

FEDERAL BUDGET 1980-81

NEED FOR A NEW STRATEGY

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INTRODUCTION

A time for the national budget is a time for serious reflection. Budget is not merely the concern of the Government; it concerns the whole nation. While it is the most important policy document that a Government presents every year before the nation, a number of considerations, internal and international, economic and geo-political reign heavily in its preparation; it cannot and must not be immune to the mood of the people it is going to affect.

In view of this unique significance of the Budget it would help the policy-makers immensely if peoples and institutions reflecting the mood of the nation try to express their concerns and suggestions before the budget is finalized, particularly so when the country is still waiting for the re-emergence of political institutions most suited to debate national issues and formulate policies most in keeping with the socio-economic ideals of the nation and the geo-economic situation prevailing at a particular time. Rightmost decisions can be arrived at only after a thorough public debate in which all sections of the society participate, particularly the business and industrial community, the labour, the agriculturists, the consumers, the economists and other professionals and the public men. Although no effort has been made to provide institutional platforms for this debate, it is encouraging that a section of the business community has made an initial effort to come out with its thinking on the budget.^{1/}

^{1/} See: A Strategy of Federal Budget, proceedings of a Pre-Budget Conference, Chamber of Commerce and Industry, Karachi, May, 1980.

There is, however, almost near silence from the side of the economists and other professional organisations, including the labour, which could have made some contribution to fill the gap created by the absence of political institutions. The Institute of Policy Studies is making a humble effort to present one such perspective.

This year's budget is being presented in the context of two important developments, one internal and other external. Internally, the Government has taken upon itself the onerous task of Islamizing the economy and society, initially started with the cooperation of certain political forces but later on taken over exclusively by the Martial Law regime. The declaration of 12th Rabiul Awwal 1399 A.H. (10th February, 1979) and the constitutional amendment based thereon suggested that the Islamic Economic Order would be introduced in the country within a period of three years. Sixteen months have passed by and it is time to examine what has been achieved in that direction and what the new budget is going to offer towards the fulfilment of that objective. Economic and fiscal policies of the Government deserve to be tested on the touchstone of Islam's guidelines for economic policy.

The other important development has taken place in Afghanistan with its far reaching consequences for Pakistan's economy, its defence and the whole network of its relationships with the rest of the world. This is bound to sharpen some constraints as also to open up some new possibilities because of change in international climate.

We would like to suggest that both these developments point to the need for achieving greater self-reliance in economic and defence production and for better integration between the systems of economic and defence production in the country. The need for greater cooperation between the Muslim countries of West Asia, particularly between Pakistan, Iran, Turkey, Saudi Arabia and the Gulf countries, is also a natural demand of the changing scenario. The economic implications of the immigration of Afghan refugees and the need for streamlining our defences against any violation from the North, over and above the threats from the South are too important to be ignored in the forthcoming budget. Any reflection on the budget has to be made in the light of these developments.

II - THE STATE OF THE ECONOMY

The performance of the economy in 1979-80 has been mixed. Agriculture has generally behaved well. Wheat, rice and cotton production have been reasonably good, resulting in over 5 per cent increase in the GDP in the agricultural sector. Although production has lagged behind in sugarcane and yield per acre remains undesirably low the agricultural sector has shown resilience for the second year. Despite the fact that the contribution of weather remains immense in agricultural production, part of the success can be attributed to the contribution of better inputs and other aspects of agricultural policy. A corrolary of success in agriculture is better performance in exports. Around forty per cent rise in exports is primarily due to better performance in cotton and rice. Industrial production has also recorded an increase of over 8 per cent as against a rise of 4.8 per cent in 1978-79. Small and medium scale industries have made a better contribution. The textile industry continues to behave erratically, with over forty per cent under-utilization of its capacity. Imports continue to be too high, around double of exports. Oil imports now go to make over one fifth of total imports. Remittances from overseas have reached a high watermark (expected to be around \$ 1.7 billion in 1979-80). Because of the changed international climate consortium countries have promised aid around \$ 1 billion. Foreign exchange reserves are in a better position because of deposits from OPEC countries and Saudi support for the Zakat Fund

Domestic resource mobilization has been better as far as tax revenues are concerned but the level of domestic savings and investment remain low.

Private investment has not shown any significant response to alleged concessions. The gap between industrial sanctions and actual new investment remains too wide. Inflow of foreign capital remains limited. Signals from stock exchange remain confused and conflicting.

Price situation remains disturbing. Although official circles claim a 9-10 per cent price rise, all independent estimates suggest an inflation rate of 15-20 per cent. The general price index of 28 essential commodities averaged at 7.6 per cent rise between July 1979-April 1980 as compared to 3.6 per cent increase during the corresponding period of the last year (a rate almost double that of the previous year). Twenty one commodities registered increase in price (ranging from 12 to 52 per cent) while only five recorded some decline, and one alone maintained original level. The same index for the year ending April, 1980, showed an increase of 13.8 per cent. It hardly deserves to be noted that the index suffers from the weakness of incomplete coverage and exclusive reliance on Government fixed prices which are always lower than the real market prices.

The rate of monetary expansion, although less than the preceding year, has been high enough to produce inflationary pressures. In spite of some monetary restraint exhibited after November, 1979, the overall situation is that during the period July 1979 to March 1980 monetary assets expanded by Rs. 11,037 million, that is an increase of 13.5 per cent. Government borrowing for budgetary support during July 1979-March 1980 increased by Rs. 3,717 million, as against original ceiling of Rs. 3,000 million (Budget 1979-80) and revised ceiling of Rs. 3,949 million (January 1980) for the whole year. Credit to private sector (proper), during the same

period, was Rs. 6,245 million as against the revised ceiling of Rs. 5,298 million. All these indicators suggest a real inflation rate of 15-20 per cent which is also supported by calculating inflation through the alternate method of the use of national income deflator. Currency in circulation has recorded a rise of around 20 per cent.

We would like to conclude this section on the suggestion that the overall performance of the economy should be analysed with great caution. Increase in agricultural production has to be seen in the context of weather conditions. Export expansion is also based on increased production of agricultural goods (Rice and Cotton) and not on expansion of manufactured goods. Balance of payments gap continues to cause worry, notwithstanding temporary sops in the form of short period loans and non-repeatable OPEC deposits. The economy's dependence on foreign aid and its vulnerability to external factors (oil prices, industry's dependence on imported raw material and machinery etc.) remains great. Despite some resilience in agriculture and small scale industry the overall situation remains serious if not sombre.

The common man in Pakistan may be better than some of the worst poverty-stricken people of the world, but his plight is grave enough to shun some of the smug complacency which cocoon some of the decision-makers in the country. Around thirty per cent of the population lives below poverty line - they do not have two square meals a day and enough to clothe and shelter themselves. The poorest twenty per cent of the population possess only 8 per cent of the National Income while the richest 20 per cent hold 43%. Seventy six per cent of the population is illiterate. While death rate is only 14.7 per 1,000 infant mortality

is eight times higher (105 per 1,000 live births). Per capita income at constant prices is around Rs. 650 (1978-79). Only 5 per cent of the rural population has access to electricity, a facility enjoyed by around half of the urban population. 73 per cent of the population has no access to clean water. There is only 1 physician for 6,000 persons in the population and only one hospital bed per per 1,665 persons. There is much of real poverty around; a sizeable number of our people is underfed, under-cled and under-sheltered. This is too grave a situation and too great a challenge in a country that claims to be an Islamic State - a State about which Caliph Umar said that in it if even a lamb dies of hunger the Caliph would be accountable for that.

III THE CHALLENGES BEFORE THE BUDGET MAKERS

After a review of the situation we would like to spell out the real challenges that the Budget must try to face. Its success or failure would depend upon the extent to which it faces them.

Methodology of budget-making has not changed in Pakistan. There is very little input from research and public discussion. The Ministry of Finance is too involved in day-to-day matters to be able to devote to some fresh thinking on major policy issues. The National Economic Board, consisting of independent economists and financial experts, promised in the budget speech in June 1978 was never formed. The National Planning Board, constituted at the instance of the present writer and announced in April 1979, was never called to session. There is little fresh air that is allowed in the citadels of economic decision-making, at a time when the country is yearning for a fresh approach to its problems and is awaiting some fundamental changes in the whole strategy of development planning and economic management of the country.

We have argued earlier^{2/}, and are more convinced on it than ever, that the development strategy on which economic planning and policy making rest in Pakistan has failed. GNPism has failed in the entire third world, more miserably in Pakistan. Economic development through industrialisation vis import-substitution and aid-absorption has turned out to be a mirage. Unfortunately our priorities and our approaches remain unchanged inspite of the failure of the strategy which determined them. We continue to blow air into a pricked balloon!

2/ See: Pakistan's Economic Challenge and the Budget, Institute of Policy Studies, July, 1979.

See also: Ahmad Khurshid "Development Strategy under an Islamic Aegis" paper to I.L.O. Seminar Geneva, Jan. 1980.

We need a new approach to economic development, where obsession with industrialization and GNP-growth is replaced by developmental efforts directed towards the establishment of a viable and just economy, ensuring mobilization of internal resources, both human and physical, emphasising maximal participation of the largest number of people in the developmental effort and equitable distribution of the fruits of development amongst all and sundry. Growth cannot be separated from justice and welfare, whatever be the level of development of a society.

Development effort is also to be disengaged from the model of society and culture prevalent in the western world. We want to develop from our indigenous base and towards a life-style which represents the culture of the Islamic Ummah. Without spelling out this new approach to development in concrete policy terms, we would continue to behave like the thirsty one trying to quench his thirst by sea water, more he takes greater is his dissatisfaction.

Secondly, we believe that the country should say goodbye to adhocism and piece-meal change. Consistency has not been our strong point. We must thoroughly re-examine all major areas of economic decision-making, finance, planning, agriculture, industry, commerce, money and banking, transport and communication, natural resources, labour and manpower and develop integrated and consistent policies based on the socio-economic objectives of the nation. Each field of economic activity is infested with contradictory policy stances and time-bound palliatives which have lost all relevance to the present situation. Piece-meal tinkering with central or peripheral issues is not going to deliver the goods. We must develop a

new programme - package which should effect all areas and seek for a comprehensive solution to our problems. In this respect the interests of all sections of society particularly those of the labour, the rural population and the general consumer, should be given at least as much importance as those of the industrialists, the businessmen, the professional and the bureaucrat.

Thirdly, an effort should be made to involve different sections of society into economic decision-making with a view to evolve some kind of a national consensus on major issues. The policy of imposing the bureaucratic fiat over other sections of the society should end. 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 public men 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 interests. 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. In pursuit of this approach, would it be too much that the budget should be announced for public debate and the President should authenticate it only if the Cabinet has re-examined it in the light of comments freely expressed through the national press, without the play of the scissors of censor.

With these observations about the new approach that is needed to tackle major budgetary issues we would like to briefly discuss some of the problem-areas and suggest how they may be tackled.

I. ISLAMIZING THE ECONOMY

How to Islamize the economy? We have been told that introduction of Zakat and Ushr and abolition of Riba are the main planks of the Government's Islamization strategy. We affirm that both of these - Zakat and Riba-abolition - are crucial to Islami-zation but it would be unfair to Islam to assume that they constitute the be-all and end-all of Islamic economic programme. Zakat and Riba - elimination are very important, but overall policy objectives of Islam are more important. Islam wants to eliminate mass poverty and deprivation and establish a new equation between man and man and region and region based on justice (Adl) and free from exploitation (Zulm). This is of supreme importance.

The primary goal of Islamic economics is maximizing man's welfare, moral as well as material. 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.

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 opportunities for individual initiative and enterprise 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.

Islam emphasises the importance of effort and prescribes for the optimal utilisation 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.

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) and to bring to an end to 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.

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.

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.

In the context of these policy parameters introduction of Zakat and Ushr and abolition of Riba are to be achieved, and not in isolation of them.

It is hoped that the scheme of Zakat and Ushr is going to be introduced soon. It is unfortunate that the economic programme announced on 12th Rabiul Awwal, 1399 (10th February 1979) whose main ingredient was introduction of Zakat and Ushr came very close to a still birth. The draft was gazetted on 10th February, 1979 and is yet to be introduced after sixteen months. A Zakat Fund was created in which donations from within the country and abroad came, but has lied dormant. Let us hope now the problems that held things up so far have been overcome, but we must point out that Zakat is not simply a peripheral welfare device, it is the mainstay of its fiscal system. If the centre is relegated to the position of periphery, it cannot become the pivot on which the economy is to revolve. We must correct our perspective before we experiment with an Islamic scheme like Zakat and Ushr.

Secondly what has been done to prepare the society for the introduction of Zakat, which is an act of worship and a scheme of socio-moral reform and not just an instrument of transfer payments or a device to augment revenues. Similarly, what has been done to cleanse the economy, to enable Zakat to play its purifying and growth roles? The tax system of the country, particularly the system of Income tax, has to be drastically changed, if Zakat is going to make any real impact on the life of the people. Zakat cannot succeed if it is placed as a holy appandage to a secular fiscal system. The two cannot flow as two parallel streams, with no real linkage between the two, ensuring an ultimate fusion into one system. If sixteen months have been utilized for spelling out consequential changes to Zakat's introduction in the fiscal structure, particularly in the income tax and in relevant social welfare and development activities, then we would not have any regrets on delay in its introduction. But if

Zakat is thrust upon the system as an anti-body and is going to exist outside the mainstream of the system, then we are afraid it is not going to give to the peoples a taste of the Islamic economic order.

We also want to be very candid about the strategy for the abolition of Riba. We agree that the entire scheme has to be introduced in clearly defined phases. Systematic plans of action have to be prepared for each sector of banking and finance but it would not be advisable to make peripheral changes without attempting to attack the centre of the problem. Abolition of riba means restructuring of the entire banking system, and not just opening of interest-free counters in interest-based banks.

The strategy suggested by the Islamic Ideology Council and its Panel of Economists and Bankers, inspite of weaknesses and gaps, represents a realistic approach to the problem. Some initial steps were outlined in the 12th Rabiul Awwal package. They should have been followed by elimination of riba from the entire sectors of house-building finance and industrial finance. This should be followed by elimination of riba from agricultural finance and then from commercial finance. The final phase would relate to international finance. We do not think piece-meal changes in commercial banking are going to transform the system and restructure it on new foundations. Such a measure may even make the reform of the system more difficult and create doubts about the viability of a riba-free system. Step-by-step change on the basis of each sector of banking taken as one unit could be a more fruitful approach than the one consisting of piece-meal modifications resulting in juxtaposition of riba-free and riba-based transactions under the same roof.

A major decision has to be made by the Government. If riba is to be eliminated, then financial and economic

policies have to be so geared that resources flow in the direction of equity-based investments and institutions. The present policies as well as institutional set-up are such that all the encouragement is provided for resources to flow in the direction of riba and whatever equity-based opportunities exist are at a disadvantage. Unless this basic change in policy takes place, some riba-free accounts in riba-based banks are not going to make any difference to the system. The problem concerns the change of the system, and not its perpetuation with decorative changes.

2. SIZE OF THE BUDGET AND THE ADP

The next problem-area relates to the size of the budget and the Annual Development Plan. The questions of budgetary gap and resource mobilization are only consequential questions. The real issue is the size of the plan and of the budget. Other related questions are about the role of the public sector and the content of growth. So far we have been more interested in the size of the plan and its rate of growth and not enough in the content and priorities of growth and in factors that are to act as the agents of growth. Major decisions about the size, role and nature of the public sector have been postponed. Status-quo is being willy milly maintained. Only the budget will show whether the austerity drive in Government expenditure which began with a bang has not ended with a whimper!

We hope the planners and financial experts would be able to free themselves from the magic of "bigness" and would not be content with enlarging the size of the plan and the budget. They should devote more rigorously to the formulation of right priorities, identification of areas of waste and triviality and

to see that the system begins to make a happy transition towards an efficient, well-managed and egalitarian order.

The performance of the public sector should be scrutinized more carefully and a system evolved in which it does not operate as a department of the Government, but as a viable commercial enterprise with strong social responsibility and effective public accountability. Greater harnessing of private resources for the public sector is one of the pressing needs.

We would suggest the Government to keep the size of the budget and the ADP within resource limits and not to burden the people with a new spate of taxes and price-increases. There are other ways of resource mobilization which should be resorted to, but no more taxes that sap the purchasing power of the common man. We must abandon the policy of living beyond our means, both at the individual level as well as the level of the State.

3. STRATEGY OF THE BUDGET

The first major objective of the budget should be increase in production through improvement of productivity, efficiency, investment mobilization, 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, where necessary, expansion of existing units instead of going for new ones should be given preference. This would also involve reviewing the Five Year Plan

size and its implications for the Annual Development Plan for the year 1980-81.

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.

Encouragement of private enterprise with very clear policy guidelines reflecting the social preference of the society. The steps that have been taken so far have not produced 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.

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

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.

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.

4. RESOURCE MOBILIZATION

Resource mobilization is the key to the success of the policy outlined above. But we do not visualize the Government to procure all resources in its own hands. Instead we prefer a strategy through which the private sector, particularly the small and medium entrepreneur, is mobilized into action. The experience of last three years amply shows that the large entrepreneur, who has dominated the economic scene during the last three decades, is no longer a dynamic force. Instead, greater vitality is shown by the small entrepreneur. The contribution of small scale industry in the exports of manufactured goods from the country is around 20 per cent. It provides employment to 85 per cent of the labour force. Its dispersal over the country is more even, and as such ensures greater regional equity and decentralized development. This constitutes the most dynamic and yet the most neglected sector of the economy. Economic policy making and planning are tailored to the needs of large scale industry. Tax system is so geared that it favours the large enterprise and penalizes the small entrepreneurs. The entire incentive system favours the super-producers. A total restructuring of these is needed to fully mobilize the small entrepreneur, the common man as against the legendary capital barons.

Cottage and agro-based industries also need effective encouragement. Institutionalized mobilization of foreign remittances for investment in cottage and small industries is one of the crying needs of the hour.

Investment climate has not improved enough. Steps taken so far have not tackled all the varied

economic, psychological and political constraints. A number of tax reforms are needed to improve the incentive system and result in effective investment mobilization.

Labour management relations and labours' more effective participation in production processes are areas demanding immediate response.

Tax exemption on dividend income can be another instrument to mobilize private savings for investment. 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 new defunct private finance corporation is very significant in this respect. They were able to mobilize hundreds of millions of rupees which neither the nationalised banks nor other Government agencies were able to attract.

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 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.

Proper mobilisation 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 \$ 1.7 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 Pakistanis 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. To oversee whole of this operation an Overseas Pakistani's Equity on the lines of Bankers Equity can be established.
- iii) Establishment of commercial farms and agro-based industries.

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.

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's 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.

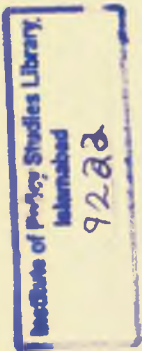
Another source for raising money for public sector investment is planned and phased disposal of Government and/or autonomous bodies unutilized land particularly in and around cities. A survey of all such disposable lands should be made and their sale organised through public auction. Proceeds of these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

5. 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 reorganisation of the Income Tax. 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 or two years 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 1979-80 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 rationalised downwards with a maximum tax rate which leaves enough incentive for economic effort. All black money should be allowed to be legalised 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.8,000 million is not paid. Of 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 international; (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.



CONCLUSION

In this study we have surveyed the economic-situation and identified some of the major areas that call for new initiatives and creative response. The country's economy has failed to turn the corner because its policy makers are too committed to status-quo and too influenced by western stereotypes. What is needed is a new approach to give to the people what they really want and need: a system based on justice. A system that ensures justice to all its elements is bound to be more dynamic and more progressive. It would be able to involve all sections of society in efforts directed towards the reconstruction of economy and society. Old blueprints have failed. The need of the hour is a new strategy ensuring transition to an egalitarian order. If the new budget is going to draw its inspiration for Islam's economic guidelines, it can make a beginning in that direction. For if we want to face the challenge that confront us, we shall have to make that beginning. But when that beginning is going to be made, we have to wait and see, and as far as possible, strive for.