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Distinguished Lecture

Resource Mobilization from Agriculture in Pakistan*

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INTRODUCTION

I am presenting some thoughts and numbers on what I think is one of the most important policy issues in Pakistan, namely, *mobilizing additional resources by direct taxes from the agriculture sector*. Since the issue, topical though it may be, is hotly contested, let me quickly add two points. First, I support all reasonable efforts at mobilizing resources from other major sectors or industries in the country. Second, I support equally the use of price and non-price incentives to producers to increase productivity, particularly in the agriculture sector. It is absolutely essential to maintain a favourable macroeconomic environment for agricultural producers if we want additional resources for investment in physical and social infrastructure to help improve the living standards of those whose incomes and jobs depend on agriculture. In making these points, I am saying that I am opposed to policies that penalize agricultural productivity, including perverse policies on output and input prices, exchange rates, regulation and control of internal and international trade, farm credit, and investment in physical infrastructure, research and extension services.

I should make my motives explicit in discussing the issue of direct taxes in agriculture. For one thing, it is one of the few areas of research in which I have acquired modest knowledge that I would like to share and test. Second, there is no sense of fairness (horizontal equity) in differentiating incomes for tax purposes by sector or activity which produces those incomes. Should not we be applying equally the principle of taxation by personal capacity? Third, thanks to the rapid growth of personal incomes from agriculture, the potential for tax revenue has increased and its realization can make a substantial contribution to national resources.[1] Fourth,

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[1]The tax exemption given to agricultural incomes is misused by individuals who make incomes from other sources like trading, industry, etc. Tax evasion on nonagricultural incomes is done in several ways, e.g. purchase agricultural land and claim it as the source of other incomes; agriculturists claim income generated from other businesses as agricultural income; fictitious loans made by agriculturists to industrialists (and traders) help the latter class of taxpayers to evade tax on their nonagricultural incomes.

even with the existing structure of direct taxes in agriculture, the revenue yield is low and has declined. Fifth, the substitute (indirect) taxes to raise revenues are often inequitable, regressive and may even adversely affect economic incentives for investment. Finally, there was never as much urgency as there is now to increase the Government revenue and control its expenditure in Pakistan as major policies to reduce the fiscal deficit and mobilize domestic resources for sustainable economic growth.

This rather longish preface is meant to prevent confusion and preempt attacks because of misunderstanding about my position. My paper does not deal with the issue of inter-sectoral terms of trade and resource transfer, a complex and controversial area of research in its own right. From the reading of recent literature on the topic I am convinced that, thanks generally to major adjustments in Government policies since the early 1980s, the agriculture sector in Pakistan has not been doing too badly.[2] If indeed there was in the past systematic discrimination against agricultural producers, it seems to have been largely corrected in recent years. *Let us also not confuse the issue of tax burden on the agriculture sector with the issue of tax on personal income and wealth.* This paper focuses on the fiscal aspects of resource mobilization from the agriculture sector. Let me be more specific. I shall discuss direct taxes on agricultural producers as a source of Government revenue. I would leave out from the discussion the issue of large fiscal subsidies as a major source of Government expenditure. I am in favour of a gradual withdrawal of producer subsidies to reduce the fiscal burden and to eliminate the existing inequities in their distribution.[3] In short, the paper analyses the revenue side of the fiscal deficit with emphasis on direct taxes in agriculture as a major source of additional resources.

THE RESOURCE CRISIS: A BACKGROUND

Pakistan's economy performed reasonably well throughout the 1980s in terms of the average growth rate of Gross Domestic Product (GDP), ranging between 4.5 to 7.0 percent per year. The agriculture and manufacturing sectors were the major contributors to the aggregate growth process. The growth in GDP was achieved with moderate inflation, as the general price level rose between 6 and 10 percent per year. However, this rather optimistic picture was marred by serious problems in terms of inadequate resource mobilization and dependence on foreign resources: (i)

[2]Recent evidence is that changes in support prices for crops in line with their border prices, adjustments in the exchange rate and liberalization of trade in general have much reduced the so-called transfer of resources from the agriculture sector. See, for example, [Dorosh (1988); Ender (1989); Hamid *et al.* (1989) and Qureshi (1987)].

[3]Others and I have shown that a policy of subsidies on inputs is as ineffective for efficiency as it discriminates against smaller (weaker) farmers. [See, Hamid *et al.* (1989) and Khan (1990).]

the Government's budget deficit increased from 5.3 percent of GDP in 1982 to 8.5 percent in 1988, because of rising demand on expenditures without proportionate increase in revenues; (ii) the current account deficit stayed high – 4.8 percent of GNP in 1982 and 4.6 percent in 1989 – because of the difference between the growth of exports and imports; and (iii) the outstanding foreign debt increased from about $ 9 billion in the early 1980s to $ 18 billion in 1990, with a debt-service ratio of about 36 percent of exports of goods and services or 27 percent of current receipts. Saving rates in Pakistan, relative to other countries, were low, reflecting high levels of domestic absorption associated mainly with high government consumption. Partly, as a consequence, the domestic investment ratio also remained low.

The generally favourable growth and inflation trends were facilitated by the implementation of several structural policies, many of which were initiated in the early 1980s with assistance from the International Monetary Fund (IMF). Increased producer prices, deregulation of pricing and trading of major commodities and manufacturing probably made significant contribution to the gains in output in the major sectors. However, in view of the large fiscal and trade deficits, a programme for structural adjustment was formulated and agreement was reached with the IMF in December 1988 on the Medium-term Macroeconomic Adjustment and Structural Reform Programme (ASRP), designed to sustain strong economic growth while resolving the domestic and external financial instability. As originally formulated the ASRP covered a three-year period and contained three major elements: (i) structural and fiscal reform and deficit reduction; (ii) a medium-term plan for extensive trade liberalization; and (iii) policy measures for reducing price distortions, deregulating production and investment and enhancing economic efficiency. The IMF agreed to provide $ 800 million, including a 15-month stand-by arrangement for $ 358 million and a three-year Structural Adjustment Facility (SAF) for $ 455 million. The World Bank (WB) and Asian Development Bank (ADB) also extended help through policy-based lending in the agriculture, energy, financial and industrial sectors. Due to shortfalls in achieving the reduced targets of fiscal and external deficits in 1989, the IMF extended the life of ASRP by one year without changing the original targets. Initially (1989) there was visible progress in reducing the twin deficits, but the IMF – through its Mission in August 1990 – was not quite satisfied with the pace of progress on key policy reforms and also saw early signs of possible reverses in the fiscal and external trade deficits.

The short to medium-term economic prospects for Pakistan look even gloomier since August 1990 due to several factors: (i) increase in defence spending; (ii) the Gulf crisis adding to the bill for oil imports (estimated at $ 1.0 billion this year), loss of export earnings (about $ 100 million), decreased workers' remittances (nearly $ 300 million) and resettlement of returning nationals from Kuwait and Iraq (expected at \$ 100 million); and (iii) uncertainty about the availability of nearly \$ 560 million of bilateral aid withheld by the U. S. as part of its periodic, but largely unfounded, concern about Pakistan's nuclear energy programme. The release of the third tranche of SAF from the IMF depends on the outcome of discussions underway with the Government of Pakistan(GOP). The recently negotiated Agricultural Programme Loan (APL) with ADB for \$ 200 million should provide some cushion for foreign exchange to import chemical fertilizers in return for policy reforms to increase agricultural productivity and mobilize additional resources from the agriculture sector in the next two years.

A major cause of the rising fiscal deficit in the 1980s was the rapid increase in (Federal and Provincial) Government spending, rising from 22.9 percent of GDP in 1980 to 26.7 percent in 1988 and was estimated at 24.8 percent in 1990. What is significant is that the "development" part of Government spending fell in the 1980s from 39.9 percent (1980) to 25.9 percent (1990). A large, and increasing part of the total spending was consumed by defence, interest payment and subsidies. The share of these three accounts rose from 44.5 percent (1980) to 51.8 percent (1990). On the revenue side, its share in GDP stayed at around 16.2 percent until 1987 and reportedly rose to 17.6 percent in 1990. Taxes were the major source of Government revenue, but their share fell from around 83 percent of total revenue in the early 1980s to 78 percent in 1990. In fact, the ratio of tax revenue to GDP remained almost constant in the 1980s: ranging from 13.3 percent to 13.9 percent, except for 11.9 percent in 1985. This clearly reflects a narrow tax base and a low elasticity of taxes with respect to GDP. Indirect taxes have contributed 80 to 86 percent of tax revenue, with taxes on international trade (import duties, etc.) accounting for 35 to 42 percent of total tax revenue. It should be added that 90 to 95 percent of the tax revenue was collected by the Federal Government. A very high proportion of direct taxes is in the form of personal and corporate income taxes, which are progressive but their base is narrow because of a variety of exemptions, deductions, loopholes, etc. Income from agriculture is exempt from taxation. Direct taxes contribute around 15 percent of the total tax revenue in Pakistan, of which the share from agriculture (in the form of land revenue) has fallen from 4.7 percent in 1980 to 2.5 percent in 1990. If the revenue from *ushr* was added to land revenue, the proportion would be 3.7 percent in 1990, falling from 4.6 percent in 1983 when the *ushr* levy was introduced. Land revenue as the only direct tax in agriculture is about 0.2 percent of the value-added (income) in agriculture (Table 1).

An important aspect of fiscal responsibility is that the Government should spend its budget well. It has two parts. One has to do with the efficiency and effectiveness of spending. The second part deals with the accounts on which the Government incurs expenses. There is a general consensus that "development" spending should be increased, mainly for investment in productive physical and

Table 1

Land Revenue and Ushr *Collections in Relation to Direct Taxes in Pakistan, 1979 – 1989*

(Million Rupees)

Year	Land Revenue	*Ushr*	LR+ *Ushr*	All Direct Taxes	Agricul-tural GDP	Provin-cial Revenues	(1/4) %	(3/4) %	(1/5) %	(3/5) %
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1979-80	257.0	–	257.0	5,504	62,164	8,834	4.7	–	0.4	–
1980-81	226.2	–	226.2	7,523	76,399	11,883	3.0	–	0.3	–
1981-82	286.5	–	286.5	8,882	92,216	12,935	3.2	–	0.3	–
1982-83	249.1	177.3	426.4	9,261	99,380	14,186	2.7	4.6	0.3	0.4
1983-84	209.8	256.8	466.6	9,197	104,550	15,820	2.3	5.1	0.2	0.4
1984-85	252.9	255.7	508.6	9,730	121,293	17,056	2.6	5.2	0.2	0.4
1985-86	302.8	244.1	546.9	10,267	128,801	18,996	2.9	5.3	0.2	0.4
1986-87	361.9	211.7	573.6	11,105	135,308	20,179	3.3	5.2	0.3	0.4
1987-88	398.5	209.4	607.9	12,441	156,859	23,417	3.2	4.9	0.3	0.4
1988-89	413.6	210.0	623.6	14,583	183,685	25,011	2.8	4.3	0.2	0.3
1989-90	429.7	210.0	639.7	17,124	–	–	2.5	3.7	–	–

Sources: *Pakistan Economic Survey 1988-89* and *Economic Survey: Statistical Supplement 1988-89;*
Pakistan Statistical Yearbook 1989;
Agricultural Statistics of Pakistan 1989; and
Central Zakat *Administration* and *Ministry of Finance Data.*

Notes:
1. Land revenue includes "development cess" and "agricultural income tax".
2. *Ushr* is collected by Local *Zakat* and *Ushr* Committees.
3. All "direct taxes" are for Federal and Provincial Governments.
4. Agricultural GDP is at current factor cost, using new methodology.
5. Provincial revenues exclude Federal grants, development revenues and foreign aid.

social infrastructure. The arguments supporting this proposition are many and obvious. Two come readily to mind. First, Pakistan invests a very tiny proportion of its GDP in education and health. Second, many of the aid-funded development projects encounter severe shortage of counterpart funds and resources, affecting adversely the effectiveness of aid. Part of the additional resources needed for development can come from redirecting the Government's "current" expenditure by reducing "entitlements" on subsidies and defence. However, the experience is that policy decisions on this are not easy to take. Similarly, it is hard for Governments to reduce waste in their spending. Again the policy actions required are not easily implemented, although there is no dearth of public pronouncements. The fact is that additional resources for development projects in the public sector have to be mobilized through tax revenues.

Responding to the increasing fiscal crisis, and consistent with the wishes of the IMF, the Government began in 1988 a broad-based policy of expanding the (income) tax base and increasing the indirect (consumption) taxes. A generalized sales tax on a large number of goods has been introduced and is likely to be expanded. One of the major areas in which the Government has made no serious attempt so far has to do with direct taxes in agriculture, even though their small revenue yield has no relation to the increase in agricultural incomes and the general rise in the value of land since at least the mid 1970s. The direct tax paid by farmers works out to Rs 21 per hectare if the *ushr* is excluded and Rs 31 per hectare by including the *ushr*. If a conservative estimate of net crop income of Rs 2,000 per hectare is accepted, the average direct tax would be between 1.0 and 1.5 percent of net income! Let us look more closely at the direct tax system as it affects agricultural producers in Pakistan.

DIRECT TAXES IN AGRICULTURE: YIELD AND STRUCTURE

Let me first give you some facts about direct tax revenues collected from the agriculture sector. At present there are only two forms in which the Government can tax landowners (landholders) directly and include the tax revenue in its budget: (i) *land revenue*, being a tax on land that generates income, and (ii) *wealth tax*, being a tax on agricultural land as immovable property. The former is assessed and collected by the Provincial Governments and the latter by the Federal Government. The Federal Government introduced in 1982-83 the *ushr* levy on Muslim landowners in lieu of land revenue, but the *ushr* revenue is not part of the Government's revenue budget. The *ushr* revenue, therefore, acts as a substitute for land revenue for those Muslim landowners who choose to pay the *ushr*.

The land revenue yield was almost stagnant in the first part of the 1980s at around Rs 250 million, but was estimated to be Rs 430 million in 1989-90. Most of the increase was achieved in the Punjab, starting from 1985-86. The land revenue was in the range of 2.5 and 3.0 percent of all (Provincial and Federal) direct tax revenues and its ratio to the agriculture sector's output has remained static at 0.3 percent. The revenue yield from wealth tax, introduced in Pakistan in 1963, has not kept pace with the revenues from direct taxes: increasing from Rs 97 million in 1979-80 (direct taxes at Rs 5.33 billion) to Rs 240 million in 1988-89 (direct taxes at Rs 13.14 billion). The agriculture sector's contribution to the wealth tax revenue was insignificant: the latest estimates by the Central Board of Revenue (CBR) are Rs 15 million collected from only 2,000 individuals in 1988-89. The *ushr* revenue, collected and disbursed by the autonomous Local *Zakat* and *Ushr* Committees, was Rs 177 million in 1982-83, rose to Rs 256 million in 1984-85 but has fallen to Rs 210 million since 1987-88. It should be noted that the Provincial Governments do not get the *ushr* revenue for their budgets but they have lost part of the land revenue. In view of the need to expand the tax base and mobilize additional resources to narrow the fiscal deficit in Pakistan, it is necessary to understand the structure of direct taxes – their origins and changes – in the agriculture sector.

(1) Taxation of Agricultural Incomes

There is a long legacy of opposition to the idea of taxing agricultural incomes in Pakistan, going back to what was once the British Empire in India. The British were ambivalent about the tax on income from agriculture for several reasons. For one thing, a tax on the incomes of those (landlords) who they had themselves created or supported in the countryside could have jeopardized their power in India. The landed interests were the bulwark of British administration. After the establishment of direct rule by the British sovereign in 1858, an income tax system based on the experience of Britain was tried in India, including the agriculture sector. However, the experiment was abandoned after nearly twenty-five years in 1886.

With the passage of the Income Tax Act of 1886, agriculture was to have only the land revenue system. The reasons given for abandoning the principle of taxation of agricultural incomes included: (i) backwardness and illiteracy of landowners; (ii) inefficient administrative structure; and (iii) economic infeasibility because of the low levels of agricultural incomes. The Income Tax Act of 1922 granted specific exemption from taxation to agricultural incomes, which is still available in Pakistan under the Income Tax Ordinance of 1979. It is important to note that a national committee on taxation in 1926 argued strongly for taxing all incomes in British India. The India Act of 1935 granted new powers to provinces, including the power of taxation in agriculture.

The first major endorsement for a tax on agricultural incomes in Pakistan was made by the Taxation Enquiry Committee of 1959. It recommended that the principle of tax on income should be universal, irrespective of the source of income. It, therefore, favoured abolition of the graduated surcharge on land revenue as existed in the Punjab since 1948. The Committee urged the Federal Government to replace the surcharge by a tax on all incomes and assume responsibility for assessment and collection of these taxes in the agriculture sector as well. The latter recommendation would have changed the power given to the Provincial Governments to tax agriculture under the Government of India Act of 1935, which power was enshrined in the defunct Constitution of Pakistan in 1956. After the failure of the Taxation Enquiry Committee of 1959, the Taxation and Tariffs Commission of 1964 recommended strongly in its report (published in 1967) that the Provincial land revenue should be merged with the existing income tax levied by the Federal Government. The recommendation was not accepted due to the opposition of the Provincial Government of then West Pakistan. A presumptive tax on agricultural income was proposed by the Agricultural Enquiry Commission (1970–74) on the basis of computing income from agriculture at Rs 2 per Produce Index Unit (PIU) and "clubbing" the agricultural income with nonagricultural income for determining the rate of tax on the latter.[4] This recommendation was also not implemented.

A major breakthrough on taxation of agricultural income came with the enactment of the Finance (Supplementary) Act of 1977, which abolished the land revenue system and replaced it by a uniform and universal income tax in the country in January 1977. The Act of 1977 was first announced under the Emergency Proclamation as the Finance (Supplementary) Ordinance by the President of Pakistan, repealing that part of the Income Tax Act of 1922 which exempted agricultural income from taxation. However, before the implementation of the Finance Act of 1977, Martial Law was promulgated, which first suspended the Act and then cancelled its implementation. The former exemption to agricultural income under the Income Tax Act of 1922 was restored in the Income Tax Ordinance of 1979.

During the 1980s the question of changes in direct taxes in agriculture, including income tax, land revenue and *ushr*, has been examined by at least three "expert" committees. The majority view was against introducing a tax on agricultural incomes. They emphasized the need to improve the assessment and collection of land revenue and *ushr* but without specific recommendations on the methods of

[4]A Produce Index Unit (PIU) reflects the "productive capacity" of land and is estimated as a measure of the gross value of produce on each unit of land by soil type. Any two acres of land located separately are assigned the same PIU if they are capable of producing about the same value of gross produce in a year. The PIUs were first established to compensate Muslim refugees for the lands they had left in India after its partition in 1947. The PIUs in Pakistan were based on the revenue settlements conducted before 1947. The average PIUs per hectare are still the same in Punjab (156), Sindh (64) and N.W.F.P. (69).

implementation. The National Taxation Reform Commission in 1986 and the Committee of Experts on Taxation of Agricultural Incomes in 1989 used the argument that the Federal Government cannot legislate a tax on agricultural income because of the division of power between the Federal and Provincial legislatures under the amended Constitution of 1973. The National Assembly is empowered on matters falling in the Provincial jurisdiction only in an Emergency under Article 232 of the Constitution. However, it has been suggested by one of the dissenting members of the Committee of Experts that the Federal Government could still ask the National Assembly to amend item 47 in Part I of the Federal List contained in the Fourth Schedule read with Article 70(6) to read "Taxes on Income" instead of "Taxes on income other than agricultural income". There is also room for the Federal Government in Article 260 of the Constitution to make amendment in the Income Tax Ordinance of 1979 (Clause I, Section 2).[5] *The basic problem is the lack of political will and the arguments against a tax on agricultural incomes are mostly bad excuses.*

(2) Land Revenue

A public charge on land is one of the most ancient forms of taxation. In its primitive form, land tax was a tribute claimed by the sovereign from his subjects, but as a claim on land (tax *in rem*) rather than on person (tax *in personam*). The tribute subsequently evolved as a regular claim, charged by the ruler as a uniform and conveniently assessed levy. The land revenue system in Pakistan dates back to the 16th century, established by the Mughal kings. It was further developed during the 19th century by the British who considered land revenue a stable source of income on which to base their administration in India. In its early form, land revenue was basically assessed at 50 percent of a holding's net produce, defined as gross produce less expenses for cultivation or 50 percent of the holding's rent less the expenses for collecting rent.

As they had different historical antecedents and economic conditions, Punjab and Sindh developed their own land revenue systems with significant differences in methods of assessment.[6] However, the West Pakistan Land Revenue Act of 1967 introduced a uniform basis of land revenue assessment and collection. While the net

[5]A minor policy reform with respect to agricultural income was adopted by the Federal Government in the Finance Ordinance of 1988 (Ordinance II of 1988). It amended the Income Tax Ordinance of 1979 (Second Schedule in Part I Clause 1) to include agricultural income (if any) in the "chargeable income" for determining the tax rate on nonagricultural incomes. This "clubbing" formula, introduced with the Federal budget of 1988-89, has apparently had no major impact on tax evasion and income tax revenues.

[6]A detailed study of the land revenue system, with historical background and sources, is given in Khan (1981).

assets were calculated as the value of either the gross produce less normal charges of cultivation or the land rent received by landowners less the charges of collecting rent, the maximum land revenue assessment was reduced to 25 percent of the net income. The land revenue was to be paid in cash and its determination was done on the basis of information about average crop areas, yields and prices. The period of settlement was to be 25 years, and a settlement once made, could not be altered in less than ten years. This uniform approach was abandoned again in 1969 and the four provinces returned to their individual systems.

Major changes in the land revenue system were introduced in all provinces in November 1975. All irrigated holdings of upto 5.0 ha (12.5 acres) and unirrigated holdings of upto 10 ha (25 acres) were exempted from payment of land revenue. Also, all larger holdings were required to pay increased rates from the 1975-76 *Rabi* season. The exemption affected 90 percent and 60 percent of landowners in Punjab and Sindh. The fiscal impact of these changes amounted to a net loss of Rs 40 million in Punjab, or about 25 percent of the province's land revenue, and a net gain of Rs 13 million in Sindh. The next nationwide change in land revenue rates came in 1978. The basic land revenue exemption was raised to 10 ha irrigated or 20 ha unirrigated holdings and the rates for larger holdings were enhanced. The net gain of revenue was Rs 11 million in Punjab and Rs 60 million in Sindh.

Finally, with the introduction of *ushr* under the *Zakat* and *Ushr* Ordinance of 1980, two major changes in the land revenue system took place in 1982-83. First, landowners who were not liable for the *ushr* levy would have to pay land revenue; those Muslims who paid the *ushr* would not be subject to payment of land revenue. Second, land revenue rates were revised again in all provinces. At present no land revenue is charged in Punjab, N.W.F.P. and Balochistan on irrigated holdings of upto one ha (or 2 ha of unirrigated land); in Sindh the exemption limit is 10 ha irrigated or 20 ha unirrigated. The new rates for holdings above the exemption limit are multiples of the 1976 rates.

(3) *Ushr* on Gross Produce from Agricultural Land

A Muslim is required to pay *zakat* as part of his religious obligation. It is understood to be a (personal) transfer of part of his wealth during the year from the well-to-do to the needy or indigent in the community. There is, however, a division of opinion about the exact way in which this transfer should take place regularly. In the Sunni tradition, the (Muslim) State is obliged to assess, collect and distribute the *zakat*, which includes *ushr* as a portion of the annual produce from agricultural land. This authority of the State has been disputed, particularly in Pakistan, by the Shi'a tradition. There is also a difference of opinion, even among the Sunni Muslims, about the purpose for which the *zakat* and *ushr* collections can or should be used.

The assessment and collection of *ushr* – 5 percent of the value of gross output in cash subject to a basic exemption – is done by the Local *Zakat* and *Ushr* Committees. The Provincial land revenue officials are required to assist these Committees in making the assessment and in recovering the assessed demand. The disbursement of *ushr* revenues is left entirely to the discretion of Local Committees but within the broad guidelines for relief and rehabilitation of the needy. In practice the *ushr* system has not been fully institutionalized, but is dependent on the goodwill of a few individuals in the village and with little support from the land revenue officials. The assessment of the cash value of gross produce is based on the "low average" prices and yields, determined by the Local Committees. The *ushr* collections are not treated as arrears of land revenue, in case an assessee fails to make the payment. Similarly, there has apparently been serious underutilization of *ushr* funds at the local level. All of these problems are reflected in the fact that the *ushr* revenue has been only a small and falling proportion of the commonly estimated potential amounts of Rs 2 to 3 billion.

One of the major policy changes affecting the *ushr* system was introduced in the Finance Act of 1989, amending the *Zakat* and *Ushr* Ordinance of 1980 with respect to the use of *zakat* funds and the autonomy of the Central and Provincial *Zakat* Councils. The Finance Act of 1990 made further amendments to the Ordinance of 1980, requiring the Provincial land revenue departments to assess the *ushr* and collect its demand for Local Committees. The Government may even get involved in the use of *ushr* revenues at the local level for purposes that promote the welfare of the rural poor. These actions would be in line with the recommendations of the National Taxation Reform Commission (1986) and the Committee of Experts on Taxation of Agricultural Incomes (1989). They would also expand the tax base and provide relief to the Federal and Provincial budgets for resource mobilization.

(4) Wealth Tax on Agricultural Land

Wealth tax was introduced in Pakistan in 1963, following the recommendations of the Taxation Enquiry Committee of 1959. The Committee, in its Interim Report, outlined several advantages of a tax on net wealth: that it will (i) promote the objective of equality and prevent undue concentration of wealth; (ii) offer a powerful incentive for accumulation of capital in assets with highest returns; (iii) encourage risk taking; and (iv) contribute to the effectiveness of income tax. Under the Wealth Tax Act of 1963 all movable and immovable wealth is subject to tax, with the basic exemption of Rs one million or a self-occupied house [Government of Pakistan (1963)]. After the *Zakat* and *Ushr* Ordinance of 1980, all assets on which *zakat* (but not *ushr*) has been paid or deducted are exempt from wealth tax.

Agricultural land is included in the definition of immovable wealth, subject to the basic exemption of Rs 100,000. One of the basic problems in using the wealth tax on agricultural land resides in its valuation: land is valued at Rs 10 per PIU. Since no individual can, as a result of land reforms of 1977, legally hold agricultural land in excess of 8,000 PIUs, the maximum value of land (Rs 80,000) would be below the allowable exemption of Rs 100,000. The second problem, introduced as an amendment to the Wealth Tax Act in 1970, is that the owner of agricultural land is exempt from wealth tax if that individual is not liable to income tax. This would exclude everyone who does not have taxable income from nonagricultural sources as agricultural income is exempt from taxation under the Income Tax Ordinance of 1979.

ESTIMATES OF REVENUES FROM DIRECT TAXES IN AGRICULTURE

I think the do-nothing option adopted so far by policy-makers in Pakistan with respect to raising Government revenues by expanding the tax base in agriculture has been disastrous. For one thing, the revenues from direct taxes in agriculture, limited as they were, have fallen in relation to the increase in all other revenues and agricultural incomes. The other problem is of horizontal inequity in that some in the society with high incomes – whose rapid growth was facilitated by public investment and financial subsidies – are allowed legally to pay almost no tax on incomes they make in agriculture. I believe that policy-makers must tackle the bull by the horns and adopt one of two alternatives to broaden the tax base. The first alternative, suggested by various Committees in the 1980s, is to make adjustments in the existing structure of direct taxes. The second alternative is to radically restructure the existing system and introduce a progressive and equitable tax on agricultural incomes. The advantage of the first alternative is that it is less demanding, both politically and administratively, than the second and can still raise the revenues substantially. The advantage of the second alternative is that it would treat all incomes alike, make the tax system elastic with respect to changes in incomes and expand the tax base for Government revenues. *In either case a crucial condition for success would be their effective implementation within the existing administrative structure for taxation and revenue collection.* The tax structure and its administration must take into account the cost of collecting the tax.

(A) Revenues in the Existing Structure

The debate appearing in the reports of the National Taxation Reform Commission (1986), National Commission on Agriculture (1988) and the Committee of Experts on Taxation of Agricultural Incomes (1989) reflects the fact that the Federal and Provincial Governments lack the political will to tax agricultural incomes directly. However, there is general agreement that the tax base must be expanded and substantially more revenues recovered from the higher income groups within the existing tax system affecting the agriculture sector. In the short run – in the long run we will all be dead in any case – improved assessment, including revision of the basic rates of land revenue and valuation of land for wealth tax, and effective implementation of the assessed demand can add substantial revenues to the Provincial and Federal budgets. Let me present my case.

(1) *Provincial Land Revenues*

The land revenue rates in all provinces have been changed since the early 1970s on an ad hoc basis and without revision of PIUs. The most significant change in the land revenue system came in 1982-83 with the implementation of *Zakat* and *Ushr* Ordinance of 1980. Landowners (landholders) were required to pay either the land revenue (to Provincial Governments) or *ushr* (to Local *Zakat* and *Ushr* Committees). In all provinces, the Governments made ad hoc changes in the land revenue rates, but without altering the outdated values of PIUs. Inspite of the recommendations of Provincial Land Commissions and successive Committees (or Commissions) appointed by the Federal Government, no province has undertaken new land revenue settlements to revise the values of PIUs which have stayed unchanged since the revenue settlements of the early to mid-1940s.

In keeping with the recommendations of three Commissions in the 1980s cited above, it can be shown that (progressive) changes in the existing land tax rates (without revising the values of PIUs) can produce substantial additional revenues for the Provincial Governments. I have made two alternative estimates of the land (tax) revenue.

Method I: The basic exemption is for holdings of upto 1,000 PIUs and the tax rates for others are differentiated by the size of holdings. Under this method (Annex I), nearly 90 percent of landowners in Punjab, 65 percent in Sindh and 95 percent in N.W.F.P. would be exempt from paying the land revenue. The *total revenue would be about Rs 7.65 billion,* with Rs 5 billion in Punjab, Rs 1.9 billion in Sindh and Rs 0.84 billion in N.W.F.P. The major features of this method are that the land tax is progressive and it exempts a vast majority of small farmers (landowners) from the tax obligation.

Method II: In this method the basic exemption is the same as in Method I, but there is a uniform tax rate for all sizes of holdings (Annex I). The *total revenue in this case falls to Rs 6.69 billion,* with Rs 4.66 billion in Punjab, Rs 1.4 billion in Sindh and Rs 0.62 billion in N.W.F.P. A major feature of this method is that it puts no premium on the size of landholding, hence most of the tax burden is borne by the owners of medium-size holdings.

Even if one assumes a leakage of 30 percent in recovering the assessed demand, the total revenues would range between Rs 4.68 billion (Method II) and Rs 5.35 billion (Method I). It is important that land revenue is assessed on all landholdings of above 1,000 PIUs, whether their owners or holders are liable or not for the *ushr* levy. However, the land revenue officials should collect the residual amount of the revenue demand after making allowance for the *ushr* payments of the assessee. The *ushr* amount paid – and my estimate for the assessed *ushr* revenue is Rs 2.34 million for 1988-89 – should be deducted from the total land revenue of the *ushr* payers.

(2) *Federal Wealth Tax Revenues*

As stated earlier, there are two major problems in collecting the revenues from wealth tax on agricultural land. The first is the valuation of land at Rs 10 per PIU. The same land is assessed at Rs 400 per PIU – increased from Rs 200 per PIU in January 1990 – as collateral to get agricultural credit from the Agricultural Development Bank of Pakistan and similar credit institutions. If this discrepancy is removed, the value of agricultural land as wealth would fall in the taxable limit. The second problem resides in the 1970 amendment to the Wealth Tax Act, exempting landowners from payment of wealth tax if their income was only from agriculture. This amendment should be repealed because it discriminates against those landowners who have nonagricultural incomes and on which they pay income tax. These changes in the wealth tax system would broaden the tax base and substantially increase the revenues of the Federal Government. Needless to add that a general tightening up of the tax administration and effective implementation of wealth tax in the country would also add to the meagre revenue being collected at present.

Lack of data on movable and immovable assets other than agricultural land held by landowners of that land complicates the estimation of potential gains from wealth tax if the proposed changes were introduced. I have made certain assumptions about these other assets and estimated two scenarios of the potential revenue gains from wealth tax on agricultural land (Annex II). In the first scenario, based on the value of land at Rs 200 per PIU, the revenue yield would be Rs 491 million from about 94,400 individuals. The second scenario, based on the value of land at Rs 400 per PIU, produces Rs 2.34 billion from 127,500 individuals. *Assuming a 30 percent leakage in the system, the total revenue would be between Rs 344 million to Rs 1.64 billion.*

(3) *The Revenues from* Ushr

There is general agreement in Pakistan that the *Zakat* and *Ushr* Ordinance of

1980 was not being effectively implemented, particularly with respect to the assessment and collection of *ushr*. The land revenue officials of Provincial Governments do not apparently provide the expected assistance to Local *Zakat* and *Ushr* Committees contrary to the provisions of the amended Ordinance. The assessment of *ushr* is left entirely to the goodwill of a few individuals in the village, without the necessary support in providing the data on crop output and prices. Similarly, the *ushr* demand is not collected as arrears of land revenue, which is also in violation of the 1980 Ordinance. My estimate of the *ushr* revenue in Pakistan is Rs 2.34 billion, using the gross value of crop sector output in 1988-89 (Annex III). *The actual collections may be close to Rs 1.64 billion, allowing for 30 percent leakage from the assessed demand.*

It is said that one of the major reasons for the low (and in fact falling) level of *ushr* revenue is the inability of Local *Zakat* and *Ushr* Committees to identify the legitimate (valid) use of *ushr* funds. Slow disbursements, resulting from this failure, are then a disincentive to assess and collect the expected *ushr* levy. One important side effect of the failure to properly assess and collect the full *ushr* revenue is that the society also looses a large part of its land revenue. Frankly, Muslim landowners do not pay their full obligation then on two counts. The Federal and Provincial Governments should get the land revenue machinery fully behind the *ushr* system to maintain its credibility and avoid the loss of legitimate revenues to the society. While the *ushr* revenue may not directly be counted as part of the Government budget, it can have a considerable impact on the alleviation of rural poverty through local investments and by transfer payments to individuals and institutions.

(B) Revenues by Changing the Existing Structure

A change in the existing system of direct taxes really means that the land revenue system is either replaced or radically altered. This does nothing to the existing wealth tax and the *ushr* levy, because they are consistent with the national fiscal policy. If you want to do away with the wealth tax, because it yields little revenue and serves merely as a nuisance, then it should be done on a national basis. The obligation to pay *ushr* on the gross produce of agricultural land (and livestock) is exactly the same as for *zakat* on other forms of wealth.

What form should the tax on income from agriculture take? Should it be based on *actual* or *presumed* income because the former may be too expensive to determine and collect? Would presumed income not be based on the "productivity" of land, given existing prices and costs? Why not bring the existing land tax (land revenue) system in line with revised PIUs and introduce a differentiated tax rate based on PIUs per holding that generates income?

My answer to these questions is really simple. I maintain that the assessment of actual income, at least from crop production, should not be too difficult or expensive. For one thing, a vast majority of agriculturists, owners and tenants, will be exempted from taxation because their holdings do not generate incomes above the basic exemption allowed for income tax in the country. Farmers operating less than 20 ha (irrigated) will probably fall in this category, leaving about 350,000 to 375,000 individuals to account for their agricultural incomes. Secondly, a standardized deduction system for cost of raising crops may be adopted to calculate taxable (net) income. Thirdly, the gross (crop) income could be based on the average of the last three years of area, production and prices, given the annual instability of output. Finally, the assessment of tax on the individual's income – after "clubbing" the agricultural and nonagricultural incomes – should be based on tax slabs currently used for income tax purposes. According to one recent estimate, the tax revenue from agricultural incomes, at present foregone because of the tax exemption, could be as much as Rs 5 billion – or nearly 30 percent of all personal and corporate taxes in 1988-89 – to be collected from 360,000 individuals with exemption for holdings of less than 10 ha.[7] I have no better set of data from which I could derive a separate estimate of the tax revenue from agricultural incomes.

A bad alternative to a tax on actual income would be one levied on presumed income from land, which is akin to the tax on land according to some judgement about its productivity or income-generation capacity. The existing land revenue system should then be replaced by a land tax which reflects (a) changes in productivity and (b) the tax paying capacity of the individual landholder or landowner. Frankly, the existing tax base should be revised by changing the outdated PIUs in light of changes in water availability, land use and cropping patterns. In fact, PIUs should be revised at least every five years to serve their purpose for tax on presumed income from land. But that is for the future. Even with the present PIUs per hectare, my estimate for revenue from presumed income (land tax) – exempting those with less than 1,000 PIUs and using differentiated slabs for others – is Rs 7.65 billion as in Method I (Annex I).

Let me put the revenue estimates in context. In 1988-89, the Federal and Provincial Governments collected Rs 14.47 billion in direct taxes. If we assume a 30 percent leakage in the estimates of revenues of Rs 5 billion on actual income and Rs 7.65 billion on presumed income in agriculture, the collections would be 24 per-

[7]These estimates were made by a team of consultants for the Federal Government in 1989 [Government of Pakistan (1989)]. A long methodological note (in Appendix D) also shows the minimum (Rs 4.9 billion) and maximum (Rs 5.9 billion) amounts of tax revenues foregone by not taxing agricultural incomes. These estimates are based on (a) 1980 census data for number of farms (as proxy for taxpayers), cropping patterns and cropping intensities; (b) 1986-87 national income accounts for the net value-added by crops; and (c) 1986-87 income tax rates, with allowable deductions.

cent and 37 percent respectively of the total revenue from direct taxes in Pakistan. Contrast this with the fact that the collected land revenue in 1988-89 was 2.8 percent – if *ushr* is included then 4.3 percent – of total revenue from direct taxes. May I add that the estimated tax revenue from agricultural incomes would be between 1.9 percent and 2.9 percent of Rs 185.50 billion which was the value added in agriculture in 1988-89!

CONCLUSIONS

There is not much to conclude, except to reiterate three simple (plain) facts. First, Pakistan must mobilize additional domestic resources to reduce the twin deficits and maintain a sustainable momentum of growth. Second, there is considerable potential for revenue in agricultural incomes by expanding the tax base and making the tax system progressive and equitable. This can be realized by either making minor adjustments in the existing tax structure or restructuring the tax system altogether. I prefer the second option because it goes to the heart of the matter.[8] Finally, the failure of successive Governments to tackle the bull by the horns simply reflects the bull's power in the political system. The apologists continue to give bad excuses for maintaining a blatant inequity in the tax system. The time has come to get the bull down for the sake of revenues and elementary justice.

Annexures

Annex I

Land Revenues Estimates for Pakistan, 1988-89

Method I

1. The following distribution of landowners has been assumed, based on landownership data in the early 1980s (Land Revenue Departments)

	Distribution of Landowners (in Millions)		
PIUs	Punjab	Sindh	N.W.F.P.
Upto 1,000	6.555 (88.0%)	0.430 (65.0%)	2.036 (94.0%)
>1,000 – 2,000	0.447 (6.0%)	0.099 (15.0%)	0.065 (3.0%)
>2,000 – 4,000	0.223 (3.0%)	0.066 (10.0%)	0.032 (1.5%)
>4,000 – 6,000	0.186 (2.5%)	0.046 (7.0%)	0.026 (1.2%)
>6,000	0.037 (0.5%)	0.020 (3.0%)	0.006 (0.3%)
Total	7.449	0.662	2.166

[8]A similar view has been expressed by the World Bank in its latest country report on Pakistan: "Even with the introduction of a basic allowance in the form of untaxed acreage to protect low income households, revenues from agricultural income could exceed 2 percent of GDP when fully implemented. If revenues from income are not tapped more efficiently in the future, the Federal Government might be forced to raise more revenues from trade taxes, thus undermining the thrust of the present trade liberalization policy". [World Bank (1990), p. 41.]

2. Assume the following land tax rates:

	Upto 1,000 PIUs	–	No Tax
I	>1,000 – 2,000 PIUs	–	Rs 1,000 + Rs 1./PIU
II	>2,000 – 4,000 PIUs	–	Rs 3,000 + Rs 1./PIU
III	>4,000 – 6,000 PIUs	–	Rs 6,000 + Rs 2./PIU
IV	>6,000 PIUs	–	Rs 10,000 + Rs 2./PIU

3. Assume the following average number of PIUs for each class of land tax payers:

Class	Punjab	Sindh	N.W.F.P.
I	1,400 PIUs	1,400 PIUs	1,200 PIUs
II	2,500 PIUs	3,000 PIUs	2,400 PIUs
III	4,800 PIUs	5,000 PIUs	4,500 PIUs
IV	6,800 PIUs	7,000 PIUs	6,500 PIUs

4. The land revenue assessment will then be:

(Million Rupees)

Land Class	Punjab	Sindh	N.W.F.P.
I	Rs 1,072.8	Rs 237.6	Rs 143.0
II	Rs 1,226.5	Rs 396.0	Rs 172.8
III	Rs 1,785.6	Rs 736.0	Rs 390.0
IV	Rs 873.2	Rs 480.0	Rs 138.0
Total	Rs 4,958.1	Rs 1,849.6	Rs 843.8

Method II

1. The only change in this method is about the tax rates. All other assumptions are the same as in Method I.

2. Assume the following tax rates:

Upto 1,000 PIUs	–	No Tax
>1,000 PIUs	–	Rs 2./PIU

3. The land revenue assessment with these rates will be:

(Million Rupees)

Land Class	Punjab	Sindh	N.W.F.P.
I	Rs 1,251.6	Rs 277.2	Rs 156.0
II	Rs 1,115.0	Rs 396.0	Rs 153.6
III	Rs 1,785.6	Rs 460.0	Rs 234.0
IV	Rs 503.2	Rs 280.0	Rs 78.0
Total	Rs 4,655.4	Rs 1,413.2	Rs 621.6

Annex II

Estimates of Revenue from Wealth Tax on Agricultural Land in Pakistan

1. Following distribution of ownership holdings are taken for the provinces (1980 Census of Agriculture, Table 12.1):

	Number of Ownership Holdings		
Size of Holding	Punjab	Sindh	N.W.F.P.
10 – 20 ha	155,725	41,530	15,921
20 – 60 ha	73,063	23,986	9,163
60 and More ha	12,780	6,210	2,377

2. Average number of PIUs per hectare in each province are based on the Report of the National Taxation Reform Commission of 1986 (p. 143):

Punjab	156 PIUs per Hectare	(63 PIUs per Acre)
Sindh	64 PIUs per Hectare	(26 PIUs per Acre)
N.W.F.P.	69 PIUs per Hectare	(28 PIUs per Acre)

3. Existing rates of wealth tax in Pakistan are as follows:

First Rs 500,000	@ 0.5%
Second Rs 500,000	@ 1.0%
Third Rs 500,000	@ 1.5%
Fourth Rs 500,000	@ 2.0%
Rest	@ 2.5%

4. The formula for wealth tax liability according to the Wealth Tax Act of 1963 is:

$$\text{Amount Subject to Wealth Tax} = \left[\begin{array}{l}\text{Taxable Assets}\\ \text{Other than}\\ \text{Agricultural Land}\end{array} + \left\{\begin{array}{l}\text{Value of} - \text{Rs 100,000}\\ \text{Agricul-}\\ \text{tural Land}\end{array}\right\}\right] - \left[\begin{array}{l}\text{Rupees}\\ \text{One}\\ \text{Million}\end{array}\right]$$

5. Assume following numbers of PIUs in each class of landholdings:

Size of Holding	Average Number of PIUs		
	Punjab	Sindh	N.W.F.P.
10 – 20 Hectare	2,000	950	1,000
20 – 60 Hectare	5,500	2,800	3,000
60 and More Hectare	9,500	4,000	4,300

6. Assume the following values of assets other than agricultural land for each class of landholding:

Size of Holdings	Average Number of PIUs			Value of Assets Other than Agricultural Land
	Punjab	Sindh	N.W.F.P.	
10 – 20 Hectare	2,000	950	1,000	Rs 250,000
20 – 60 Hectare	5,500	2,800	3,000	Rs 500,000
60 and More Hectare	9,500	4,000	4,300	Rs 1 Million

7. Wealth Tax Revenues, based on Rs 200 per PIU (Scenario I) and Rs 400 per PIU (Scenario II), will be as follows:

Province	Scenario I		Scenario II	
	Total Revenue (Rupees)	Number of Taxpayers	Total Revenue (Rupees)	Number of Taxpayers
Punjab	451,037,500	85,843	2,104,721,000	85,843
Sindh	27,945,000	6,210	157,912,200	30,196
N.W.F.P.	12,122,700	2,377	73,430,300	11,540
Total	491,105,200	94,430	2,336,063,500	127,579

Annex III

Estimates of Revenue from Ushr *in Pakistan, 1988-89*

1. The crop sector GDP (in current factor cost) in 1988-89 was reported to be Rs 111,427 million.

2. Assume that 80 percent of the crop sector GDP originates with land using tenants and 20 percent is owner-operated. Also, allow 65 percent of the value to landowners in the first category as their valid expenses (including the tenant's share) and allow 30 percent of the value to landowners in the second category as legitimate expenses.

3. The revenue estimate from the *ushr* levy then is as follows:

GDP/Expenses	Landowners Category I	Landowners Category II
Crop Sector GDP	Rs 89,141.6	Rs 22,285.4
Expenses	Rs 57,942.0	Rs 6,685.6
Residual GDP	Rs 31,199.6	Rs 1,599.8
Ushr Revenue @ 5 Percent	Rs 1,560.0	Rs 779.9

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Comments on "Resource Mobilization from Agriculture in Pakistan"

I have no real problem accepting most of the arguments in Professor Mahmood Hasan Khan's paper, but neither am I privy to the full public debate and the background economic analyses of the agricultural tax matter in Pakistan. The outline of the discussion, however, seems similar to ones I have heard in Latin America.

Agriculture, as Professor John Mellor has been teaching us for the past thirty years, must pull its weight in terms of its contribution to overall development; the healthier the sector, the more robust the support emanating from farming. One agricultural-general economy contact point is agriculture's contributions to overall capital formation. That, in turn, is facilitated as terms of trade shift against agriculture. Capital formation is also accomplished through public investment using agriculture tax revenues.

It is astonishing to see in Professor Mahmood Hasan Khan's paper how little agriculture contributes in terms of direct taxation in Pakistan. It would have helped had some quantitative estimate of indirect taxes and shifts in terms of trade against agriculture been provided, since it is really the total burden already borne by agriculture that dictates, in economic terms, at least, how many more direct taxes might be levied.

The other crucial element is how existing revenue is used. In Professor Khan's paper, it is disillusioning to see that in a period of relatively rapid economic growth, the "development" part of Pakistani government spending fell from nearly 40 percent of the budget in 1980 to only 26 percent in 1990 while defense, interest, and subsidies together grew to over half of public expenditures. Spending for health and education, so vitally needed for development, lags seriously in Pakistan, as noted by Professor Khan and the most recent *World Development Report 1990* of the World Bank.

I am not heartened by Professor Khan's phrase, "it is hard for Governments to reduce waste in their spending". Although true, I think I heard the Federal Minister for Finance and Economic Affairs pledge otherwise at his intervention at these meetings.

Nonetheless, Professor Khan is probably still correct: more direct taxes on agriculture (wealth, land, and/or income) are required. But before recommending type and quantity, I would like to hear more discussion than in Professor Khan's paper on how these taxes could contribute incentives for increased production and equity within the sector.

If a more equitable, productive, rural society would result from enactment of these taxes, this might be argument enough for a direct tax package without considering revenue generated. As we know, however, the major stumbling block is not economics at all but politics and the economic and political power of the landed, who will resist these levies.

Remarkable in Professor Khan's paper were three points: (1) the low rate of land taxation (something like Rs 2 per hectare, excluding *ushr*); the grossly outdated basis for judging productive capacity [such that in three provinces the Produce Index Unit (PIU) is still the same as it was at partition]; (3) the fact that there is currently no tax on agricultural income (and if one is not liable for an income tax, that individual is exempt from a wealth tax). Altering any one or all three would doubtless yield considerable revenue without taking the politically more vulnerable step of overhauling the entire system.

There may be something I do not understand in all of this, but I need to have Professor Khan convince me that a tax on income generated by a piece of land is superior to a tax on the productive capacity of that land, though I have nothing against a progressive agricultural income tax *per se*. It would seem to me that given the large amounts of idle land that usually appear in Pakistani data, a progressive tax on land – with, perhaps, large farms taxed at a rate higher than middle-sized farms and with small-farm exemptions together with high PIUs being taxed amply – might encourage higher production, yield less land wasted, and even potentially promote some equity through land sales (if plans were made to facilitate credit availability to peasant land buyers). I am therefore somewhat mystified by Professor Khan's statement, "A bad alternative to a tax on actual income would be one levied on presumed income from land . . . ".

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Comments on "Resource Mobilization from Agriculture in Pakistan"

Let me state at the outset that Professor Khan's paper is highly commendable in many respects. It presents a clear and lucid ideas enabling the reader to sail smoothly through the text, and it links the various sections in a masterly manner. His rhetoric begins when he considers undertaxation of agriculture to be proximate and persistent cause of rising budgetary deficits. He believes that tax structure in agriculture is regressive and therefore needs to be replaced by a progressive rate structure which may produce a rising trend in the government revenue derived from agriculture. In view of the fact that small farmers carry a greater tax burden than large farmers, his emphasis on the creation of an equitable tax structure in Pakistan's agriculture is not only unexceptionable but actually laudable. Not would enlarge the contribution made by the large farmers and may well be the only acceptable means of augmenting government revenue from agriculture. His recommended policy of graduated land taxes, determined by the relative productivity of agricultural lands, can easily lead to an 8–10 fold increase in the tax yield of the agricultural sector, without imposing substantial burdens on that sector.

Despite Dr Khan's smooth flow of ideas and impressive and persuasive arguments, the paper presents no a serious analysis of the actual situation and hence is not without flaws and shortcomings. In fact many of the findings and statements can be challenged in the light of the actual situation in Pakistan's agriculture.

To begin with, the paper seems to be a mistitled. Resource mobilization is a much wider term, involving both tax revenues and non-tax revenues. Thus one would expect the paper to discuss implicit taxes in agriculture resulting from overvalued exchange rate differences between import or export parity prices and domestic prices of agricultural commodities, indirect taxes paid by agriculture based on a proper incidence analysis, direct taxes in agriculture and resource transfers from agriculture to industrial sector due to the dichotomy of industrial and agricultural price policies. But Professor Khan has only dealt with the direct tax revenues in agriculture. Moreover his discussion of direct taxes fails to give a complete picture of the total direct taxes in agriculture. Although the direct taxes collected by the Central and Provincial Governments have been taken into consideration, there is no mention of the direct taxes that accrue directly to local governments. They include district council rate (at 55 percent), local rate (at 50 percent), and mosque fund (at 2 percent), the land revenue and octroi-market entry tax on marketed quantities of agricultural commodities. These taxes being more significant than land revenue, their omission results in a drastic underestimation of the direct taxes on agriculture.

Secondly, it is difficult to accept Professor Khan's statement that discrimination against agriculture in the form of low prices of agricultural commodities has ended or diminished. The obvious improvement in the domestic prices of agricultural commodities relative to international prices in the mid-Eighties was the result of a general fall in the world prices. As no deliberate attempts were made in Pakistan to correct domestic prices the improvement proved to be temporary and the trend was reversed with the upward swing in the world prices after 1985-86. If one goes by available empirical evidence, nominal-protection coefficients, which varied between 0.65 and 1.19 for different agricultural commodities in 1985-86, had values of 0.40 to 0.58 in 1989-90. A comparison of these coefficients with those for 1985-86 clearly shows that agriculture was subjected to heavy and rising rates of implicit taxes between 1985-86 and 1989-90. While this evidence is contrary to Professor Khan's conclusion of falling implicit tax-rates in agriculture, such high rates of implicit taxes preclude any justification for additional direct taxes in agriculture. Being highly regressive in their impact, such high rates of implicit taxes are also likely to frustrate any progression in agriculture's tax structure through graduated land taxes or the extension of the so-called general income-tax to agriculture irrespective of the steepness of the progression of these taxes.

Thirdly, Professor Khan's repeated statement that direct taxes in agriculture are regressive and inequitable is equally untenable. This follows from his description of land revenue and other direct taxes in agriculture. From his description of various direct taxes it is clear that land revenue rates in 1978 were progressively enhanced for large holdings and that holdings of 10 hectares of irrigated land and 20 hectares of unirrigated land were exempted from payment of land revenue. Since the current income tax is a surcharge on land revenue and income tax rates vary directly with the assessed amount of land revenue, direct taxes paid by agriculture would be more equitable than those reflected in land revenue rates. The wealth tax and *ushr* are unlikely to change the degree of progression of direct taxes in any major way as both have high exemption limits and wealth tax is characterized by a steep progression in its rate structure. It thus follows from the above that the rate structure of all direct taxes in Pakistan was, in all probability, highly progressive.

Finally, there is nothing sacrosanct about Professor Khan's recommended tax policy as a means of increasing government revenues from agriculture. Although he claims that his tax proposals would lead to an 8–10-fold increase in government tax revenues from agriculture, it is a mere "guesstimate" based on unrealistic assessment of the actual situation for at least three reasons. Firstly, it should be clear from the preceding pages that Professor Khan's estimates of direct taxes accounted for only one-half to one-third of the tax yields in Pakistan. If adjusted for this discrepancy, the tax potential of his proposals should not exceed 2-3 times the potential of current tax-policy. Secondly, Professor Khan's claim is based on a comparison of the actual tax-yields of the current system with the potential tax yields of his recommended tax policy. As potential tax yields ignore tax evasion, the invalidity of his claim should be obvious, especially as the farmers are notorious tax evaders and tax evasion is likely to increase with the steepness of progression and high tax-rates of his recommended tax-policy. Thirdly and finally, there is overestimation of the tax potential of his proposed tax-policy. His calculation of potential tax-yields is necessarily based on the estimated number of taxpayers and average tax-rate per taxpayer. He equates the number of taxpayers with the number of landowners in various tax brackets. According to his data, the total number of landowners in the three provinces (Punjab, Sindh and N.W.F.P) of Pakistan exceeded 10.28 million. By contrast, the number of landowners reported in the 1981 Census of Agriculture in the whole of Pakistan did not exceed 3.79 million. Herein lies the discrepancy. The use of a number of taxpayers which is three times the number of landowners would most certainly lead to an amount of tax revenue that would be three times that otherwise expected. On aggregate the various discrepancies, it must inevitably be clear that Professor Khan's proposals would do no better, if not worse, than the existing tax policy in terms of realization of government revenues from agriculture through direct taxes.

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