduce it to a manageable level.

Strategy of the Budget:

The strategy for development and revival, on which his revenue and development budget is claimed to have been based, is as follows:-

1. To reduce "the balance of payments gap by strengthening the export drive and discouraging exports through economic measures rather than arbitrary control."
2. To "correct various price distortions in the economy, not only to reduce the pressure of subsidies on the budget but also to improve the balance of payments."
3. To make "a more concerted effort to complete the on-going projects quickly and bringing down public sector commitments in areas which can now be easily taken up by the private section."
4. To "continue efforts towards the revival of private investment in agriculture and

industry.

The Finance Minister wants to make a major advance towards correcting both the balance of payment and the budgetary deficit and believes that this could be done only by "reducing consumption and expenditure" and by submitting to "the cruel necessity of denying current comforts in order to secure a more prosperous future for succeeding generations." Notwithstanding the poor conditions in which our people live and burden that taxes put upon them, says the Finance Minister, "there is room for an increase in the tax burden."

The Budget Size:

The overall size of the budget has been increased from Rs.46,289.9 million in 1978-79(revised) to Rs.52,139.9 million (increase of 12.6%). The proposed development expenditure has been increased to Rs.23,000.0 million (increase of 14%) while the non-development expenditure rises to Rs.29,139.9 million (increase of 11.6%). Non-development expenditure constitutes 55.9% of the total budget. Tax receipts are expected to be Rs.24,951.6 million while non-tax receipts would be Rs.8,268.0 million. After taking all the elements of budgetary resources into calculation, it is estimated that there would be a resource gap of Rs.11,102.2 million compared with the last years revised estimated gap of Rs.7,055.7 million. The highest contributions of 74.9% to the net increase of the gap has been made by 11.6% rise in non-development expenditure.

TABLE-1

BUDGETARY POSITION 1979-80 AND
AN ANALYSIS OF CHANGE OVER 1978-79

| H e a d | 1978-79 (Estima- tes) | 1978-79 (Revi- sed) | Percentage increase decrease | 1979-80 Estima- te | Percentage increase decrease |
|-----------------------------------|-----------------------------|---------------------------|------------------------------------|--------------------------|------------------------------------|
| EXPENDITURE | | | | | |
| 1. Non-development expenditure | 23,657 | 26,109 | +10.4 | 29,139.9 | +11.6 |
| 2. A.D.P. Size | 19,000 | 20,181 | +6.2 | 23,000.0 | +14% |
| TOTAL | 42,657 | 46,290 | + 8.5 | 52,139.9 | +12.6 |

| | 1978-79 (Budget) | 1978-79 (Revised) | % Changes | 1979-80 | % Changes |
|--|---------------------|----------------------|--------------|----------|--------------|
| RESOURCES | | | | | |
| 1. Internal | 28,260 | 28,480 | +0.7 | 30,779.0 | +6.62 |
| Revenue (Net) | 25,623 | 26,142 | | 28,630.9 | |
| Capital Receipt | 1,049 | 903 | | 855.0 | |
| Provincial Con- tribution | 69 | 460 | | - | |
| Self-Financing by autonomous bodies | 1,519 | 975 | | 1,294.0 | |
| II. External Resources | 12,138 | 10,754 | -11.4 | 10,257.8 | -4.6 |
| Total I & II | 40,398 | 39,234 | - 2.9 | 41,037 | +4.6 |
| GAP | 2,258 | 7,055 | +212.4 | 11,102.2 | +57.3 |

To meet this huge resource gap of Rs.11,102 million it has been proposed to resort to massive taxation and other resource mobilization efforts yielding Rs.5,100 million. It is hoped that extra foreign aid may be procured to the extent of Rs.3,000 million, still leaving an uncovered residual deficit of Rs.3000 million which will have to be met through deficit financing.

Too many Gaps:

There is no doubt that the Finance Minister was faced with a challenging situation. Some really hard decisions were called for, not so much about imposing more taxes but about the more fundamental questions of the ever-widening gap between the declared policy objectives of the Government and the direction of operational plans and programmes pursued and consequently about the entire development strategy of the country. The resources gap, on which the budget has focussed attention, is a by-product of the development strategy the country has followed blindly over the years and of the style of living its government and people have become addicted to. The real option before the Finance Minister was either to stick to Pakistan's traditional craft of bureaucratic budget-making and confront people with a concocted resources gap to be filled with hard-hitting taxation and deficit financing or else he would have made a radical departure from the budget stereotype and come up with a new economic package consisting of an economically viable growth rate, and a programme that could simultaneously ensure balanced economic development and social justice, a budget which could inspire the people to greater effort and sacrifice by not only motivating them to strive for a realisable goal,

but also by physically sharing with them the fruits of developmental effort. The declaration of the 12th Rabiul Awwal had raised new hopes and had set out some new avenues to be pursued in financial and economic decision-making. If the Finance Minister had opted for this creative and revolutionary course, the Budget of 1979-80 would have blazed a new trail and set the country along the road of equity-based growth and development through self-reliance. It is unfortunate that the framers of the budget have failed to rise to the occasion and have adopted the relatively easier path of perpetuating the status quo. The universal disaffection over the budget can be understood only if it is realised that the nation was expecting a new type of budget, a departure from the stereotype, a more innovative, a more egalitarian and a more humane approach to the entire business of economic policy-making and programming. Instead of taking some real hard decisions the government seems to have opted for a hard-hitting budget. The reaction could not have been otherwise. The budget makers have shown no understanding of the real mood of the nation. The country is suffering from the consequences of yet another gap - that between the understanding of its controllers of finance and the real feelings, hopes and aspirations of the people.

The Budgetary Burden:

Never in the history of Pakistan has any Finance Minister inflicted on his people such a huge burden of new taxes. The earlier record for highest additional tax burden was set during the regime of Mr. Bhutto for the year 1977-78 when new taxes to the tune of Rs.1540 million were levied. Additional tax burden in other budgets during the last decade was within a range of - 8.6% (1974-75) to +8.6% (1977-78). In 1973-74 additional burden was 7.3% (Rs.600 millions), in 1975-76 it was 2.4% (Rs.312.4 millions). The present budget has set an all time record. While there was no additional tax burden in all the four provincial budgets, the central budget has unleashed over the people an avalanche of additional taxes. This package of new taxation puts a burden of Rs.3,916 million in one blow (17.64% of the total tax revenue). There is an additional burden in the form of other budgetary proposals particularly in view of tariff increases in electricity, railways and postal services. According to rough calculations this additional burden would be to the tune of Rs.850 million. Details of these estimates are as follows:-

TABLE-2
ADDITIONAL TAX AND TARRIF BURDEN
IN THE BUDGET 1979-80

Additional Tax Burden:

| | | |
|----------------------------|------------|---------|
| Central Excise duties | Rs. 2460.9 | |
| Customs duties | Rs. 864.0 | |
| Sales Tax | Rs. 222.9 | |
| Wealth Tax | Rs. 400.0 | |
| | | |
| Total: | Rs. 3947.8 | |
| Less Relief in Income Tax: | Rs. 30.0 | 3,917.8 |

Additional Tarrif Burden:

| | | |
|------------------------------|-----------|-------|
| Electricity (Approximately) | Rs. 575.0 | |
| Railway Fare (Approximately) | Rs. 200.0 | |
| Postal increases | Rs. 73.0 | 848.0 |
| | | |

TOTAL BURDEN: Rs. 4,765.8

The imposition on the people of such a crushing tax burden has destabilized an economy which was only beginning to emerge from stagnation and has also impaired a climate of political understanding which is so necessary to move towards smooth transition of power from the military to the elected representatives of the people.

It will be naive to assume that all the furore against the budget is simply a product of politicking. It would also be incorrect to assume that this budget has failed to carry the people with it because the government propaganda machinery did not do enough to project it. All these pseudo-explanations of people's almost universal disapproval are classical bureaucratic simplifications to hoodwink the real issues and explain away the unexplainable. It is, therefore, necessary to examine this budget with academic integrity and scientific rigour and confront the Government and the nation with the real issues which must be squarely and honestly faced if a way is to be found out of the present impasse.

CHAPTER- 5

THE BUDGET IN PERSPECTIVE

The first major characteristic of this budget is that it shows no realisation of new challenges or of a need for new orientation. The development strategy that was introduced in the fifties and sixties continues to influence all major economic decision-making in the country. There is a growth rate fetishism, based on the assumption that the GNP-growth is a proxy for economic development and social welfare. Growth has been divorced from considerations of justice and socio-economic welfare. Capital formation is looked upon as the key to growth. Capital intensive technology has been preferred to an efficient labour-intensive technology, ignoring many logical demands of the country's resource endowment. A heavy dependence on foreign aid, with no apparent sign of a decisive move towards self-reliance constitute the hallmark of the economic strategy behind the present budget.

THE BUDGET STEREOTYPE:

As the development strategy has remained unchanged over the years, inspite of differing colours of the regimes that held power, a uniform pattern emerges from a comparative analysis of some of the major budgets and Annual Development Plans presented during the last decade or so. We have analysed the last ten budgets to map out the pattern of development and non-developed budgetting in the country. The pattern that emerges is quite revealing. In spite of a number of peripheral changes the basic pattern of budgetting has not shown any major change. The enlargement of the public sector has taken place, yet the main trends in government expenditure, major developmental priorities as reflected in sectoral allocations in respective annual development plans and major heads of developmental expenditure in the budget and the chief modes of financing the government expenditure show the same pattern.

TABLE-3

MAJOR HEADS OF NON-DEVELOPMENT
EXPENDITURE

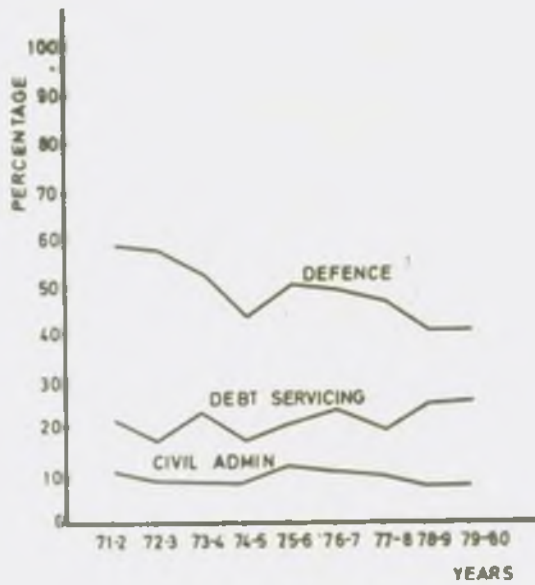
| YEAR | Civil Admn. | Perce- ntage of Non- Develo- pment | DEFENCE | Perce- ntage of non- develo- pment | Debt Servic- ing | Percentage increase in non-develo- pment expen- diture. |
|---------|----------------|--|---------|--|------------------------|---|
| 1970-71 | 890.7 | 16.7 | 3200 | 60.2 | 1174.6 | 22.1 |
| 1971-72 | 84066 | 11.6 | 4260 | 58.7 | 1567.8 | 21.6 |
| 1972-73 | 699.9 | 9.2 | 4439.6 | 58.0 | 1336.9 | 17.5 |
| 1973-74 | 824.1 | 9.1 | 4741.5 | 52.4 | 2124.0 | 23.5 |
| 1974-75 | 1279.4 | 9.0 | 6294.3 | 43.4 | 2544.6 | 17.6 |
| 1975-76 | 1844.9 | 12.4 | 7507.2 | 50.4 | 3015.6 | 20.2 |
| 1976-77 | 1812.9 | 11.2 | 7987.0 | 49.4 | 3888.9 | 24.0 |
| 1977-78 | 2057.0 | 10.2 | 9400.0 | 46.8 | 3933.9 | 19.5 |
| 1978-79 | 2120.1 | 8.1 | 10499.4 | 40.2 | 6579.1 | 25.1 |
| 1979-80 | 2575.1 | 8.5 | 11742.8 | 40.3 | 7457.1 | 25.6 |

The trends are very clear and if yearly variations are read in the light of secular movement, the direction of each expenditure as well as its relative position remains within a given range. The apparent decline in the percentage share of Civil Administration and defence in total non-development expenditure in 1978-79 and 1979-80 is not because of any real reduction in their relative share but because of the sudden rise in the absolute amount of debt-servicing.

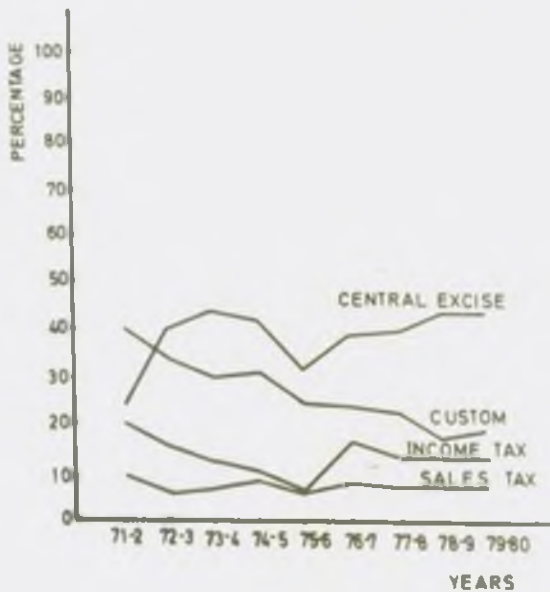
TABLE-4

MAJOR SOURCES OF REVENUE FINANCE

| YEAR | CUSTOM | Per- cen- ta- ge | Central Excise | Per- cen- ta- ge | Income Tax & Corp. | Per- cen- ta- ge | Sales Tax | Per- cen- ta- ge | Tax Reve- nues |
|---------|---------|---------------------------|-------------------|---------------------------|--------------------------|---------------------------|--------------|---------------------------|----------------------|
| 1970-71 | 1700.0 | 29 | 2490.0 | 42 | 1010.0 | 17 | 700.0 | 12 | 5900.0 |
| 1971-72 | 1342.5 | 24 | 2270.8 | 40 | 1149.3 | 20 | 558.5 | 10 | 5618.8 |
| 1972-73 | 2635.0 | 40 | 2252.8 | 34 | 1057.0 | 16 | 430.0 | 6 | 6610.0 |
| 1973-74 | 3907.0 | 44 | 2675.7 | 30 | 1150.0 | 13 | 650.0 | 7 | 8829.5 |
| 1974-75 | 4725.0 | 42 | 3450.0 | 31 | 1250.0 | 11 | 1050.0 | 9 | 11150.6 |
| 1975-76 | 5780.0 | 32 | 4480.0 | 25 | 1300.0 | 7 | 1250.0 | 7 | 17590.0 |
| 1976-77 | 5695.6 | 39 | 4900.0 | 34 | 2496.5 | 17 | 1270.0 | 9 | 14434.6 |
| 1977-78 | 7944.6 | 40 | 6184.1 | 33 | 2654.7 | 14 | 1614.4 | 8 | 18476.8 |
| 1978-79 | 10000.0 | 44 | 6182.1 | 28 | 3266.1 | 14 | 1846.0 | 8 | 22431.6 |
| 1979-80 | 11000.0 | 44 | 7250.0 | 29 | 3650.0 | 14 | 2030.0 | 8 | 24951.5 |



Major Heads of Non-development Expenditure



Major Sources of Revenue Finance

TABLE-5

DEVELOPMENT PRIORITIES AS REFLECTED IN SECTORAL ALLOCATION IN A.D.P.

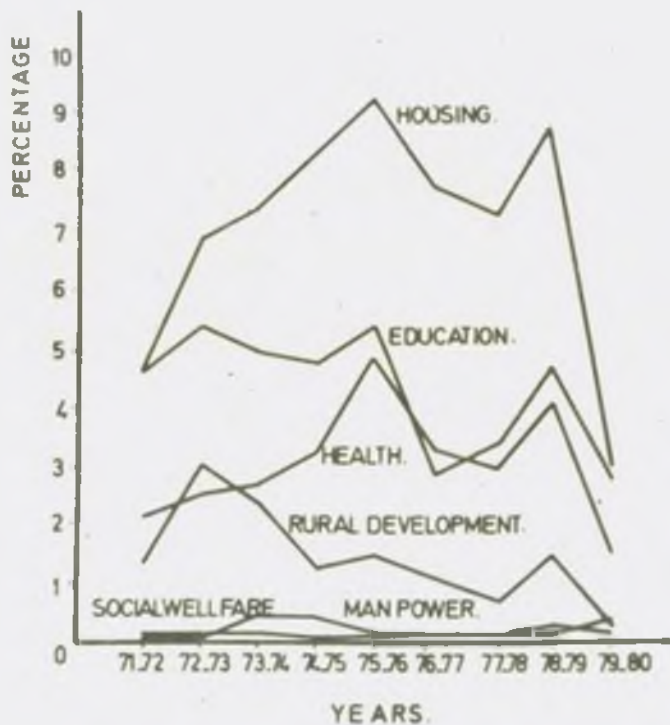
1971/72-1979-80

(Million Rupees)

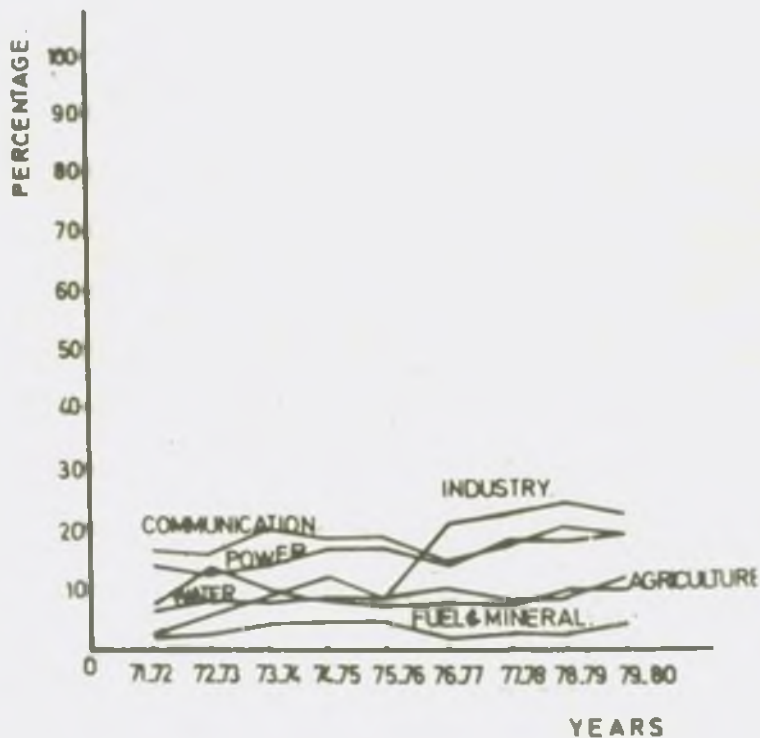
| | 1971- 1972 | 1972- 1973 | 1973- 1974 | 1974- 1975 | 1975- 1976 | 1976- 1977 | 1977- 1978 | 1978- 1979* | 1979- 1980** |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|-----------------|
| Agriculture | 225 8.4 | 551 14.2 | 687 10.7 | 956 8.4 | 1052 8.0 | 1347 8.1 | 1421 8.1 | 2047 10.8 | 1951.4 10.6 |
| Water | 192 7.2 | 351 9.1 | 583 9.1 | 1047 9.2 | 1244 9.4 | 1852 11.2 | 1557 8.9 | 1821 9.6 | 2483.1 13.4 |
| Power | 377 14.2 | 532 13.3 | 907 14.1 | 2008 17.6 | 2316 17.6 | 2422 14.6 | 3293 18.8 | 3478 18.3 | 3578.2 19.3 |
| Industry | 78 2.8 | 249 6.4 | 630 9.8 | 1559 13.7 | 1239 9.4 | 3466 20.9 | 3968 22.6 | 4626 24.3 | 4244.5 22.9 |
| Fuel and Minerals | 57 2.1 | 113 2.9 | 315 4.9 | 630 5.5 | 751 5.7 | 429 2.6 | 587 3.3 | 684 3.6 | 928.7 5.0 |
| Transport & communication | 438 16.5 | 622 16.1 | 1285 20.0 | 2148 18.9 | 2412 18.3 | 3274 14.7 | 3158 18.0 | 3943 20.7 | 3570.4 19.3 |
| Physical Planning and Housing | 126 4.7 | 268 6.9 | 476 7.4 | 949 8.3 | 1209 9.2 | 1277 7.7 | 1273 7.2 | 1664 8.7 | 552.7 3.0 |
| Education | 124 4.6 | 210 5.4 | 318 4.9 | 534 4.7 | 706 5.3 | 476 2.8 | 581 3.3 | 883 4.6 | 500.0 2.7 |
| Health | 57 2.1 | 96 2.5 | 176 2.7 | 363 3.2 | 629 4.8 | 540 3.2 | 512 2.9 | 761 4.0 | 287.8 1.5 |
| Population planning | 26 0.9 | 27 0.7 | 103 1.6 | 145 1.2 | 189 1.4 | 202 1.2 | 105 0.6 | 210 1.1 | 175.4 1.0 |
| Social Welfare | 7 0.2 | 7 0.2 | 11 0.2 | 13 0.1 | 160 0.1 | 18 0.1 | 17 0.1 | 27 0.1 | 6.7 0.04 |
| Manpower | 3 0.1 | 6 0.1 | 35 0.5 | 53 0.5 | 30 0.2 | 23 0.1 | 18 0.1 | 56 0.3 | 25.5 0.1 |
| Works Programme/Rural development | 37 1.4 | 117 3.0 | 148 2.3 | 154 1.3 | 193 1.5 | 181 1.1 | 123 0.7 | 282 1.5 | 53.4 0.3 |
| Indus Basin/Tarbela | 905 34.1 | 719 18.6 | 741 11.5 | 812 7.1 | 915 7.0 | 646 3.9 | 683 3.9 | 1173 6.2 | - - |
| Miscellaneous | 2 0.1 | 2 0.05 | - - | - - | 243 1.0 | 410 2.4 | 217 1.2 | 234 1.2 | 61.2 0.3 |
| Gross Total | <u>2654</u> | <u>3869</u> | <u>6417</u> | <u>11372</u> | <u>13144</u> | <u>16563</u> | <u>17513</u> | <u>21889</u> | |
| Less Operational Shortfall | - | - | - | - | - | - | - | -2889 | |
| Net A.D.P. | <u>2654</u> | <u>3869</u> | <u>6417</u> | <u>11372</u> | <u>13144</u> | <u>16563</u> | <u>17513</u> | <u>19000</u> | <u>18500</u> |

* Budget Allocations.

** Public sector Development Programme of the Federal Government 1979-80.



Developmental priorities as reflected
in social fields



Development priorities as reflected in sectoral allocation

Whether one examines the budgetary proposals contained in these budgets or the overall pattern of income and expenditure that emerges from the above tables one finds structural rigidity and absence of innovative departures. The fiscal and taxation policy and the commercial policy are steeped in an uncritical adherence to the strategy of industrialization through import substitution. No effort was ever made to really redistribute income and wealth equitably. Agriculture and Manpower development have failed to reign prominently in developmental programming. Social and welfare sectors have remained the neglected areas. The strategy for resource mobilisation has also remained unchanged inspite of some variations in actual foreign aid inflows which were produced by international constraints and not by any change in the proposed position of foreign aid in the development strategy.

An inevitable feature of this pattern is the setting of unrealistic growth targets, continuous expansion in Government's non-developmental expenditure, increasing resource gap, producing still greater reliance on foreign aid, increasing deficit financing and additions of tax burden.

The budget for 1979-80, seen in this context, is a classical exercise in duplicating this pattern without responding to the real needs and challenges of the economy. We can see no glimpse, in this budget, of any deliberate effort to reduce dependence on imports and foreign aid inspite of increasing trade gap and greater reluctance of the Consortium countries to extend any real support to Pakistan, understandably in view of the changed climate of aid-diplomacy. There is no change in the import policy except some marginal changes which too leave unchanged the free flow of cosmetics and a number of luxury goods in the country. The budget structure, its effective policy objectives, the direction of its proposals, the methods of financing, the mode of resource mobilization, all conform to the set pattern. In the development programme major emphasis is on the completion of on-going projects which confirms that the present Budget and the ADP are going a long way in implementing what was decided during

7. We have already referred to an ILO Survey of 1977 which shows that there was no change in income distribution in the country between 1971-72 and 1974-75.

earlier regimes and that too mostly on an ad hoc basis. Whatever be the declarations of dis-association from the policies of the earlier regime the bureaucratic team responsible for the adoption of these policies seems to be insisting on continuing the same policies. The result is that quite a sizeable portion of the development programme-and the style of non-development expenditure are more indicative of continuity than departure from the past.

A quick analysis of the Federal Government's public sector programme of the ADP for 1979-80 shows that 93.5% of the total allocations of Rs.18,500 million goes to on-going projects (Rs.17,297 million) and only Rs.1,202 million (i.e. 6.49%) is to be spent on new projects. This shows how the perpetuation of the status quo remains the strategy; any movement towards change being the exception.

Major Problems Ignored

The budget's imitative approach has not only chained the entire economic policy down to past strategies, it has also denied it the capacity to face new challenges and avail of new opportunities. The budget takes no cognizance of the structural changes discussed in an earlier section of this study. Major structural deformities in agriculture sector have been ignored while too many hopes are pinned to such superficial operations as yield competitions, to achieve revolutionary increases in agricultural yields. There is no realisation of the limitations of the import-substitution strategy particularly in view of the changes that have taken place in the economy over the years and of the need of reorientation of industrial policy to meet basic needs of the people and to foster export promotion. In spite of all the clap trap about the importance of the private sector no serious effort has been made to clearly demarcate its role and arrange for calculated steps to transfer some of the public enterprises to the private sector, or to at least induct private entrepreneurs in

6.If nation-wide cattle shows have not been able to give a fillip to animal husbandary and cattle farming in the country how can district-wise yield competitions bring about a miracle in agriculture.

them in such a way that the private sector braces itself for a new role that is socially acceptable.

Certain trends in the economy which need immediate policy responses remain unattended; for instance, the real estate boom; escalation of cost of production, rendering our products uncompetitive not only in world markets but also in the domestic market; change in equity-debt ratio and its distractions for equity-based investment; the need to divert investment from trade to industry; evolution to an equitable and productivity oriented labour and wages policy; mobilization of foreign remittances for investment purposes etc. These and similar other areas are crying for creative policy responses from the Government but the budget has little to offer in this respect. It would not be too unsympathetic to suggest that the budget-makers seem to have absorbed themselves in the accounting of status quo planning to have lost sight of the more dynamic problems of planning and policy formulation.

CHAPTER-6

THE CHALLENGE OF ISLAMIZATION

The budget is devoid of any commitment or enthusiasm towards Islamization. It reads like an anti-climax to the declaration of the 12th Rabiul Awwal. Four points deserve to be noted.

1. Although in the budget speech there are one or two obscure references to Zakat and Ushr, the budget has failed to focus the attention of the nation on the revolutionary programmes of Zakat and Ushr. Nor an effort has been made to integrate Zakat and Ushr into the fiscal system. The fiscal economics of Islam is based on Zakat. All other taxes or levies are at the periphery of this centre. In Pakistan the position has been reversed. Zakat has been placed as an uncertain appendage to the system, as if the 'secular' fiscal system and Zakat have to flow like parallel streams with no real linkage between the two, what to say of their fusion into one. One fails to see any trace of consequential changes to Zakat's introduction in the fiscal structure, particularly in the income tax, and in relevant social welfare and developmental activities. It seems as if Zakat has been thrust upon the system as an anti-body and is going to exist outside the mainstream of the system.

2. Total abolition of Riba within a period of three years is one of the major commitments of the declaration of the 12th Rabiul Awwal. Six months have already passed. The budget period of 1979-80 is most crucial to this transition towards riba-free financial and fiscal system. But the budget is totally silent on this issue. There is not even a formal reiteration of this commitment, what to say of spelling out a carefully worked out programme for transition. There is no projection of the new role of the NIT and the ICP as interest-free investment banks and the part they are to play in mobilizing private savings for equity investment. There is no realization that Government securities and bonds have to be issued in the future on a new basis and the existing ones will have to be converted into new interest-free securities. The budget leaves us with the impression as if the financial managers of the country regard all these problems and prospects as simply irrelevant.

3. Thirdly the provision for interest free loans to farmers of subsistence holdings (i.e. 12.5 acres) has not been thought over as an integral part of a programme for the abolition of interest. In fact the present proposal constitutes in certain respects a step backward. During the year 1978-79, inspite of certain reservations of the Ministry of Finance, the Government of Punjab, with the direct support of the President, extended interest-free loans to farmers with holdings upto 25 acres. Interest-free loans worth over Rs.200 million were given in the form of agricultural inputs. The experiment was a roaring success. The agriculturists responded enthusiastically and responsibly. Ninety per cent of these loans have already been returned. Instead of applauding this experiment and extending it to the whole of the country, the Finance Minister has chosen to not even mention this background, and has reduced the farm area of those entitled to get these loans from 25 acres to 12.5 acres. The amount allocated to this scheme is only Rs.60-70 million.

4. Three institutions (House Building Finance Corporation, N.I.T. and I.C.P. Mutual Fund) which have started operating on interest-free basis fail to get a word of encouragement from the Finance Minister in his budget. The original scheme has also been toned down in certain respects. It was suggested by the panel of Economists and Bankers of the Islamic Ideology Council, and recommended by the Cabinet Committee which finalised the scheme, that part of the interest-bearing investments of the NIT and ICP should be converted into Equity-participation Certificates. This was a very promising idea. Instead of following it up the interest-bearing portfolio has been simply unloaded to the banking system. The House Building Finance Corporation was prepared to convert all old loans to the new basis within a period of eighteen months so that in the future all its operations become interest-free. This idea has been dropped with the result that the House Building Finance Corporation will have to operate a dual system - one for interest-free loans given after 1st July 1979 and the other for interest-bearing loans advanced before that date.

We have referred to these four specific points to illustrate the attitude of the budget-makers. Other stipulations of the Islamic Economic programme, to which we have referred to earlier, have also been conveniently ignored. It seems as if the declaration of the 12th Rabiul Awwal has not been considered relevant to the problems of the budget and development planning.

CHAPTER-7

BASIC CONCEPTS AND ASSUMPTIONS OF THE BUDGET: A CRITIQUE

Now we propose to critically examine some of the basic concepts and certain explicit and implicit assumptions of the budget.

i. Consumption Vs Investment

The budget, as well as development planning in Pakistan, are based on the assumption that 'consumption' and 'investment' are two autonomous, self-contained and mutually exclusive categories and that an increase in consumption is necessarily investment-denying. It is also assumed that growth and welfare, based on distributive justice, cannot go together and as such current consumption has to be curtailed. "The cruel necessity of denying current comforts in order to secure more prosperous future for succeeding generations" has been forcefully pleaded. The Annual Development Plan allocates very little resources to welfare activities with the result that the Finance Minister admits that these allocations "would not permit any visible change in the composition of investment in favour of social sectors which are the main elements in the strategy of the Fifth Plan." 7/ Shares of education, health and social welfare constitute only 2.7 per cent, 1.5 per cent and 0.04 per cent of the total Public Sector development programme in 1979-80.

Why is it that inspite of all the lip service in favour of social justice and development of social sectors the real flow of resources is never in this direction? The reason is that these considerations are regarded anti-thetical to growth. This is the premise on which all our plans and budgets have been based.

Now from the Islamic viewpoint, as also from a humanitarian view, this approach is totally ill-conceived. We can settle down with a slower rate of growth but not with a growth process that aggravates injustice in the society.

7/ Budget Speech p.25

Even from the economic point of view, it is now being increasingly realised that the growth effort depends upon people's motivation and their active participation in the developmental process. A growth strategy that ignores the selfare of the people cannot motivate them to greater effort. Distributive justice will release new forces of creative effort. There is a lot of rethinking amongst the development economists on some of the earlier premises of growth philosophy. ^{8/} No such fresh air has, however, been allowed to breath into budget-making and development planning in Pakistan.

The assumption that increase in consumption is necessarily anti-investment is not well-founded. Even if it is ignored that effective demand is as important for a well-functioning economy as is real investment, the important questions that deserve to be asked are 'whose consumption'? and "what type of consumption"? In a country where over a third of the population lives below the poverty line, increase in essential consumption of the poorer classes is bound to be productive, as this would mean a better level of nutrition, better health, improved work capabilities, and HIGHER efficiency and productivity plus greater motivation for effort. Some economists have treated this type of consumption as investment. On the contrary, use of luxuries and conspicuous consumption of the well-to-do classes are anti-thetical to investment. Hence such consumption deserves to be curbed.

' The problem with the present budget is that it fails to distinguish between the two and in fact curtails the consumption of the poor class without effectively curbing the consumption of the rich.

Investment-oriented consumptions and justice-based growth are possible only through a strategy of redistribution. It is a folly to assume that an across the board effort of "reducing consumption and expenditure" constitutes the royal road to prosperity. A more disaggregative approach to consumption control is needed so that for certain sectors of the society a policy of planned increases in consumption is adopted, while for the richer classes a planned control of consumption is resorted to. For the country as a whole, the pattern of consumption has to be treated not as a 'given factor' but as a 'policy variable.' The dichotomy between consumption and investment, as it is assumed in aggregative growth models, deserves to be examined at a more disaggregative level. Then alone can a more realistic approach to development, and consequently

^{8/}See U.N. The Case for Development, New York, Praeger, 1973; World Bank and Institute of Development Studies, Redistribution with Growth London, Oxford University Press, 1974.

a different budgetary policy, emerge. In this context denying essential reliefs to the large deserving sections of people emanates from an incomplete and partial undertaking of the economic situation and of the principles of economic analysis.

ii. Government Spending: An Unmixed Blessing

The budget assumes as if government spending is an unmixed blessing. It claims that slashing government outlays would 'interrupt development'. 'A sharp reduction in government spending,' it asserts, " will result in growing unemployment". 9/ It also puts forward the lame excuse that there is very little margin of flexibility in government's developmental expenditure as most of the projects are capital intensive and are at an advanced stage of implementation. And if there is any flexibility it is in the social sector projects. It is also asserted that there is no scope for reduction in Government's non-development expenditure. Hence, nothing can be done except taxing the people or resorting to deficit financing.

Now the assumption that Government spending is necessarily a virtue is theoretically untenable and practically outlandish. True, the Government does have an important role to play in the economy. But there is a world of difference between an efficient and an inefficient Government machinery. In a country where waste and corruption are rampant and where the performance of the economic agencies of the Government are not judged on economic criteria, mere expansion of Government outlay cannot guarantee, either development or full-employment. Blind extensions of the Keynesian prescription for a recession-stricken developed capitalistic economy to a structurally deformed and corruption-ridden developing country is bound to aggravate the situation. The Government may serve a better purpose, if instead of trying to do everything under its own auspices, with all the consequent inefficiencies, corruption and losses, it confines its activities to certain well-defined areas but tries to ensure that social priorities and objectives of social justice are fulfilled through genuine private enterprise. No one is suggesting that the Government abdicates its role. What is needed is a re-definition of roles with greater precision and to concentrate of their fulfilment with firmness and efficiency. The extent of the Government outlays depends also upon the size of

9/ Budget speech P.5

the development plan and of the Government machinery. The growth rate in the Fifth Plan has been set too high. It is unattainable, given the resources constraint, and undesirable, in view of the overall policy objectives of a justice-based growth strategy.

The Finance Minister's apology for non-development expenditure is even more disturbing. His budget proposals are based on the assumption that this part of the budget, which goes to make up 59 per cent of the total budget, cannot be curtailed. While he is asking those living below poverty line to further tighten their belts he does not propose even a token reduction in the Government's non-development expenditure.

That a positive correlation exists between Government spending and economic development is not established by facts. The seven years of stagnation about which the Finance Minister has so much to lament were the years of expansion in Government spending. Did it lead to faster economic growth, or to any growth at all? The bogey of unemployment also belongs to the same category. Economic development and better employment facilities do NOT depend on Government spending per se but on how purposefully and how efficiently the Government spending takes place. This is not a function of size, but of efficient mobilization. The Finance Ministry has failed in exerting effective financial control on Government machinery. Financial indiscipline and economic mismanagement, have become a way of life with us. And to add intellectual insult to real economic injury the farmers of the budget suggest that reduction of Government spending would lead the country into recession. The economics embodied in this proposition is as weak as is the factual base on which this argument rests.

iii. Taxation vs. Deficit Financing

There is an implicit economic assumption in the budgetary proposals that although deficit financing is inflationary and even self-defeating, taxation is not. The fallacy embodied in this assumption is a result of confusing taxation with direct taxation. Direct taxes are an important instrument of siphoning off excess purchasing power. Since normally their impact and incidence is on the same person, they do not influence prices. The same is not true of indirect taxes, particularly those collected in the form of custom and excise duties, and even sales tax when it is collected not at the level of retail sale but from the producers. All these taxes increase the cost of production and have important inflation-producing effects. In Pakistan 85 per cent tax revenue is yielded by indirect taxes. And they influence

almost every consumption good and it would not be honest to present them as anti-inflationary.

iv. Is ban on luxury imports anti-economic and anti-social?

The Finance Minister says: "suggestions are made, some time by well-meaning and concerned people, but often by interested trade CIRCLES, to ban imports. A ban on certain types of imports may be desirable as an exceptional policy for protecting some domestic industries. However, an indiscriminate policy of bans and strict licensing would give rise to windfall gains for manufacturers, traders and stockists at the cost of consumers. It would effect the cost structure of Pakistan's exports and their competitiveness, finally as the earlier experience showed it would give rise to black market, corruption, smuggling and mal-practices which are damaging the fabric of the society".^{10/}

An analysis of this quotation can throw some light not only on the issue under discussion but also on the way the Finance Minister responds to other people's suggestions.

First, instead of carefully examining the pros and cons of an issue, he tries to play up the motives of the people and attribute evil designs to them. He tries to create a certain psychological climate by suggesting that the suggestion to ban imports primarily comes from "interested trade circles". This cannot be described as fair.

Secondly, there is no relationship between what is being suggested and what he is refusing to concede. No one we know of has suggested a total ban on imports. The demand is to ban an import of luxury goods. For instance, instead of simply enhancing duties on the import of luxury cars, colour TVs and other luxury goods why can't we totally ban the import of the stuff coupled with corresponding excise duties on the domestic production of these items. There is no suggestion to resort to "indiscriminate policy of bans." The idea is to discriminate between the desirable and the non-desirable imports. The straw-man he is trying to demolish does not exist at all.

Thirdly, he concedes a policy of curtailing certain types of imports as an exceptional step to protect some domestic industry but fails to realise that a similar policy

may be needed to protect the pattern of consumption in the country, as also in the interests of more judicious use of its foreign exchange.

Fourthly, he has wasted too much breath on decrying windfall gains, cost distortions and corruption. One wonders if the budget-makers are conscious of the alarming extent to which all these evils are rampant in the country. Unfortunately some of the steps taken in the present budget have only added to the gravity of the situation. Some of the taxes imposed in the budget will produce windfall gains. Most of the price distortions are the product of budgetary policies of successive Governments. Corruption is being pedalled by discretionary powers that are enjoyed by Government functionaries at different levels. Price distortions are also produced by the "economic measure" which have been preferred to so-called "arbitrary controls." The fact is that in Pakistan's fiscal history worst price distortions have been produced by resort to "economic measures" relating to the pricing of capital, to the exchange rate, to custom and excise duties etc. and by inconsistencies of the fiscal policy. For example, if consumption of a good is to be discouraged it is not enough to put heavy custom duties on its import, its effective control is possible only if import duties are supplemented by heavy excise duties. However, it would be self-defeating to tax domestic production of goods whose production and/or consumption is to be encouraged! Import duties, in such cases, should not be coupled with excise duties. The makers of the budget have not taken enough pains to do away with such incongruities. The Finance Minister also fails to see the contradiction in his stand that while he wants to curtail consumption and asks people to postpone even a modicum of comfort, he is not prepared to regulate the pattern of consumption with a firm hand. What is happening is that, with every increase in the price of luxury goods, the overall share of consumption expenditure is increasing and less is being left for capital formation. Has the time not come to adopt a more radical approach to curb the use of luxuries in the country, through a combination of direct ban, import duties and excise taxation levied at suitable rates?

v. Income Tax: Is it an effective instrument to reduce inequalities?

We hold no brief for those who are demanding a total abolition of the income tax. But we do believe that fundamental changes must be made in the present income tax system to make it more equitable and efficient. We also

agree that there is a need for rectifying the imbalance between direct and indirect taxation in Pakistan. But the reasons, the Finance Minister has given for his commitment to income tax deserve to be examined.

It is said that income tax is "a very effective and useful instrument for reducing inequalities in income." ^{11/} There is no evidence from Pakistan or the rest of the world to substantiate this claim. On the contrary whatever evidence is available shows that income tax has failed to seriously alter the inequalities of income in any part of the world. It may be instructive to recollect what R.J. Chelliah writes in his book Fiscal Policy in Underdeveloped Countries:

"Highly progressive income taxation really is not the most suitable method of dealing with the problems of inequalities. Progressive taxation with nominally high rates has not succeeded in appreciably reducing inequalities of income and wealth. It is suggested that the problem of dealing with inequalities should be examined fresh especially in underdeveloped countries". ^{12/}

The assumption that Income Tax is the only significant direct tax which can be progressively geared to take into account the capacity to pay of the citizens, also deserves to be re-examined. That income tax is one such tool can be conceded without much debate. But the way this tax is being abused both by the tax-collectors and the tax-payers must cause us serious worry. A total overhaul of the income tax system is needed. There is also a need for examining other forms of direct taxation, like expenditure taxes which could be easily geared to take into account the capacity to pay of the tax-payers.

A fresh approach to the problem of taxation is needed to see that tax instruments effectively serve the purpose for which they are employed.

^{11/} Budget Speech P.22.

^{12/} Chelliah, R.J. Fiscal Policy in Underdeveloped Countries, London Union University Books, 1971, P.82. See also: Harberger, Arnold C, "Fiscal Policy and Income Redistribution," Paper presented to the Workshop on Income Distribution, Princeton University, 1974, (Mimeograph).

CHAPTER-8

SOME CONTRADICTIONS OF THE BUDGET- OR ARE THEY "CONFIDENCE TRICKS"

The Finance Minister has reserved some of his strongest words for those who would either do nothing and bury their heads ostrich like or who "juggle and conceal to promise one thing and end up doing another." He rightly laments that "even in the late twentieth century it is still possible to play confidence tricks upon the people of a poor country." One cannot but compliment the Finance Minister on such a forthright approach. But how does the present budget fare on this criterion?

Trade Gap and Budgetary Policy

1. The first plank of the suggested overall strategy of the new budget is "reduction in balance of payments gap by strengthening the export drive and discouraging imports through economic measures rather than arbitrary controls." The idea of export-led growth has been emphasised at a number of places. Is the policy package going to produce this result?

Export rebate has been given to the Engineering Industry which is a step in the right direction. Excise duty on yarn is going to have adverse effects on the cost of production of cloth and garments and also on yarn and cloth export. No effort has been made to recast the entire structure of customs and excise duties to shift emphasis from simple import-substitution to an export-promotion strategy. Industrial and infra-structure investment is 94 percent in on-going projects which rules out the possibility of any major change in production-mix. How can imports be curtailed and exports promoted in this context?

The import duties imposed by the budget are primarily revenue-raising. They are not going to make any real dent on the import bill. And if general price level in the country shoots up as a result of the budget this is going to make our exports uncompetitive in world markets. How can it lead to export-promotion, one fails to see!

Two major items of agricultural export are cotton and rice. There is no rational cotton and rice policy in the country. Cotton production has failed to pick up.

After achieving an actual production of 4 million bales in early seventies, the present production is only two third of that level. The target of the Fifth Plan, set at 5 million bales, looks like a dream. There is no forward cotton policy ensuring the fulfilment of targets in production and export. The rice situation is more distressing. Production has increased and rice exports have fared very well. But the pricing policy is such that the agricultural producer is not getting a fair return. The differential between the domestic price and the international price is not being equitably shared between the state rice exporting corporation and the producer. A rational pricing policy can build Pakistan as one of the leading rice exporters of the world. But the budget contains no consistent policy regarding cotton and rice.

As far as sugar is concerned we will have to import sugar sooner or later, most probably very soon if we are to avoid severe sugar shortage. The primary reason for fall in sugar production is NOT the cyclical factor that the Finance Minister has emphasised prominently in his speech. The sugar industry does not consume more than 30 percent of the total sugarcane production in the country. Even if the sugarcane production was lower than the last year, there was enough to meet the requirements of the sugar industry. The vital factor in production short-fall is the blunder the Finance Minister committed last year in withdrawing capacity-taxation from sugar. He was warned that this would lead to fall in sugar output and even the tax revenue from this source would be reduced. This is what has actually happened. Even now he has not rectified that situation. As such sugar is going to reappear on our import bill.

Industry is operating below capacity. Introduction of capacity taxation with built-in incentives can help in increasing domestic production. Instead of pursuing this line the budget is still emphasizing new projects with tax holidays. How this expansion of capacity, when the existing capacity is not being fully utilised, is going to promote exports is difficult to understand. The policy is self-defeating. There is no reasonable hope that the trade and the balance of payments gap can be reduced by pursuing policies the ineffectiveness of which has been proved by actual experience.

Correcting Price Distortions:

The second plank of the budget strategy is "correcting various price distortions in the economy, not only to reduce the pressure of subsidies on the budget but also to

improve the balance of payments". Again a very laudible objective. But what is the real position.

Subsidies in the original budget for 1978-79, in the revised budget for 1978-79 and in the budget for 1979-80 stand as follows:

TABLE-6

S U B S I D I E S (Rs.in million)

| H e a d | 1978-79 | | Budget 1979- 80 |
|------------------------------------|----------------|----------------|--------------------|
| | Budget | Revised | |
| Wheat | 1,268.9 | 1,885.3 | 798.1 |
| (Imported) | (277.4) | (150.3) | (33.6) |
| (Indigenous) | (971.5) | (1735.0) | (544.5) |
| Wheat for FATA & Northern Areas | 77.3 | 69.0 | 71.5 |
| Others | 8.5 | 580.5 | 1,308.5 |
| TOTAL | 1,354.7 | 2,462.8 | 2,177.9 |

Despite the Finance Minister's tirade against subsidies they still remain 7.5 percent of the total non-developmental budget. Wheat price has been increased with a view to doing away with subsidy but the system as a whole remains subsidy-ridden.

There is yet another aspect of subsidies which deserves to be noted. Across the board subsidies fail to distinguish between the rich and the poor; they bear no relation to the capacity of the receiver. As such, they not only distort economic prices, they are also non-agalitarian. A better strategy would have been to abolish or reduce drastically the subsidies in their present form to let the normal economic prices prevail and to introduce low managed prices of essential goods for the poorer sections of the society. If subsidy is directed to meet the difference between the economic and the managed prices, such a subsidy would be socially justice and welfare-oriented. What justification is there to subsidise fertilizer and pesticide for the big Zamindars whose income is also not subjected to Income tax?

The budget has neither brought the subsidies down nor has it made them to serve the ends of justice.

B. THERMAL POWER STATIONS

| | | | | | | | | |
|-----|------------------|-------|-------|-------|-------|-------|-------|--------|
| 1. | Multan Steam | 5.11 | 5.84 | 6.40 | 9.02 | 11.80 | 11.24 | 16.38 |
| 2. | Faisalabad Steam | | | | | | | |
| | | 6.09 | 7.12 | 5.55 | 8.53 | 10.10 | 13.72 | 21.06 |
| 3. | Shahdara Gas | | | | | | | |
| | Turbines | 23.10 | 17.60 | 22.49 | 33.60 | 56.35 | 54.68 | 48.21 |
| 4. | Kotri Gas | | | | | | | |
| | Turbines | 27.76 | 12.60 | 15.93 | 33.50 | 20.32 | 33.44 | 27.77 |
| 5. | Faisalabad | | | | | | | |
| | Thermal | 21.49 | - | 26.78 | 26.78 | 49.16 | 75.40 | 85.92 |
| 6. | Sukkur Steam | 8.49 | 8.50 | 9.6 | 13.56 | 17.20 | 18.85 | 19.95 |
| 7. | Hyderabad | | | | | | | |
| | Thermal | 9.81 | 7.90 | 13.5 | 17.30 | 21.93 | 24.19 | 25.76 |
| 8. | Quetta Thermal | 12.55 | 8.80 | 34.0 | 59.97 | 61.30 | 72.00 | 108.00 |
| 9. | Faisalabad | | | | | | | |
| | Gas Turbine | - | - | - | 9.82 | 47.02 | 17.08 | 50.80 |
| 10. | Guddu Steam | - | - | 16.85 | 16.85 | 21.32 | 14.15 | 13.63 |

As against the current cost of generation of electricity ranging between 1.64 to 11.87 paisa/kwt. in hydel power station, which generate bulk of electricity (cost of Thermal electricity is much higher) average sale price in 1977-78 was 30.68 paisa/kwt. System losses in energy generated and sold by WAPDA are perhaps highest in the world. System losses in 1977-78 were 34.03 percent of total energy generated. If consumption in auxiliaries is included this loss increases to 35.58 per cent. Internationally acceptable level of loss is much lower-highest acceptable loss is said to be 20 per cent. The difference is simple energy theft and is an index of corruption prevailing in WAPDA. By effectively checking these losses, revenue can be increased by 15 percent. Accumulated arrears of revenue stood at Rs.473.73 million on 30th June, 1978 (about 20 percent of one year's total revenue). If these losses can be checked and administrative efficiency improved WAPDA can become self-financing without raising electricity tariffs. But instead of improving efficiency and economizing on losses the PUBLIC sector enterprises prefer to increase the prices of their products with destabilizing influence on price level and cost of production.

Economic prices also pre-suppose economically acceptable costs. If we ignore economics of production and management, how can we talk of the economics of prices?

The fate of self-reliance:

The budget has some brave words in favour of self-reliance and for the protection of national honour and sovereignty. The Finance Minister is selling his taxation package on the plea that it certainly is "not too great a price for economic stability and progress, for safeguarding our national security and for preserving our national sovereignty and honour." No price is too great for the realization of these objective. But would the budget really lead the country in that direction or is this yet another "confidence trick" in defence of the budget?

Let us take the question of foreign aid. Have we really chosen the path of consciously and rigorously reducing our national dependence on foreign aid. What would be the effect of the present budget on the state of foreign indebtedness of the country. In 1978-79 external resources stood at Rs.10,753.9 million, around 23.2 per cent of the total budget. For the year 1979-80 the expected external resources are estimated at Rs.10,257.8 million plus another expected Rs.3000 million with the result that if we are lucky the total would be Rs.13,257.8 million. This means an increase of Rs.2,503.9 million. As a percentage of the total budget for 1979-80 the dependence on external resources would, in that case, be to the extent of 25.4 percent of the budget, an increase of 2.2% over the level of external dependence in 1978-79. The country's total indebtedness to the outside world would approach 9 billion dollars.

In the context of self-reliance the more fundamental question of development strategy would have to be raised once again. How can a country pursue the road to self-reliance when the development strategy on which its economy is operating is based on foreign aid. Self-reliance is not a "push-button operation," nor is it a do-nothing operation. Unless we change our development strategy all talk of self-reliance would be no better than a "confidence trick."

CHAPTER-9

SOME SOCIO-ECONOMIC CONSEQUENCES
OF THE BUDGET

After a critical analysis of some of the basic concepts and strategies of the budget we would like to spell out some aspects of its expected impact on the economy.

Inflationary Effects:

Pakistan's economy is groaning under the burden of inflation produced by stagnation or near-stagnation in the commodity-producing sectors and the high rate of expansion of monetary assets. The annual rates of change of the General Price Level have been as follows:-

TABLE-8

INFLATION AS REFLECTED IN ANNUAL
RATES OF CHANGE OF THE GENERAL
PRICE LEVEL

| Year | Annual rate of Change of CPL |
|---------|---------------------------------|
| 1972-73 | 14.56 |
| 1973-74 | 23.7 |
| 1974-75 | 27.1 |
| 1975-76 | 11.6 |
| 1976-77 | 9.9 |
| 1977-78 | 8.4 |
| 1978-79 | 7.2 |

Annual rate of change of the General Price Level is not the best index of inflation. A better measure would be compound growth rate as that would be a better approximation of long run trends. We give below measures of inflation calculated on 1969-70 base, as is the normal practice, and also by using the year 1972-73 as the base, which we believe is technically more appropriate because it would take into account some of the major changes that took place in 1971 and 1972, particularly the loss of East Pakistan in 1971 and the devaluation of 1972.

TABLE-9

INFLATION RATES IN PAKISTAN

| YEAR | Overall Compound rates of change of the GRL- Base: 1969-70 | Overall Compound rates of change of the GPL- Base:1972-73 | Sectoral Infla- tion rates for commodity pro- ducing Sectors (Agri.and Manu- facturing Base:1972-73) |
|---------|---|--|--|
| 1972-73 | 8.8 | - | - |
| 1973-74 | 12.4 | 23.7 | 22.9 |
| 1974-75 | 15.2 | 25.3 | 24.0 |
| 1975-76 | 14.7 | 20.6 | 19.9 |
| 1976-77 | 14.0 | 17.9 | 17.4 |
| 1977-78 | 13.2 | 15.9 | 15.4 |
| 1978-79 | 12.3 | 14.2 | 14.0 |

The above levels of inflation, inspite of the downward trend, are alarming ENOUGH. It gives us great cause for worry that the budget, instead of assiduously pursuing the objectives of containing inflation and bringing greater stabilization of prices, has adopted a strategy, that is bound to reverse the above trend and increase the level of inflation in the future.

Deficit financing has not been checked. 1978-79 has struck the highest water mark of the decade. In 1979-80 also it is feared that deficit financing may not be contained at the stipulated level of Rs.3000 million but would be anywhere between Rs.6000-8000 million.

There is a positive correlation between quantum of deficit financing and the price level, although the impact is with a time lag. The full impact of the deficit financing in 1978-79 is going to be felt on the price level in 1979-80. And if heavy deficit financing is resorted to in 1979-80 also, this may have snow balling effect. The direct impact of the new taxes and service charges, the Finance Minister has claimed, would be around 4 per cent increase in prices. This statement conveys only a part of the truth. The total impact of the new budgetary proposals plus the

rise in wheat prices, which has recently taken place, would be much greater. Let us systematically work out the price-impact of the budget package.

There are significant differences in the consumption patterns of rural and urban areas. Therefore, it is worthwhile to compute the percentage increase in prices for the urban areas in addition to those for Pakistan as a whole. Results of a simple exercise are as follows:-

TABLE-10
TAX-INDUCED INCREASE IN THE COST
OF LIVING

| PRODUCTS | TOTAL | | URBAN | |
|----------------|---------|------------------------------------|---------|------------------------------------|
| | Weights | Percentage increase in expenditure | Weights | Percentage increase in expenditure |
| Milk | 7.6 | 2.20 | 7.0 | 2.10 |
| Vegetable Ghee | 2.5 | 0.20 | 4.0 | 0.41 |
| Kerosene Oil | 0.8 | 0.20 | 1.0 | 0.25 |
| Gas | 0.04 | 0.01 | 0.1 | 0.03 |
| Electricity | 0.40 | 0.10 | 1.2 | 0.30 |
| Construction | 2.10 | 0.52 | 3.8 | 0.98 |
| Postage | 0.12 | 0.12 | 0.2 | 0.20 |
| Transportation | 2.10 | 0.44 | 3.2 | 0.64 |
| | | + 3.93 | | + 4.88 |

From the above table, it should be clear that prices in urban areas will increase by about five per cent.

However, due to many factors, it is safe to assert that the increase in prices indicated by the above indices is an under-estimate. First, we have considered only those products for which prices will increase directly as a result of new taxes, while the compensatory variations in prices of the substitutes have been ignored. For example, an increase in the prices of Kerosene and natural gas would lead to an increase in the prices of other fuels. If an adjustment is made for this factor only, prices in Urban areas will increase by six per cent, compared to five per cent when the adjustment is not made.

Second, electricity, natural gas and other fuels, and transportation form more than 10 percent of the cost of production in almost every industry. Therefore, prices of most of the industrial products are expected to go up by more than 2.5 per cent. Giving them half the weight in total consumption, one can easily see that prices will be increased by another percentage point. This amounts to a total increase in prices of more than seven per cent.

Third, some of the SALARIED employees may endure these price increases, since they can't do otherwise. However, businessmen and workers in the private sector, can pass the tax burden on to the consumers by increasing their prices or wages. To compensate for the increase in cost of living, wages and profits will then go up. This would mean that their contribution to inflation will be somewhere around 2 to 3 per cent assuming wages to be one quarter of the value added - a conservative estimate.

It follows that the net impact of new taxes will be in the neighbourhood of nine to ten per cent. Furthermore, there is going to be an impact of the huge deficit financing of 1978-79 and on continuing deficit financing in 1979-80. This, it is estimated, will add another 6 to 7 per cent to the inflation. Thus the rate of inflation may well exceed fifteen per cent during the next year.

One may note that very recently the issue price of wheat was increased by about 30 percent. Considering the fact that "wheat" has a weight of 14.4 per cent in the overall cost of living index, this factor alone will add 4.4 per cent point to the cost of living.

Taking all these factors into account the total tax-induced rise in the cost of living including the increases in wheat, electricity and other service prices in urban areas will be in the range of 18-20 per cent. If it is remembered that an autonomous increase in the prices of 8 to 10 percent is about normal for Pakistan, the total increase in prices may be in the range of 25-30 per cent in just one year.

Can the economy bear this burden? What hardships would this cause to the poverty-stricken masses and the lower and middle classes? What new distortions would they introduce in the price structure? What would be the effect of a price-escalation of this dimension on export competitiveness of the domestic produce and consequently on the trade gap. And would this not give rise to universal clamour for increases in wages and salaries? Are we heading

for a cost-push inflation accentuated by demand-pull factors? It seems that the considerations of revenue-getting were so prominent in the thinking of the budget-makers that they ignored its other consequences.

Equity Considerations

Almost always the worst victims of a substantial general price rise, such as the new taxes will induce, are the fixed income groups and the general mass of people. In a country where poverty is widespread and where gross inequalities of income and wealth exist, an economic package which is going to produce 18-20 per cent price rise over and above the normal price rise is morally unjust and economically disastrous. The adverse effects of such a package are bound to be greatest on those who are least capable of bearing them.

Let us examine some of the budget proposals with a view to finding out their impact on the lower and middle classes. We have already pointed out that across the board subsidies are inequitable because they really subsidise the rich and very little benefits trickle down to the poorer sections of society. A just policy demands that those who can afford to pay should pay full economic price while subsidies should be given only on commodities and services provided to the really poor.

The budget has also failed to realise that if the purchasing power of the lower and middle classes is going to be further reduced under the impact of this budget, what substantial relief should be given to them to enable them to face this situation? The alleged RELIEF it offers to the Government servants in rent and CONVEYANCE is too insignificant to be taken seriously and is at any rate inequitable in relation to what the rest of the population will have to endure.

The proposed wealth tax is also going to be highly inequitable. It can have no effect at all on the construction of plazas and sky-scrapers as they are commercial propositions and the increased tax can be shifted in the form of higher rents. The real effect would be on the urban middle class, which is already groaning under the burden of taxes on urban property. There is already a property tax which normally sucks in twenty five percent of the gross rent. If the Government had put clear restriction on plot size and built-area of houses, that would have been understandable. If some progressive tax had been imposed on rent-

income over and above a certain reasonable limit, that too could have been favourably considered. But what has been done in the budget is outlandish. A congealed asset has been taxed in such a way that a part of an unrealized capital gain is to be paid in liquid form without establishing any relationship between the tax payable and the liquid capacity of the tax payer. This scheme also involves double taxation as the yield of the property is taxed in the form of property tax and the total worth of the same property is subject to wealth tax and on the basis of ten times annual rent. This is an extremely ill-thought out proposal.

It is also inequitable because this puts an additional burden upon the urban population which is paying about 90 percent of the taxes and leaves untouched the rich landlords whose estates are in the rural areas. It is unfair to the women and children to whom property provides great security and operates as a form of insurance against evil days.

Even from the Islamic viewpoint this tax should be referred to the Islamic Ideology Council because some kind of a similarity with Zakat has been arbitrarily created and also because the property of wife which she may have acquired independent of her husband's income and wealth is being grouped together with her husband's property for purposes of this tax. This is in violation of the principle of individual responsibility established by Islam in relation to property owned by women.

Raising of excise duty on demand to the extent of Rs.300 per ton, bringing its price to Rs.900, is also extremely inequitable because it would effect the middle classes who would now find it more difficult to have a house of their own. The plaza-makers would not be affected by price rise as they would cover it up in a number of ways. Having a house is one of the basic necessities of life. The Prophet Muhammad (Peace be upon him) has explicitly stated that every family has a right to have a house of its own. An arbitrary and sudden increase in the price of cement, as proposed in the budget, is going to cause untold hardships to the middle classes. There is no economic or social justification for this rise in the price of cement. The Government is already CHARGING excise duty of the value of Rs.356.00 per ton on white or coloured cement and Rs.293.00 per ton on all other sorts of cement. The domestic price after this excise duty was Rs.600.00 per ton. If the objective of economic policy was to discourage building of plazas a more straightforward and effective method would

have been to refuse permission. The price mechanism is highly ineffective and inequitable to achieve this result because plazas are being built on the expectations of higher profits than elsewhere available. With the tax-induced price inflation these expectations would in no way be affected. Thus in all such a SHARP price rise will not achieve the result it is designed to achieve.

The Budget has also imposed custom duty on milk powder on the ridiculous grounds that it is injurious for health of children. If this was the reason why was there a clarification that baby milk is not subject to the new duty? Moreover, has any countervailing duty been imposed on the domestic production of powdered milk? If not the Finance Minister must be making a value judgement that the Pakistani import substitutes are beneficial for health. What justification is there for these inferences in economics or in logic? This tax is bound to hurt the common man.

The same is true of increases in the prices of Kerosene oil, petroleum, gas, electricity, railway fare, etc. The imposition of excise duty on gas is particularly disturbing. The argument advanced by the Finance Minister that gas being an energy substitute "its price must move in step with the POL to ensure its economic use and also to avoid price distortions" is hardly tenable. It could be allowed only upto a certain point. In fact, in the case of energy substitutes of POL it may be advisable to keep their prices low so that use-substitution may take place. If gas is reasonably cheap in relation to POL some of the demand of POL may be diverted over time towards gas. This may even spur technological innovations leading to substitution of POL by gas. All these considerations suggest that the price of gas should not have been raised. But budget-makers seem to be eager to raise revenue that they are not prepared to allow the people to enjoy relatively cheap gas which is a domestic product and does not involve any expenditure of foreign exchange.

The reimposition of excise duty on edible oil is yet another instance of the insensitivity of the budget-framers towards the needs of the people. This would effect a very large number of people and there is hardly any evidence to suggest that the imposition of this duty would result in any significant curtailment in the import bill and in the volume of demand for vegetable ghee. The demand for vegetable ghee can be met by increasing domestic production of oilseeds and their substitutes. A crash programme for their cultivation is the answer to the

problem. While selecting items on which taxes had to be imposed the budget framers have put their fingers on those goods and services which affect the common man. However, in giving relief and concession their eyes have caught items which would have affected mainly the well-to-do. The most important example is reduction in central excise duty on man-made fibre, acetat yarn and other continuous filament yarn of man-made fibres. The exchequer will lose Rs.21.5 million by reducing duty on these items in respect of which neither the consumer nor the industry needed relief.

The budget fails on both counts: neither has it any intrinsic economic merit nor is it welfare-oriented. It has failed to give anything to the people except more taxes, higher prices, greater inequalities, and consequent socio-economic turmoil.

CHAPTER-10

NON-DEVELOPMENT EXPENDITURE

The area which has enjoyed greatest protection from the Finance Minister is the non-development expenditure. We are told that "cuts in these expenditures are unlikely to generate substantial savings."

Non-development expenditure has increased by leaps and bounds during the last decade. This is how it has expanded.

TABLE-11

NON-DEVELOPMENT EXPENDITURE
1970-80

(Rs. in million)

| YEAR | Non-development expenditure | Annual percentage rate of increase |
|---------|-----------------------------|------------------------------------|
| 1970-71 | 5,317 | - |
| 1971-72 | 7,253 | 36 |
| 1972-73 | 7,649.7 | 5.4 |
| 1973-74 | 9,050.1 | 18.3 |
| 1974-75 | 14,477.5 | 9.9 |
| 1975-76 | 14,890.0 | 2. |
| 1976-77 | 16,157.8 | 8. |
| 1977-78 | 20,080.1 | 24.3 |
| 1978-79 | 26,108.9 | 30.0 |
| 1979-80 | 29,139.9 | 11.6 |

A break up of the non-development expenditure reveals the following picture:

TABLE- 12

NON-DEVELOPMENT EXPENDITURE 1978-80

| FUNCTION | 1978-79 | | Percentage increase/decrease | 1979-80 | |
|------------------|-----------|-----------|------------------------------|-----------|------------------------------|
| | Budget | Revised | | Budget | Percentage increase/decrease |
| General services | 12,224.5 | 12,619.6 | 3.2 | 14,217.9 | 12.7 |
| General Adm | (1,281.0) | (1,379.6) | 7.7 | (1,622.2) | 17.6 |
| Law and Order | (716.3) | (740.6) | 3.4 | (852.9) | 15.2 |

Table-12

| FUNCTION | 1978-79 | | | 1979-80 | |
|---------------------|-----------------|-----------------|--------------------------------|-----------------|------------------------------|
| | Budget | Revised | Percentage increased/decreased | Budget | Percentage increase/decrease |
| Defence | (10,227.2) | (10,499.4) | 2.7 | (11,742.8) | 11.8 |
| Community Services | 470.9 | 506.8 | 7.6 | 562.8 | 11.10 |
| Social Services | 608.6 | 592.5 | -0.03 | 848.8 | 43.3 |
| Economic Services | 759.8 | 1,470.1 | 93.5 | 1,810.6 | 23.2 |
| Subsidies | 1,354.7 | 2,462.8 | 81.8 | 2,177.9 | -(11.2) |
| Debt Servicing | 6,328.1 | 6,579.1 | 4.0 | 7,457.6 | 13.4 |
| Grants to Provinces | 1,900.6 | 1,872.6 | 1.5 | 2,059.6 | 10.0 |
| Unallocated | 9.5 | 5.3 | -44.2 | 5.2 | 1.4 |
| TOTAL | 23,656.8 | 26,108.8 | | 29,139.9 | |

Defence goes to make up 46.3% of the total non-development expenditure in 1979-80. General Administration plus law and order makes up 8.5 per cent while Community, Social and Economic Services grouped together go to make 11.0. Together with General Administration and law and order this civil machinery of the state would cost Rs 5,697.3 million which is 19.5 per cent of the total non-development expenditure and which goes to make up about 2.9 per cent of the GNP at current factor cost. General Administration plus law and order alone come to Rs.2,475.1 million which is 1.3 per cent of the GNP.

A comparison of the relative position of Government expenditure of Civil Administration (General Administration plus Law and Order Only) in Pakistan and other developing countries is very revealing. It shows how extravagant we are in Pakistan in comparison with other developing countries with similar administrative machinery.

TABLE-13

GENERAL ADMINISTRATION AS PERCENTAGE
OF G.N.P.

| Country | Year | General Administration as percentage of GNP |
|----------|---------|---|
| Pakistan | 1970-71 | 1.50 |
| | 1976-77 | 1.33 |
| | 1979-80 | 1.29 |

Table-13

| | | |
|------------|---------|--------|
| India | 1960-61 | 0.57 |
| | 1969-70 | 0.60 |
| Ethopia | 1969 | 0.0011 |
| | 1972 | 0.0011 |
| Cyprus | 1969 | 0.0059 |
| | 1975 | 0.0108 |
| Malaysia | 1970 | 0.0026 |
| | 1975 | 0.0025 |
| Jamaica | 1970 | 0.0063 |
| | | 0.0097 |
| Nepal | 1970 | 0.0002 |
| | 1974 | 0.0006 |
| Bangladesh | 1974 | 1.0406 |
| | 1975 | 2.2393 |

(Source: United Nations Statistical Yearbook, 1976)

This table shows conclusively that Pakistan is spending disproportionately on its civil administration and there is a vast scope for reorganisation of administration and bringing about substantial savings in this area. After all the administrative structure of India, Malaysia, Sudan, Ethopia, Cyprus and Jamaica is not basically different from ours. We have deliberately selected data for those countries whose administrative machinery has evolved under the British influence. In spite of some variations due to latter developments the structure remains very similar. Their level of development is also not very different from ours. Then why this disparity in administrative expenses?

There is also going to be an expected rise of 17.6 per cent in General administrative expenses and 15.2 per cent in the administration of law and order. When an ordinary citizen whose income is Rs.400 to Rs.600 per month is being asked to reduce his consumption and make sacrifices for the nation, why is it that the Government with an administrative budget of over Rs.5,600 million is not prepared to curtail these expenses. Instead general increases of 17.6 per cent and 15.2 per cent in general administration and Law and Order are being proposed. Why this DOUBLE standard? Proposed increased in some of demands for grants are

simply staggering. We give below some glaring examples.

TABLE-14
INCREASES IN NON-DEVELOPMENT
EXPENDITURE

(Million Rs.)

| Demand No. | DESCRIPTION | Amount | | Percentage rise |
|---|--|---------|---------|-----------------|
| | | 1977-78 | 1978-79 | |
| <u>A. INCREASES OF 100% OR MORE BETWEEN 1977-78 AND 1978-79</u> | | | | |
| 17. | "Other Expenditure" of Ministry of Commerce | 1.2 | 501.2 | +41,650 |
| 119 | "Other Expenditure" of States and Frontier Regions | 6.4 | 35.8 | + 459 |
| 110 | Advisory Council for Islamic Ideology | 1.6 | 8.4 | + 399 |
| 29 | Ministry of Defence | 14.5 | 68.0 | + 368 |
| 23 | "Other Expenditure" of Min. of Communications | 27.1 | 126.8 | + 367 |
| 104 | Planning & Development | 13.4 | 393.6 | + 342 |
| 1 | Cabinet | 0.79 | 2.83 | + 255 |
| 84 | "Other Expenditure" Min. of Information | 105.5 | 240.6 | + 127 |
| 11 | Federal Inspection Commission | 0.71 | 1.60 | + 123 |
| <u>B. INCREASES OF 100% OR MORE BETWEEN 1978-79 AND 1979-80</u> | | | | |
| 125 | "Other Expenditure" of Min. of Water & Power | 0.1 | 1.1 | + 1,000 |
| 72 | Works Division | 0.45 | 3.27 | + 621 |
| 35 | Education | 79.8 | 310.3 | + 286 |

| | | | | | |
|----|--|-------|--------|---|-----|
| 17 | "Other Expenditure" of Ministry of Commerce | 501.2 | 1298.8 | + | 159 |
| 27 | Tourism Division | 5.8 | 12.2 | + | 111 |
| 11 | Federal Inspection Commission | 2.25 | 4.76 | + | 111 |

INCREASE OF 75 - 100% BETWEEN 1977-78 & 1978-79

| | | | | | |
|-----|---|-------|-------|---|----|
| 9 | "Other Expenditure" on Establishment Division | 7.20 | 13.46 | + | 86 |
| 16 | Export Promotion | 11.69 | 22.01 | + | 88 |
| 38 | Stationery and Printing | 21.89 | 38.53 | + | 75 |
| 58 | Islamabad Milk Plant | 2.7 | 5.06 | + | 87 |
| 71 | "Other Expenditure" of Environ- ment and Urban Affairs Division | 29.97 | 55.30 | + | 84 |
| 97 | Ministry of Local Govt. & Rural Development | 2.5 | 4.83 | + | 87 |
| 111 | "Other Expenditure" of Min. of Religious and Minority Affairs | 7.85 | 14.28 | + | 81 |

INCREASE OF 75-100% BETWEEN 1978-79 & 1979-80

| | | | | | |
|----|---|------|-------|---|----|
| 96 | "Other Expenditure" of Min. of Law & Parliamentary Affairs. | 9.46 | 16.65 | + | 75 |
| 13 | Organisation and Method Division | 2.00 | 3.50 | + | 75 |

C. INCREASE OF 50-75% BETWEEN 1977-78 & 1978-79

| | | | | | |
|----|--|-------|-------|---|----|
| 26 | "Other Expenditure" of Sports, Youth Affairs & Cultural Division | 15.88 | 23.92 | + | 58 |
| 42 | National Saving | 10.92 | 16.91 | + | 62 |
| 55 | Other Agricultural Services | 7.96 | 13.21 | + | 65 |

Table-14

| | | | | |
|---|--|--------|----------|----|
| 65 | Medical Services | 57.74 | 97.85 + | 69 |
| 123 | "Other Expenditure" of Kashmir Affairs & Northern Areas Dvn. | 125.41 | 193.58 + | 54 |
| <u>C. INCREASES OF 50-75% BETWEEN 1978-79 & 1979-80</u> | | | | |
| 48 | Taxes on Income, Corporation Tax and Sales Tax | 34.10 | 56.99 + | 67 |
| 68 | Population Division | .346 | .554+ | 60 |
| 74 | "Other Expenditure" of Works Division | .239 | .394+ | 64 |
| 76 | Industries | 7.87 | 12.36 + | 57 |
| 91 | "Other Expenditure" of Ministry of Interior | 10.47 | 16.48 + | 57 |
| 94 | Manpower and Overseas Pakistanis Division | 17.54 | 27.04 + | 54 |
| 103 | "Other Expenditure" of Min. of Petroleum & Natural Resources | 316.64 | 496.15 + | 56 |
| 119 | "Other Expenditure" of Min. of States & Frontier Regions | 35.85 | 55.49 + | 54 |

We are not in a position to offer any opinion about specific changes without examining the details of each every request. But the fact that so huge increments have been made in so short a time smack of unplanned mushroom growth. The range of variations is startling. In a number of cases there is a galloping rise in demands showing an erratic behaviour of variables. This is a sad reflection of the state of financial mismanagement of the economy. Strict financial discipline is needed to bridle non-development expenditure.

Defence expenditure which is about 40 percent of the total non-development expenditure should also be reviewed with a view to having a more cost-effective use of national resources.

Subsidies constitute another area which provides cause for concern. Huge allocations for subsidies in the budgets for 1978-79 and 1979-80 do not represent a healthy trend because we have already discussed that there is very little economic or social justification for subsidies in our case.

There is a total provision of Rs.2,177.9 million under the head of subsidies in the budget for 1979-80. All these constitute grey areas which call for new policy decision to economize non-development expenditure in a poor country like Pakistan.

PART-3

WHAT SHOULD BE DONE?

TOWARDS A NEW STRATEGY

A GUIDELINES FOR RECASTING THE BUDGET
1979-80

CHAPTER-11

TOWARDS A NEW STRATEGY

We have examined the budget of 1979-80 from several angles. One analysis makes it clear that what is needed is not a marginal change in this or that tax proposal. Instead, an altogether new approach is needed towards the entire problem of budget-making and developmental planning. The present budget will have to be completely recast to reflect a radically different perspective which aims at bringing about a fundamental change in the economy. In the past we have tried the capitalist road to development and have found that although a new class of get-quick-rich did emerge but the nation has never been allowed to have a new and popular economic leadership nor has it produced patterns of growth to ensure an optimal use of natural resources, balanced economic growth and just and equitable distribution of the fruits of economic progress. We have also tried the socialistic path of nationalization and have landed the economy in stagnation and bureaucratic mismanagement. If we are serious in learning lessons from the past and to sincerely pursue the Islamic path we will have to adopt a new approach.

National Consensus Approach:

This new approach should aim at carefully building a national consensus on a new economic policy with clearly defined goals and priorities and a carefully worked out programme package. The Government must discard its attitude of imposing the bureaucratic fiat over other sections of the society. The new policy package should evolve out of a national dialogue in which the Government, the professional economists, the industrialists and businessmen, the bankers, the consumers, the politicians and the labour should actively participate. Instead of any one group pursuing its limited interests, all should participate in evolving a new policy catering for the best national interest. And as the value-scheme of Islam is the common ground which each group is committed to pursue, it should not be too difficult to evolve a consensus through dialogue and discussion, through argumentation and persuasion, through give and take, and through submission to the authority of facts and the sovereignty of Islamic injunctions. It would be naive to suggest that the evolution of such a consensus would be an easy affair ; but neither is the task impossible of achievement. The Pakistani nation has shown in the

past a capacity to rise to great heights. It was able to accomplish consensus in the freedom struggle in the forties and recreated a similar unity of approach in 1965 and in 1977. There is every reason to believe that once an effort is made in the right direction and in the right spirit the nation can once again rise to the occasion.^{12/}

Policy Objectives and Planning Strategy:

Our first task is to recast the goals of our economic policy and to reconstruct our planning strategy to achieve our objectives. We must be prepared to make a radical departure from the path we have been pursuing out of ignorance or innocence. New policy objectives could be framed on somewhat the following lines:-

- a. Proper resource assessment and mobilization at all levels of national life. People should be motivated to make strenuous efforts to rebuild their individual and national economic life, with a view to achieving a place of dignity and strength for the Millat-e-Islamiyah-e-Pakistan, in the international community.
- b. Maximum economic expansion with a view to abolishing poverty and squalor and to improve the quality of life of the people in all parts of the country. Questions of growth and justice and of production and distribution of wealth have to be tackled simultaneously and by developing a new equation between them. Regional disparities have to be reduced so that justice is done to all regions of the country and to all sections of society.

^{12 /} It may not be out of place to refer here to instances from some other countries which tried to evolve social contracts to suit their conditions. The Wilson Government in the UK faced a formidable challenge in the mid-seventies and it was able to bring the government, the industry and the labour to an agreement to meet common problems. The West German Government has been able to contain inflation and attain stable growth by a tri-partite approach to economic policy i.e. arriving at a national compromise between the Government, the Industry and the labour.

- c. To identify the basic needs and problems of the people and to develop plans and programmes to solve them. A problem-solving approach, and not only a theoretical approach, would be more relevant to our situation. Macro-models of the economy, supplemented by planning at micro-level, are an indispensable tool for scientific economic planning and to set up priorities to respect the real needs of the people. Nevertheless, interest is meeting the basic needs of the people must not make us oblivious to the basic development of the country, on which a broad-based viable economy should rest. This means that emphasis would be on the production of essential goods as well as on the development of essential technologies and the capacity to produce technology and not merely on import-substitution without any regard for the importance of these goods in the preference scale of the nation.
- d. Human resource development must have high priority. This would involve a greater emphasis on the right type of education, on better mobilization of manpower and on greater importance to job creation and fuller employment. Encouragement of small and medium industries and their proper integration within the planning effort of the country.
- e. Self-reliance and reduction of dependence on outside world, particularly the western world. There should also be emphasis on greater cooperation between Muslim countries and co-participation in economic projects.
- f. Development of new technology and building of a strong industrial and technological base for the Muslim World.

To achieve these objectives a new planning strategy will have to be developed at the macro and micro-levels. Capital formation would be given the importance that it deserves, but in the new model it would not be premium mobile. Human motivation and participation, socio-economic infra-structure, feed-back from welfare programmes, role of innovation and appropriate technology would also be important actors in the process. Role of capital would be exam-

ined not merely in the context of growth rates and marginal propensity to save, but also in relation to a different product and technology-mix, resulting in lower capital/output ratios and varying patterns of production and consumption. Institutional arrangements will have to be made for the formulation and implementation of plans at lower levels, particularly at the division, the district, the town and the village levels. Planning machinery would not have a mere horizontal existence at the apex: it would also operate along the vertical line reaching down to the grass roots. There should be an effective chain of inward and outward linkages tying up different sectors of society in the nation's total participation in the growth process.

Living Beyond Means

It is a major problem that the Pakistani nation has become addicted to living beyond its means. This is true of individuals as well as of the Government. We talk of austerity and simple living but all this talk neither sinks deep in our hearts nor influences our ostentatious life-style. A drastic change is needed if conditions are to improve. Consumption of the rich must be significantly curtailed. Import and use of luxury items has to be checked. Simple modes of transport deserve to be encouraged. Small houses should be planned for all groups of society and strict limitation of plot size in public and private sectors deserves to be enforced. This should be achieved through systematic planning and through example-setting by the leadership, beginning from the top.

Growth Targets

Growth targets in the Fifth Plan have been set too high. This too is an example of living beyond means. Consequently we have had to plan too high a rate of marginal saving and depend even more heavily on foreign aid. The scenario of international aid has changed and our own capability to pay back interest and service charges has been over-stretched. The most promising areas for maneuverability are change in the capital/output ratio, better capital utilization, introduction of appropriate technology, mobilization of medium and economic efficiency and productivity. Some of the key elements of a realistic growth strategy should be greater domestic effort, better allocation of resources, greater operational efficiency and avoidance of prestigious, capital-intensive and costly ventures at least for the time being.

Tax Reform

Radical changes are needed in the tax structure of Pakistan. Over the years the tax structure has evolved in a haphazard manner. The present system represents a juxtaposition of bits and pieces put together from time to time and devised to serve varying purposes. No effort has been made to recast the whole system in accordance with well-defined policy objectives. Protection is given to industries that no longer exist (e.g. Hydro Peroxide). Raw materials and machinery parts involved in the production of goods carry higher taxes (custom and excise duties) than the ones on the import of final products, (e.g. detergents). Prices of some locally produced goods are so controlled that they become uncompetitive or untenable vis-a-vis imported goods of the same category (e.g. Motor tyre, dry batteries for transport vehicles). There are export commodities where raw material is subject to import tax which is not refundable (tax on imported woolen yarn used for making carpets for export). Vastly different rates of tax on small variations in quality open flood gates for corruption (paper, chemicals, electronic appliances, etc.). Duties imposed with a view to achieving import substitution continue although the challenge that is faced by the country in the present phase is that of export promotion. All those elements of the tax structure deserve to be scrapped which have become anachronistic.

The relation of customs and excise duties with the prevailing phenomenon of cost-push inflation deserves to be examined and realistic changes made in them with a view to stabilizing the prices in the domestic market and making Pakistani products more competitive in the international market. Import and export duties influence the effective exchange rate of internationally-traded goods but our tax structure is not sensitive to this. If stabilization of prices is a policy objective, then indirect taxes can be manipulated to absorb changes in world prices but the practitioners of fiscal policy show no realisation of this dimension. All these considerations are so overwhelming that a complete reconstruction of the tax structure must be a priority item on the agenda before the nation and also hopefully before the Government. A high-powered commission should be appointed to examine these questions in depth and suggest a new tax structure which is simple, efficient and buoyant. There should be regular periodic-review of the tax system, not merely by the C.B.R. but by experts and public men taken from all walks of economic life. This commission should also examine some other aspects of the tax system.

Indirect taxes, which are regressive, yield 85 per cent of tax revenue while direct taxes yield only 15 per cent. The relative share of the income tax in revenue has declined over the years. Tax evasion takes place on a very vast scale and unfortunately tax departments have a name for high incidence of corruption. Income, excise and sale tax inspectors have the worst reputation for corruption and the life-styles of most of them lend weight to this universal allegation. The discretion of the inspectors is a source of corruption and harrassment. Placing of sales tax inspectors on industry has produced violent reaction (e.g. in Plastic industry).

The Problem of Income Tax

Income tax is paid by about 400,000 persons only, about 5% of the household. Salaried classes, whose contribution to total income tax revenue is hardly 6%, are the worst affected class. Hundreds of thousands of people who are engaged in self-employed small and medium business exist outside the net-work of income tax. Evasion of income tax is rampant to an extent that only 30-40 per cent of the taxable income is really taxed, leaving over 60 per cent almost untouched by the income tax. That also explains the abundance of black money. Alongwith corruption, other reasons for this situation include the rate, structure and assessment procedures of income tax.

Rates of tax are inequitable and after a level become counter-productive by adversely effecting economic incentives. The tax procedures are too complicated and cumbersome. The discretion of the income tax inspector is corruption-generating. This situation cannot be redressed without radical changes in the system of income tax.

Introduction of Zakat has also produced a debate on the compatibility of income tax with Zakat. Conceptually we do not find it convincing that there should not be any other tax after the levy of Zakat. This does not seem to be the intent of the Shariah. Zakat is levied on wealth and not on income as such. What is, however, correct is that the question of total tax burden should be re-examined as Zakat has increased the tax liability of the people. And as income tax system suffers from many inequities, the introduction of Zakat is the right time for a total review of the situation. Some major changes are needed in the system, particularly to make it more equitable, efficient and corruption-free.

One option is to devise a totally new system where Zakat is supplemented by selected expenditure taxes and

some kind of a special tax on business and industrial houses and may be some income tax for only the very rich. Another option is to simplify the income tax and to eliminate the discretion of the inspectors, to introduce 100 per cent self-assessment, to reduce the tax burden on the salaried classes, to work out a lower and simpler structure of tax rates and to allow all the black money to become legal after paying a token tax of 15 to 20 per cent.

The reorganisation of wealth tax particularly for those who are not paying Zakat also deserves to be examined. It might be worth considering to increase wealth tax in such a way that those who are not paying Zakat may also be made to share approximately an equivalent burden and the proceeds of this tax be utilised for the promotion of welfare services.

Income tax is also to be looked upon from another angle - increased incentive to industrial investment. Along with procedural reforms, tax holidays in the formative phases of industry set up in less developed areas, tax exemption on dividend income, tax relief for one year on excess production over a certain limit (say 10% of last year's production), and special tax relief on exported production deserve to be carefully considered. Ushr would be the first systematic tax on agricultural produce but the question of income tax on agricultural income over a certain limit should still be examined so as to distribute equitably the tax burden on different sections of the society.

Capacity Taxation

Greater use of capacity taxation also deserves to be examined, particularly in the context of an industry that is operating below capacity, which is the case with most Pakistani industries. Assessment of capacity can be reviewed from time to time, say after every three years, to bring the tax capacity in conformity with the actual capacity, if changed. The experience of sugar industry should be studied with an open mind. All independent evidence suggests that the withdrawal of the capacity tax on sugar was definitely one of the factors responsible for decline in sugar production.

One of the principles guiding tax reforms should be greater participation by the tax payers in devising the new system so that the Government and the tax-payers could work with greater mutual understanding, confidence and trust. The national consensus approach should be applied to this area as well.

CHAPTER-12

GUIDLINES FOR RECASTING THE BUDGET - 1979-80

Now we come to the last part of our submissions. We have stressed time and again that a new approach to the economic problem and a realization by the people that a new direction is being given to the economic effort are of critical importance in facing the present economic challenge. Budgets are made by Governments and not by private individuals outside the Government. The latter do not have enough information and administrative support to frame a budget. There are also a number of sensitiveness because of which a number of matters cannot be discussed in public before thinking on them has crystalized amongst the decision-makers. It is futile to expect or to demand from private individuals or political parties outside the Government, to present an 'alternate budget.' This does not fit with the scheme of things. What can, however, be done is to give certain guidelines within which an alternate budget can be framed by those who are entrusted to administer the finances of the country, whoever they be.

We would like to present our proposals in two parts. In part one we shall state the parameters within which a budget for 1979-80 should now be reframed. In part two we would identify some of the major areas for budgetary action. What we are giving is mostly a bare structure, with some flesh put on it. More flesh will have to be added to it to make it a living organism. Nevertheless, we hope to have provided a framework on which a more realistic, a more just and a more economically productive budget can be prepared within a very short period of time.

SECTION - A

Objectives and Strategy of the Budget:

1. In the light of our appreciation of the present state and potential of the Pakistan economy the first major objective of the budget should be increase in production through improvement of productivity, efficiency and better management. After many years of ad hoc efforts at expansion we must, for a change, shift the emphasis from expansion to strict consolidation and improvement of performance. In the public sector in particular a very thorough exercise is needed to examine the on-going and new projects and to cut them to their proper size. Fuller capacity utilization

and modernization and, if necessary, expansion of existing units should be given preference over establishment of new ones. This would also involve reviewing the Five Year Plan size and its implications for the Annual Development Plan for the year 1979-80 onward.

2. Price stability is of prime importance in the present critical phase of the Pakistan economy. Any policy move and budgetary proposal which would entail price-rise and accelerate the rate of inflation has to be firmly ruled out. A more preferable target would be general price stability with either managed reduction in the prices of selected essential commodities for all or at least for the low-income groups.

3. Encouragement of private enterprise with very clear policy guidelines reflecting the social preferences of the society. The steps that have been taken so far have failed to produce the expected results. A mere proliferation of tax concessions cannot deliver the goods. Political uncertainty is a critical factor but some other major decisions are also called for. There is unutilized entrepreneurial talent in the country and there are utilizable funds available with the banking sector as well as the private sector which can be mobilized for investment. Some new institutional experiments are needed to break the ice. Efforts should be made to canalise towards industrial investment idle resources as well as capital which has switched over to trade.

4. Reduction of balance of trade gap, through curtailing imports and promoting exports.

5. Reduction of the country's dependence on foreign aid and mobilization of foreign equity capital and of the remittances of Pakistanis abroad for private and public sector development programmes.

6. Reform of tax system to make it more equitable. New taxes must not be imposed which would increase the cost of living of the people. Rationalization of the tax system in such a way that the lot of the lower income groups improves and the inequities of the system of income tax and of indirect taxation affecting goods of common use are rectified.

We feel the above should constitute the major imperatives which the budget should comply with.

SECTION - B

Identification of Action Areas and Some Proposals

1. The first question, we have to squarely face, relates to the resource gap of Rs.11,102 million which must be reduced. Is this the natural gap? Can't it be significantly curtailed? After careful analysis of the budget we have come to the conclusion that this is not the right size of a gap for the conditions in which the Pakistani economy stands today. Our immediate target is to reduce this gap. If we regard the budget of 1978-79 as our starting point we were faced with a gap of Rs.2,258 million. The revised budget for 1978-79 shows 212.01 per cent increase in the gap to Rs.7,005 million. Instead of reducing this revised gap to manageable limits the budget for 1979-80 increases the gap to Rs.11,102.2 million. The hard decision we will have to make is to freeze the development and non-development expenditure at certain reasonable levels at least for one year.

Development Expenditure:

It is our considered opinion that the size of Annual Development Plan (1979-80) should not be more than the original size of the Annual Development Plan in 1978-79 i.e. Rs.19,000 million. We are not in a position to specifically suggest which of the new and on-going projects will have to take this cut and to what extent, as we do not have complete information about them but in our view the following areas should be examined to bring about a reduction of Rs.4,000 million in the Annual Development Plan size.

1. Across the board reduction in ADP 1979-80 by economizing in administrative and other expenses without reducing the physical size of a project. (Million Rs.)

Proposal No.1: @5% - Rs. 1150 A
 Proposal No.2: @7% - Rs. 1725 B

2. Subsidy on Fertilizer Distribution:

Provision for 1979-80: Rs.1467 million.

Fertilizer at subsidised rate should be provided to farmers with a maximum of 25 acres of land. Others should pay its economic price. As over 60% of the subsidised fertilizer is provided to over 25 acre farms reduction of 2/3rd subsidy is possible. - Rs. 978.5 C

A + B = Rs. 2128.5

B + C = Rs. 2703.5

Examination of the following projects with a view to reducing expenditure by another Rs.2,000 million.

| | | |
|------|----------------------------------|------------|
| i. | WAPDA (Water) | Rs. 1247.6 |
| ii. | WAPDA /TARBELA | Rs. 919.3 |
| iii. | WAPDA (POWER) | Rs. 3078.7 |
| iv. | Karachi Steel Mill. | Rs. 2837.1 |
| v. | State Cement Corporn. | Rs. 475.7 |
| vi. | National Fertilizer Corporation. | Rs. 323.0 |
| vii. | POEE Qasim | Rs. 819.4 |

A number of other projects can be either financed outside the budget or given low priority and either abandoned or deferred or staggered.

a. Export Processing Zone:

(It should be possible to include all developmental charges in the initial price/fee that may be collected from international investors who secure plots in the area. Even an initial fee can be called in advance with applications so as to produce a revolving fund for the development of the zone).

Total Revised Estimates Rs. 918.1
million
1979-80 Provision Rs. 43.3
million

- b. Islamabad Development. Around Rs.240 million are provided for various CDA projects. All these should be re-examined in view of the impending national crisis. The possibilities of introducing property tax and capital gains tax on Islamabad property should be examined and the proceeds of these taxes credited to a Capital Development Fund. There is no justification that with over 2000 per cent rise in prices of land the entire capital gain is taken up by the owners of land/house.
- c. Expenditure on the following projects should particularly be examined:
- | | | |
|---|--|--------------|
| - | National Assembly | 34.9 million |
| - | Presidency furnishing | 48.08 " |
| - | Islamabad Sports Complex (Total Project cost Rs.496.7 million) | 87.42 " |
| - | Construction of new Customs House, Karachi | 8.74 " |
| - | Construction of Accommo- dation for Kohistan Scouts (Total Project cost: Rs.36.6 million) | 1.74 " |
| - | Construction of FIA HQs, Islamabad | 2.79 " |
| - | Building for Communica- tion Security, Islamabad | 4.37 " |
| - | Frontier Constabulary Building in Hazara | 2.26 " |
| - | Population Planning (Different Projects) | 174.84 " |

This list does not exhaust those projects which deserve to be re-examined. A high powered Development Programme Review Committee should be formed in the Plann-

ing Division with enough participation from outside the Government to review all these cases and suggest appropriate cuts in project allocations. We have no doubt that by working on these lines the ADP size can be reduced to Rs.19,000 million or below, without producing any unemployment. And if some manpower has to be relieved it may be transferred to a common pool from where it should be made available to other public or private sector enterprises or absorbed in employment projects abroad.

NON-DEVELOPMENT EXPENDITURE:

A. Defence: We are conscious of the importance of defence and would like to suggest minimal cuts on defence expenditure. Nonetheless two things deserve to be done:

- i. A token cut of 2 per cent to show that the armed forces realise the gravity of the situation and want to move with the nation. The example set by the President and the Armed Forces in 1978/79 economy drive to introduce a cut of 5 per cent should be repeated by at least reducing defence expenditure by two per cent.
- ii. Application of modern tools of management control, systems analysis, and cost/effectiveness analysis to avoid wastes, duplications and leakages in expenditure.

Suggested Defence Cut -Rs.234.8 million

B. General Administration and Law
and Order: 2475.1 million

Proposal No.1: Across the board
Cut of 10% Rs.247.5 " A

Proposal No.2: Freezing Exp-
enditure at
1978-79 revised
estimates. Rs.354.9 " B

C. Community Services, Social
Services and Economic
Services: 3222.2 million

- Across the board cut of 7.5% -Rs.241.6 " C
- Across the board cut of 10% -Rs.322.2 " D

Subsidies (Rs.2,177.9 million)
 30-40% reduction in subsidies
 by reducing subsidy for wheat
 and by eliminating subsidy on
 agricultural inputs provided
 to farms over 25 acres. -Rs. 725.9 Million

Grants to provinces.

It is high time the policy about
 grants to provinces is revised.
 Resource mobilization in provinces
 is unsatisfactory and increase
 in taxes should be shared equitably
 between the centre and the provin-
 ces, particularly by the Punjab
 and Sind which are relatively
 prosperous provinces.

We suggest a token cut of 10%
 to pave the way for a new policy
 arrangement to share equitably
 between the centre and the
 provinces. -Rs. 205.9 "

| | | | |
|--------------|---------------|------------|---|
| Total cut in | Proposal No.1 | -Rs.1655.7 | " |
| Development | | | |
| Expenditure | Proposal No.2 | -Rs.1943.7 | " |

Suggested reduction in
 Development Budget: Rs.4,000.0

Suggested reduction
 in non-development
 Expenditure: Rs.1,943.7

| | | | |
|-------|---------------|------------|---|
| Total | Proposal No.1 | -Rs.5635.7 | " |
| | Proposal No.2 | -Rs.5943.7 | " |

This will reduce the expected
 gap by almost half

| | <u>Proposal No.1</u> | <u>Proposal No.2</u> |
|----------------------------------|----------------------|----------------------|
| Gap in the Budget 1979-80 | 11,102.2 million | 11,102.2 million |
| Proposed cuts in Expenditure: | <u>5,655.7 "</u> | <u>5,943.7 "</u> |
| New Gap: | <u>5,446.5 "</u> | <u>5,158.4 "</u> |

In the final accounts of the budget some shortfall is always shown. Even in the statement of the budget for 1978-79 shortfall is shown at both places, original budget and revised budget. But no shortfall has been shown in the budget for 1979-80. It is not a good thing to rely on shortfalls but the history of development budgets shows that this has always happened. Even if we do not assume any shortfall it may be inferred that the cuts we have suggested will bring the resource gap down to less than Rs.5,500.00 million.

RESOURCE MOBILIZATION

Now we have to examine the possibility of raising enough resources to meet this deficit.

We feel that perhaps a safe limit for deficit financing in a budget of Rs.46,484.2 would be around Rs.2000-2,500 million. We are not assuming more foreign aid but we are sure that if proper resource mobilization efforts are made we can acquire considerable capital resources from the Pakistanis abroad to meet the remaining gap.

We point out below some of the major AREAS from where resource mobilization can take place WITHOUT increasing taxes. These ideas can be examined by groups of experts and a definite figure can be put on every source. By exploring these avenues we can permanently augment resources and harness them for the future development of the country.

- 1. Domestic savings are low and can be increased. The best method to increase domestic savings is to improve the investment climate and to encourage private enterprise.

Policy Towards Small Industry:

i. Domestic resource mobilization can get a boost if the Government changes its policy towards small and medium industry. It was ridiculous that we treated only those enterprises as small industry whose capital was Rs.10,000.00. Now this limit has been raised to Rs.50,000.00 which is also terribly low. In India capital limit for small industry is Rs.1.5 million. If in Pakistan we bring this limit to 5 lakh (.5 million) in the year 1979-80 and gradually increase it to Rs.1 million within the next 3 years there would be a flow of hoarded wealth into small industry. Excise duty exemptions should

continue and special Bureaus of Advice should be created to help the newly emerging small industry to make significant contribution in the economy. This will also divert some of the money which is presently going into real estate for lack of alternate profitable investments. This will broaden the economic base of the country and lead to de-centralised growth. Government's obsession with large industry has not allowed this important sector to attain its proper stature, although it has proved its viability. Even during the last year the small scale industry's performance was twice as good as that of the large scale industry.

ii. Tax exemption on dividend income can be another important instrument to mobilize private savings. It is wrong to assume that the dividend income will automatically increase consumption. If proper opportunities to mobilize savings exist, the laws of economics are powerful enough to divert these resources into investment. The experiment of the private finance corporations is very significant in this respect. They have been able to mobilize hundreds of millions of rupees which neither the nationalised banks nor other Government agencies were able to attract.

iii. N.I.T. and I.C.P. should invite the nation to invest in new interest-free and profit-yielding projects. The Government should also examine the possibilities of raising interest-free loans in the country in the form of proposed Equity Participation Certificate.

iv. Some of the real problems of the private enterprise, created mostly by the ad hoc and ill-advised policies of the earlier regime deserve to be sympathetically RESOLVED. A high powered committee with Government representatives, independent economists and representatives of the industry and labour should be formed to analyse these problems and suggest their solutions. The President should appoint this committee directly and its work should not be allowed to be neutralised through bureaucratic red-tape.

v. The performance of the public sector enterprises is, by and large, miserable. There should be some way to make them efficient and economically viable without exposing them to the abuses of capitalism. One suggestion which deserves to be examined in depth is the formation of the private management companies with a view to take over some of the enterprises for purposes of running them as profitable economic enterprises. The ownership of companies taken over by management COMPANIES may continue to vest

in the Government. These companies can be given a certain minority share with the provision that this share can be increased, in the light of their performance to a certain mutually agreed level. Such companies can also be invited to take over some of the sick industries if their present directors are not able to bring them into operation within a given period. There is a great need for new experiments resulting in the mobilization of entrepreneurial talent which is floating around in the private sector but because of the general uncertainty of climate is not forthcoming with private sector enterprises.

Foreign Remittances:

2. Proper mobilization of foreign remittances for country's developmental projects is one of the biggest challenges which the Government has neglected so far. It is not enough to thank the overseas workers for their remittances. What we need is the development of new institutions to canalise these resources in the right direction. We have received around Rs.1.4 billion in foreign remittances this year. Another \$200 million worth of goods are coming under personal baggage scheme. Between \$400-500 million is coming through unofficial channels. It is safe guess to assume that around \$1 billion a year are the savings of these workers which are not being sent to Pakistan. If fifty per cent of this resource can be mobilized for investment, within five years time the face of Pakistan's economy can change. This can be done by taking steps along the following lines:

- i. Make more attractive remittances directed towards investment by allowing a bonus on investment-oriented remittances.
- ii. Organize a network of medium size companies under one holding company with a view to collect BULK of these savings at source for investment purposes. These companies should have Government representatives, participation from private entrepreneurs and share participation of Pakistanies abroad. They should be organised on the basis of projects they have to establish. These companies may particularly pursue three important avenues of economic reconstruction:

- a. Establishing industrial units in Export processing zone.
 - b. Developing industrial-cum-commercial-cum-residential complexes in areas from where bulk of the workers have gone abroad. Such a company will offer its shares to Pakistani investors abroad. It will also issue Equity-Participation Certificate to workers abroad and from the resources mobilized would establish medium and small industry in these newly demarcated complexes and also provide residential areas and develop them for their shareholders. The industrial and commercial units developed in these Satellite Towns would be so organized that in the first phase they operate at 50-60 per cent capacity. Pakistani workers abroad who have a certain amount of share in these companies would have a lien for employment in their own companies. The economics of these projects, if properly worked out, would be powerful enough to attract huge capital.
- iii. Establishment of commercial farms and agro-based industries.

4. Foreign equity capital, particularly from the Arab countries, can be attracted to Pakistan provided projects are prepared in advance on the basis of proper feasibility studies, and are promoted amongst the prospective investors with commercial expertise. It is on the basis of mutual interest and economic profitability of these projects that capital can be harnessed for Pakistan, not merely on hopes of friendship. Middle East market provides a great opportunity which Pakistan has neglected so far.

5. There is a construction boom in the Middle East. Not only European and South Korean companies, India is cashing upon it. We have the expertise and we have the goodwill but we have not explored this area properly. Whatever efforts have been made in Iraq have been very successful and have earned for the country foreign exchange worth over

\$500 million. With proper planning and enough enterpreneurial effort Pakistan share in the overall construction boom can increase four to six times. If one or more special companies are formed for overseas construction with participation from public and private enterprise and if Pakistan Government gives these companies fullest support by arranging banking consortia guarantees work can be procured for \$2-3 billion within a very short period of time.

6. Another source for raising money for public sector investment is planned and phased disposal of Government and/or autonomous bodies unutilized land particularly in and around cities. A survey of all such disposal lands should be made and their sale organised through public auction. Proceeds of these lands should be utilized for capital investments for the development of less developed areas and for providing capital to autonomous bodies, like Railways.

This list does not exhaust new sources, but if these areas are explored properly the developmental resources of the country can be expanded manifold without further squeezing the people.

Taxation:

We hope proper mobilization of resources on above lines will generate enough resources. But if it is felt that taxation is necessary, at least to meet some of the immediate needs, we would suggest that there are areas for taxation also which would not effect the life of the common man and yield greater revenue to the Government. Some of our suggestions are as follows:-

1. Radical reorganization of the Income Tax. We have already SAID that the present system is unjust, inefficient and corruption-ridden. It has to be changed. Also because it is not compatible, in its present form, with the system of Zakat. There can be many models of the new system and a commission should be immediately formed to work them out. We would suggest that an interim arrangement may be made for one year in which income tax from business enterprises and corporations may be fixed at a level of 15% or so higher than the one paid in 1978-79 and this amount should be made payable in installments on 100 per cent self-assessment basis. The Income Tax Inspector's present role has to be brought to an end. During this period of moratorium

a new system can be evolved wherein the salaried classes get real and substantial relief from income tax, wherein the rates of tax are rationalized downwards with a maximum tax rate which leaves enough incentive for economic effort. All black money should be allowed to be legalized after paying a tax of 15 to 25 per cent. If by reducing the tax rate and checking unnecessary expenditure, the bulk of the taxable income could be subjected to a reasonable tax rate, the total revenue from income tax will increase substantially. A recent study has shown that the present income tax nets only 30 to 40 per cent of the taxable income. Over 60 per cent of taxable income is not touched by the income tax. If this is the extent of tax evasion it would be safe to suggest that income tax around Rs.5,000 million is not paid. On this presumably between five to ten per cent is taken illegally by the intermediaries and the national exchequer is deprived of huge revenues. In a situation like this the correct strategy would be to reduce the tax rate and widen its base. Such a reform in taxation will be in line with the Muslim tradition in taxation and will also accord with modern thinking on public finance.

2. Capacity taxation should be introduced in industry. This would reduce corruption and provide incentive for capacity utilisation. This would lead to higher production and more stable flow of revenues. The Government should learn from the failure of the withdrawal of capacity taxation from sugar industry and use it more generously. However, the tax rates may be reviewed periodically.
3. Tax on uncultivated but cultivable agricultural land of a certain size may be introduced to encourage extension of area under cultivation.
4. Expenditure tax can be introduced on those items which are used by the well-to-do classes. For example: (i) car tax, with a low figure for cars upto 1500 cc. and heavier tax on cars of greater capacity; (ii) Travel tax, on air-tickets domestic as well as inter-

- national; (iii) Capital gains tax, on real estate and or urban or rural land; (iv) Special Progressive tax on houses with built area over 600 sq. yards and above; (v) Heavy custom duties on luxury imports.

Finally we want to suggest that the prices of public sector services like electricity, gas, transport, etc. should be kept reasonably low. Present losses on these services are more a result of inefficiency and corruption and not because these services are being provided at below economic price. We have already referred to the case of WAPDA where at least fifteen per cent of generation losses can be recovered in revenue. Collection of accumulated arrears can yield over Rs.500 million, about 20 per cent of one year's total revenue. If these leakages could be plugged and administrative efficiency improved WAPDA can become self-financing without enhancing electricity tariff.

The issue of luxury imports cannot be postponed indefinitely. Either the nation had used its options voluntarily and desist from luxury imports, otherwise the Government will have to act. The question is not merely of the free list which extends to 438 items. It also relates to the baggage rules and gift allowances. In 1977-78 import of luxuries stood at Rs.51.8 million. To this should be added import on personal baggage which stood at Rs.200 million. This means that the total import of luxury goods accounted for about 9 per cent of total imports in 1977-78. Figures available for 10 months of 1978-79 reveal similar trends. These imports, among others, include ball-point pens (Rs.4.6 million), beads and false pearls (Rs.6.4million), pan (Rs.91.8 million), betelnut (Rs.46.4 million), broomsticks (Rs.10 million), chalk and clay (Rs.18.6 million), dry battery cells (Rs.39.7 million) milk powder (Rs.199.4 million), paper (Rs.239.6 million), plywood (Rs.3.9 million), razor sets and blades (Rs.6 million), electric lamps (Rs.13.4 million) essence for beverages and bottles (Rs.30 million), ginger (Rs.27.6 million) magnetic tapes and records (Rs.53.3 million), spices (Rs.68.8 million), tallow (Rs.218.3 million), tyres and tubes (Rs.153.3 million).

Rationalization of import policy is needed with a view to curtailing unnecessary imports.

CONCLUSION:

We have identified some of the major areas which call for creative action. We do not believe that the resource gap which the budget has unleashed over the nation is inevitable. We have tried to establish in this paper that the gap can be reduced, that a new strategy for development planning should be evolved, and that a new budget, a more equitable and production and welfare oriented budget, can be framed within the resource constraints of the economy. We have no doubt that if the new approach we have suggested and the new strategy we have outlined is assiduously pursued the country's economy can turn the corner and the common man would find Pakistan a much better place to live in. But for that we will have to change our attitudes before we expect to change what is around us.

إِنَّ اللَّهَ لَا يُغَيِّرُ مَا بِقَوْمٍ حَتَّىٰ يُغَيِّرُوا مَا بِأَنْفُسِهِمْ

Verily Allah does not change a nation unless it changes what is within its own self. (al-Quran).

A P P E N D I X

- o Comments on Revision to the Budget of
1979-80.

- o A Public Opinion Survey on the Budget of
1979-80.

COMMENTS ON THE REVISION OF THE
BUDGET 1979-80

The President has shown a positive, although limited, response to the nation-wide criticism on the Budget for 1979-80. An analysis of his speech shows that he has partially endorsed some of the major criticisms on the Budget. It has been acknowledged that the original Budget failed to curtail development and non-development expenditures and left room for major cuts. The President has reduced the planned development expenditure by Rs.800 million and the non-development expenditure by Rs.550 million. A total suggested cut of Rs.1,350 million is a step in the right direction and supports the criticism of the economic and political leadership of the country that enough was not done in the budget to control these expenses. The Presidential reduction is proof enough that the budget-makers did not do their job well and the President had to respond to the public demand for reduction in Government Expenditure.

The President has done the right thing but there would be a strong feeling in the academic community that both development and non-development expenditure have not been reduced enough. The President must realize that Federal Expenditure which stood at Rs.6,187 million in 1971-72 for the whole of Pakistan had increased to Rs.15,353 million in the last year of Bhutto Regime (1976-77). But during the last two years it has almost doubled and is provided at Rs.29,140 million for 1979-80. Civil Administration which stood at Rs.432 million in 1971-72 and which had increased to Rs.1,643 million by 1976-77 is expected to be Rs.2,475 million in 1979-80. This means an increase of Rs.2,000 million in Civil Administration in 9 years and of Rs.1,000 million in the last two years. The President has moved in the right direction by reducing Government expenditure but has not reduced it enough to bring it to a viable level in a poor country like Pakistan.

Marginal changes have been made in the tax burden. As a result of these there would be some relief to certain sections of the society but the impact of this change on cost of production and on general cost of living would be insignificant. The Finance Ministry is labouring under a misconception about the people's capacity to bear further tax burden. Income from tax revenue has more than doubled between 1976-77 and 1979-80 (from Rs.14,434.6 million in 1976-77 to Rs.33,220 million in 1979-80 before new taxation).

This is a reasonable increase in comparison with increase-trends in developing countries. Per capita tax burden in Pakistan is more than double that in India. In 1978-79 per capita tax burden was Rs.155 in India and Rs.358 in Pakistan. After proposed taxes in budgets for 1979-80 in the two countries the per capita tax burden would increase to Rs.164 in India and to Rs.422 in Pakistan. Non-withdrawal of major elements of the tax-package is going to effect the common man as well as the level of industrial production in the country. The President's response to this part of the economists' criticism over the budget is somewhat disappointing. The danger to the economy in the form of inflationary pressure are very real and any under-estimation of these may imperil the economy and make life extremely difficult for the common man.

The changes the President has made in the Budget also vindicate the economists' viewpoint that the budget failed on the criterion of social justice. Dearness allowance for low-paid Government Servants is a step in the right direction. It is hoped the labourers would also be given this allowance and similar allowance will be given in the private sector. But these steps only touch the fringe of the problem. What is needed is an anti-poverty package so that the direction of the flow of resources changes and the poor and the weak get their rightful share in the wealth of the nation and also make their contribution in increasing national production.

The President has not said anything about the overall development strategy which lies at the root of our economic problem. He is also silent on the question of fundamental changes in the Income Tax to which he committed himself in the declaration of the 12th Rabiul Awwal. It is a welcome development that the President has shown flexibility as against the declared rigidity of the Finance Ministry. We hope he would realise that enough has not been done and that more work should be done to further review the budget and its development strategy.

The credit for the breaking of ice, however little, goes to the President and the economic and political leadership of the country which challenged the budget and came up with constructive criticism and positive proposals. We hope the process of change and review that has begun with the President's response will be carried to its logical consequences and dialogue will continue on

economic policies so that the nation could approach the objective it has set before itself. This budget, even after revision, is not going to lead the economy in that direction. More fundamental and revolutionary changes are needed in our approach strategy. Then alone the basic problems of our economy can be solved and real self-reliance and equity-based growth attained. Defending the status quo, however high-spirited, is not going to help the nation in solving its problems.

PUBLIC OPINION ON THE
BUDGET 1979-80

In a nation-wide public opinion survey, concluded by the Pakistan Institute of Public Opinion, Islamabad, during first week of July, 1979, the following questions were asked about the budget:-

1. Did you listen to the Budget Speech on Radio or Television?
2. Have you read the budget in the Newspapers?
3. What are the demerits of the budget?
4. What are the merits in the budget?

The tabulated answers to these questions are annexed.

While interpreting the results of this survey, the following should be kept in mind:-

1. The sample was a purely random sample without any bias in the selection.
2. It was a nation-wide sample and the provinces have been given representation according to their population.
3. The income profile of the respondents emerging from this survey is:-

| <u>Monthly Income</u> | <u>%age of Respondents</u> |
|------------------------|----------------------------|
| Below Rs.1000/- | 76.0 |
| Rs.1000/- to Rs.2000/- | 18.3 |
| Above Rs.2000/- | 5.7 |

Major calculations of this survey are as under:-

Communication Gap:

Majority of the population (more than 50%) did not listen to the budget speech on radio or television or read the budget in the newspapers. The percentage was much higher in rural areas (more than 70%). It shows the failure of the

government to directly communicate its viewpoint with the masses (Table 1a,b - 2a,b).

General Reaction about the Budget:

The general reaction is that the whole budget is a failure and common man has been heavily taxed beyond his capacity. Very little opinion has been given on the specific demerits of the budget. Among those who have expressed their opinion on the demerits of the budget, 57.3 percent stated:-

- a. The whole budget is objectionable
- b. Too many taxes have been imposed
- c. That is has affected every one

36.0% of the respondents however stated their complete ignorance about the demerits of the budget. The percentage of the people, affected by the Budget is higher in urban areas (73.2%) and the percentage of the ignorant respondents is greater in rural areas (49.5%).

From the very little opinion that was very specific, the electricity tax emerged as the most felt tax, 4.2% (Table 3a,b).

Merits of the Budget

In response to a question if there is any merit in the budget, 91.2 percent of the populace either said that they did not know or there was nothing good in the budget. Only 8.8% of the respondents did see some merits in the budget (Table 4a,b).

Q. Did you listen the new national budget speech on Radio, Television or did not listen?

TABLE-1a

| <u>NATIONAL:</u> | <u>ON RADIO</u> | <u>ON T.V.</u> | <u>DID'T LISTEN</u> |
|------------------|-----------------|----------------|---------------------|
| Total (T) | 19.3 | 16.3 | 64.3 |
| Rural (R) | 20.5 | 6.6 | 72.7 |
| Urban (U) | 17.7 | 29.7 | 52.6 |

| <u>PROVINCES</u> | <u>ON RADIO</u> | <u>ON T.V.</u> | <u>DID'T LISTEN</u> |
|------------------|-----------------|----------------|---------------------|
| SIND: (T) | 18.0 | 22.2 | 59.8 |
| (R) | 18.8 | 7.1 | 74.1 |
| (U) | 17.2 | 36.0 | 46.8 |
| PUNJAB (T) | 20.4 | 15.7 | 63.9 |
| (R) | 21.2 | 7.4 | 71.4 |
| (U) | 19.1 | 28.9 | 52.0 |
| NWFP (T) | 17.0 | 6.9 | 76.1 |
| (R) | 19.8 | 3.0 | 77.2 |
| (U) | 12.1 | 13.8 | 74.1 |
| BALU- (T) | 17.2 | 15.6 | 65.6 |
| CHIST- (R) | 20.0 | 2.9 | 74.3 |
| AN (U) | 13.8 | 31.0 | 55.2 |

TABLE 1bEDUCATION

| | | | |
|-----------------|------|------|------|
| Illiterate | 8.5 | 4.9 | 86.4 |
| Semi-Educated | 25.2 | 10.4 | 64.3 |
| Educated | 29.0 | 21.8 | 49.2 |
| Highly Educated | 21.0 | 40.1 | 38.4 |

PROFESSION

| | | | |
|-------------------|------|------|------|
| Agriculturist | 16.8 | 8.1 | 74.8 |
| Skilled Employees | 25.2 | 24.4 | 50.4 |
| Professionals | 15.8 | 57.9 | 26.3 |
| Artisans | 22.1 | 19.2 | 58.7 |
| Miscellaneous | 17.8 | 17.0 | 65.2 |

AGE

| | | | |
|--------------|------|------|------|
| Less than 21 | 21.4 | 10.7 | 67.8 |
| 21 - 35 | 21.4 | 16.4 | 62.1 |
| 36 - 50 | 18.0 | 19.4 | 62.6 |
| More than 50 | 19.4 | 13.7 | 66.7 |

INCOME

| | | | |
|----------------|------|------|------|
| Less than 1000 | 19.2 | 10.9 | 69.7 |
| 1000 - 2000 | 19.9 | 31.0 | 49.0 |
| More than 2000 | 20.0 | 40.0 | 40.0 |

Q. Have you read about the new Budget in the Newspaper?

103

TABLE-2a

| <u>NATIONAL</u> | | <u>YES</u> | <u>NO</u> |
|------------------|-----|------------|-----------|
| Total | (T) | 44.9 | 54.9 |
| Rural | (R) | 29.4 | 70.1 |
| Urban | (U) | 66.4 | 33.6 |
| <u>PROVINCE</u> | | | |
| Sind | (T) | 53.4 | 46.6 |
| | (R) | 27.1 | 72.9 |
| | (U) | 77.1 | 22.9 |
| PUNJAB | (T) | 45.1 | 54.6 |
| | (R) | 32.5 | 66.9 |
| | (U) | 65.7 | 34.3 |
| NWFP | (T) | 28.8 | 70.6 |
| | (R) | 21.8 | 77.2 |
| | (U) | 40.7 | 59.3 |
| BALUCH- ISTAN | (T) | 34.4 | 65.6 |
| | (R) | 12.1 | 87.9 |
| | (U) | 58.1 | 41.9 |

TABLE-2b

| <u>EDUCATION</u> | <u>YES</u> | <u>NO</u> |
|------------------|------------|-----------|
| Illiterate | 13.8 | 85.9 |
| Semi-educated | 39.6 | 59.9 |
| Educated | 67.3 | 32.4 |
| Highly Educated | 81.4 | 18.6 |

PROFESSION

| | | |
|-------------------|------|------|
| Agriculturist | 25.6 | 73.8 |
| Skilled Employees | 69.0 | 31.0 |
| Professionals | 95.0 | 5.0 |
| Artisans | 38.0 | 62.0 |
| Miscellaneous | 47.7 | 52.1 |

AGE

| | | |
|--------------|------|------|
| Less than 21 | 40.4 | 59.6 |
| 21 - 35 | 49.5 | 50.5 |
| 36 - 50 | 47.1 | 52.5 |
| More than 50 | 40.8 | 58.9 |

INCOME

| | | |
|----------------|------|------|
| Less than 1000 | 36.7 | 62.9 |
| 1000 - 2000 | 70.3 | 29.7 |
| More than 2000 | 78.0 | 22.0 |

Q. What are the demerits of the Budget?

TABLE-3a

| | | The whole budget is objectio- nable. | Imp. duty | Rail fare | Elec. tax | Sales tax | Budget of the rich | Welfare done | The rich not aff- ected | Pro- per- ty tax | On know |
|------------------|-----|---|--------------|--------------|--------------|--------------|--------------------------|-----------------|-------------------------------------|---------------------------|------------|
| <u>NATIONAL</u> | | | | | | | | | | | |
| Total | (T) | 57.3 | 0.1 | 0.3 | 4.2 | 0.4 | 0.2 | 0.9 | 0.3 | 0.1 | 36.0 |
| Rural | (R) | 45.9 | 0.1 | 0.2 | 2.4 | 0.5 | 0.1 | 0.6 | 0.3 | - | 49.5 |
| Urban | (U) | 73.2 | 0.2 | 0.3 | 6.7 | 0.3 | 0.3 | 1.5 | 0.3 | 0.2 | 17.0 |
| <u>PROVINCE</u> | | | | | | | | | | | |
| SIND | (T) | 60.5 | 0.3 | 0.9 | 9.1 | 0.6 | 0.6 | 0.3 | 0.3 | 0.0 | 27.4 |
| | (R) | 42.8 | 0.0 | 0.6 | 4.8 | 0.6 | 0.6 | 0.0 | 0.0 | - | 50.6 |
| | (U) | 76.7 | 0.5 | 1.1 | 13.0 | 0.5 | 0.5 | 0.5 | 0.5 | 0.0 | 6.5 |
| PUNJAB | (T) | 59.3 | 0.1 | 0.1 | 2.2 | 0.0 | 0.1 | 1.3 | 0.3 | 0.1 | 36.3 |
| | (R) | 48.8 | 0.2 | 0.2 | 1.8 | 0.0 | 0.0 | 0.9 | 0.5 | - | 47.5 |
| | (U) | 76.6 | 0.0 | 0.0 | 2.9 | 0.0 | 0.3 | 2.0 | 0.0 | 0.3 | 17.8 |
| NWFP | (T) | 51.2 | 0.0 | 0.0 | 1.2 | 2.5 | 0.0 | 0.0 | 0.6 | 0.0 | 43.8 |
| | (R) | 53.6 | 0.0 | 0.0 | 1.9 | 2.9 | 0.0 | 0.0 | 0.0 | - | 46.6 |
| | (U) | 57.3 | 0.0 | 0.0 | 0.0 | 1.7 | 0.0 | 0.0 | 1.7 | 0.0 | 39.0 |
| BALUCH- ISTAN | (T) | 25.8 | 0.0 | 0.0 | 12.9 | 0.0 | 0.0 | 1.6 | 0.0 | 0.0 | 59.7 |
| | (R) | 6.5 | 0.0 | 0.0 | 3.2 | 0.0 | 0.0 | 0.0 | 0.0 | - | 90.3 |
| | (U) | 45.1 | 0.0 | 0.0 | 22.6 | 0.0 | 0.0 | 3.2 | 0.0 | 0.0 | 29.0 |

TABLE-3b

| | The who- le budg- et is objection- able | Imp. duty | Rail fare | Elec Tax | Sales tax | Budg- et of the Rich | Well done | The rich not affe- cted | Pro- per- ty tax | Do not know |
|--|---|--------------|--------------|-------------|--------------|-------------------------------|--------------|-------------------------------------|---------------------------|-------------------|
|--|---|--------------|--------------|-------------|--------------|-------------------------------|--------------|-------------------------------------|---------------------------|-------------------|

EDUCATION

| | | | | | | | | | | |
|-----------------------|------|-----|-----|-----|-----|-----|-----|-----|-----|------|
| Illiterate | 35.6 | 0.0 | 0.0 | 2.3 | 0.7 | 0.2 | 0.9 | 0.0 | 0.0 | 60.2 |
| Semi-Educated | 57.5 | 0.0 | 0.0 | 3.1 | 0.0 | 0.4 | 0.9 | 0.4 | 0.4 | 36.7 |
| Educated | 73.4 | 0.0 | 0.5 | 5.0 | 0.0 | 0.2 | 0.9 | 0.5 | 0.0 | 19.5 |
| Highly Educa- ted. | 80.1 | 0.8 | 0.8 | 8.5 | 0.8 | 0.0 | 1.3 | 0.8 | 0.0 | 6.8 |

PROFESSION

| | | | | | | | | | | |
|------------------------|------|-----|-----|------|-----|-----|-----|-----|-----|------|
| Agriculturist | 40.9 | 0.0 | 0.0 | 2.5 | 0.6 | 0.2 | 0.6 | 0.4 | 0.0 | 54.4 |
| Skilled Empl- oyees | 74.1 | 0.6 | 0.6 | 5.4 | 0.0 | 0.6 | 0.9 | 0.6 | 0.0 | 17.4 |
| Professionals | 80.0 | 0.0 | 0.0 | 15.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 5.0 |
| Artisans | 57.3 | 0.0 | 1.0 | 5.8 | 1.0 | 0.0 | 0.0 | 0.0 | 0.0 | 35.0 |
| Miscellaneous | 62.6 | 0.0 | 0.2 | 4.2 | 0.4 | 0.0 | 1.5 | 0.2 | 0.2 | 30.5 |

AGE

| | | | | | | | | | | |
|--------------|------|-----|-----|-----|-----|-----|-----|-----|-----|------|
| Less than 21 | 50.8 | 0.0 | 0.0 | 5.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 43.9 |
| 21 - 35 | 62.9 | 0.0 | 0.4 | 4.3 | 0.0 | 0.0 | 0.7 | 0.4 | 0.0 | 31.3 |
| 36 - 50 | 60.0 | 0.3 | 0.3 | 4.1 | 0.3 | 0.0 | 0.5 | 0.3 | 0.2 | 33.8 |
| 50 & more | 52.4 | 0.0 | 0.2 | 4.1 | 0.7 | 0.5 | 1.6 | 0.4 | 0.0 | 39.8 |

INCOME

| | | | | | | | | | | |
|----------------|------|-----|-----|-----|-----|-----|-----|-----|-----|------|
| Less than 1000 | 53.3 | 0.1 | 0.2 | 3.5 | 0.4 | 0.1 | 0.8 | 0.3 | 0.1 | 41.2 |
| 1000 - 2000 | 64.4 | 0.4 | 0.4 | 8.5 | 0.4 | 0.4 | 1.9 | 0.8 | 0.0 | 22.9 |
| More than 2000 | 85.9 | 0.0 | 1.3 | 3.8 | 0.0 | 0.0 | 1.3 | 0.0 | 0.0 | 7.7 |

Q. What are the merits of the Budget?

TABLE - 4a

| | | No Merit | Some Merits | Do not know |
|-----------------|-----|-------------|----------------|----------------|
| <u>NATIONAL</u> | | | | |
| Total | (T) | 24.7 | 8.8 | 66.5 |
| Rural | (R) | 11.3 | 5.7 | 83.0 |
| Urban | (U) | 43.4 | 13.2 | 43.4 |
| ----- | | | | |
| <u>PROVINCE</u> | | | | |
| SIND | (T) | 30.5 | 10.7 | 58.8 |
| | (R) | 13.1 | 2.4 | 84.5 |
| | (U) | 46.9 | 18.5 | 34.6 |
| ----- | | | | |
| PUNJAB | (T) | 23.9 | 8.8 | 67.3 |
| | (R) | 11.7 | 6.9 | 81.4 |
| | (U) | 43.7 | 12.0 | 44.3 |
| ----- | | | | |
| N.W.F.P | (T) | 13.9 | 5.7 | 80.4 |
| | (R) | 8.1 | 6.0 | 85.9 |
| | (U) | 23.7 | 5.1 | 71.2 |
| ----- | | | | |
| BALUCHISTAN | (T) | 31.7 | 6.6 | 61.7 |
| | (R) | 3.4 | 3.5 | 93.1 |
| | (U) | 58.1 | 9.6 | 32.3 |

Table-4b

| | No Merits | Some Merits | Do Not Know |
|-------------------|--------------|----------------|-------------|
| EDUCATION | | | |
| Illiterate | 11.8 | 2.9 | 85.3 |
| Semi-Educated | 22.7 | 5.9 | 71.4 |
| Educated | 29.9 | 12.2 | 57.9 |
| Highly Educated | 48.2 | 19.8 | 32.0 |
| ----- | | | |
| PROFESSION | | | |
| Agriculturist | 10.9 | 4.6 | 84.5 |
| Skilled Employees | 34.5 | 15.9 | 49.6 |
| Professionals | 68.4 | 15.8 | 15.8 |
| Artisans | 31.3 | 3.1 | 65.6 |
| Miscellaneous | 29.5 | 9.3 | 61.2 |
| ----- | | | |
| AGE | | | |
| Less than 21 | 17.3 | 3.9 | 78.8 |
| 21 - 35 | 27.4 | 10.2 | 62.4 |
| 36 - 50 | 30.1 | 8.2 | 61.7 |
| 50 & more | 18.6 | 9.3 | 72.1 |
| ----- | | | |
| INCOME | | | |
| Less than 1000 | 20.0 | 6.8 | 73.2 |
| 1000 - 2000 | 37.0 | 14.6 | 48.4 |
| More than 2000 | 44.4 | 18.8 | 37.0 |
| ----- | | | |
| LANGUAGE | | | |
| Urdu | | | |
| Sindhi | | | |
| Punjabi | | | |
| Baluchi | | | |
| Others | | | |