

**Pakistan, Ministry of Finance, Revenue and Economic Affairs. *Report of Prime Minister's Task Force on Agriculture.*** Islamabad. December 1993. 68 pp.

In consonance with her commitment to the enhanced welfare of the masses, the Prime Minister of Pakistan, shortly after assuming the office, set up a "Task Force on Agriculture" to look into the problems of agriculture in general and issues of agricultural taxation including *Ushr* in particular and to submit a report in six weeks. The task force worked day and night to comply with the Prime Minister's directive and submitted its report within the stipulated time.

As must be clear from the terms of reference, the task force was to define the major problems of agriculture and to recommend solutions that are practical and acceptable to all concerned. Before going into the specific problems and justifiable recommendations, the report presents an overview of the state of the art in agriculture and pinpoints the facts that agriculture is still the major sector of the Pakistani economy in many ways, and that its growth performance, though laudable, has progressively fallen in the Eighties with signs of stagnating agricultural production in the Nineties. These trends, coupled with the rapid growth of population, have resulted in mounting import bills of basic foods against scarce foreign exchange earnings.

The report specifies a number of factors that have tended to decelerate the growth of agricultural production especially since the early 1980s. The report specifically argues that there is a general lack of infrastructure (physical and social) in the rural areas. Public investment in agriculture has declined over the last seven five-year plans with only 3.5 percent of the total development expenditure being earmarked for agriculture during the 1986–93 period.

There was also a general deterioration of the economic environment for private investment in agriculture as, (1) terms of trade moved against agriculture, (2) price, fiscal and trade policies were used to eke out massive resource transfers from the farming community and (3) although institutional credit was of some relief, it failed to keep pace with the growing needs of the sector.

Apart from the above constraints, a host of institutional limitations continued to impinge on the growth of agricultural production. First and foremost, policy-making institutions were dominated by officials of urban origin who were neither cognizant of rural problems nor sympathetic to them and hence agricultural policies had an urban bias. The major input markets were characterised by all kinds of shortcomings. For example, there was no organised seed industry for the supply of pure and vigorous seed for even the major crops. Chronic shortages, adulteration and black marketing characterised the fertilizer and agro-chemical markets. Water and electric supply suffered from poor management, with erratic breakdowns and load-shedding being most common. Although important in revolutionising agriculture,

farm machinery had been inadequately and inappropriately used due to drying up of institutional credit and continued use of repressive import duties on selected agricultural machines. Finally, fragmentation of agricultural land had been a growing problem and was made no less worse by the absence of title deeds, high land-transfer taxes, non-availability of credit for consolidation, and restrictions on subdivision and sale of economic and subsistence holdings.

Being the major issue in the terms of reference of the task force, resource mobilisation and taxation received separate and detailed treatment. The report provided a review of various agricultural taxes and historical developments therein. Three main conclusions follow from the analysis of the report. First, the supremacy of implicit and indirect taxes in agriculture was evident. Direct taxation played only a minor role despite the multiplicity of such taxes. Secondly, relative to the other sectors, agriculture on average was subjected to much higher tax rates and finally, the system of agricultural taxation had been regressive and inequitable, as its burden was disproportionately borne by the poorer classes.

On the basis of these constraints and the strategy for development, the report makes a large number of recommendations under such heads as resource mobilisation and taxation, institutional issues, reform of the land tenure system, economic and financial issues, rural infrastructure, crop sector, water sector, utilities and services, trade and industry, human resource development, livestock, poultry and fisheries sector, horticulture and forestry sector, research and extension and the legal system. Although it is difficult to summarise all of the recommendations, some of their salient features may be reproduced here. A three-tier system comprising of agricultural income tax, wealth tax and *ushr* was recommended for equitable taxes in agriculture. In the field of institutional reforms, the creation of the National Agriculture Coordination Committee (NACC) the Agribusiness Investment Board, and the Agriculture Coordination Committee of the Cabinet (ACCC) were recommended. In price policy matters, the Agricultural Prices Commission (APCom) was to be strengthened for a greater role. "Title Deeds" on the basis of computerised records should be granted to landowners and land reform laws, concerning impartibility of subsistence and economic holdings and ownership ceilings should be repealed. To create incentives for the farm sector, rates of return in agriculture must be placed at par with those in other sectors and bank markup rates. Support price recommendations included enhanced prices for wheat, IRRI rice, sunflower and sugarcane. Support prices for cotton and *Basmati* rice were not defined but all tariff and nontariff restrictions on cotton export were to be withdrawn. Procurement of market surplus commodities was to continue. Agricultural credit needs to be expanded, simplified and made more accessible. Expenditure on rural infrastructure should be considerably stepped up. For raising productivity in agriculture, increased quantities of fertilizer and certified seed should be assured. Separate research insti-

tutes for major and minor crops as well as for fruits to effect qualitative and quantitative improvements must be set up on a regional basis.

In the water sector, equitable water distribution, extra storage, lay out of drainage system, and the expansion of on-farm and command water management programmes should be undertaken. Machinery pools in the private sector and crop insurance with subsidies in the public sector should be encouraged. There is a need to diversify exports, encourage the agricultural processing industry in the rural areas and to rationalise import duties on agricultural raw materials and machinery. For an effective breakthrough in agriculture, setting up of poly-agricultural institutes, creation of linkages between agricultural universities, research, extension and farmers, and teaching of agriculture at the primary level, seem to be essential. To induce farmers to adopt modern technologies "Model Farms" should be set up and research and extension staff should be provided proper incentives for evolving new technologies.

In the livestock, poultry and fisheries sector, disease control measures, artificial insemination, latest available breeds and preparation of feeds should be promoted by eliminating taxes, duties and the like and by introducing insurance schemes. There is a dire need for the setting up of a National Horticulture Board. The promotion of high value-added fruits and vegetables in the plains and watershed management in catchment areas should be pursued with renewed vigour. Finally the report recommended strict legislative measures to stop adulteration of inputs and repeal of laws that restrict interdistrict movement of agricultural produce or lead to non-payment of full dues for farm produce sales.

While the above paragraphs summarise the major findings and recommendations of the Task Force on Agriculture, an objective assessment of its report is still in the offing. There can be no denying the fact that the report provides a comprehensive and rigorous analysis of the constraints of Pakistan's agriculture and contains an exhaustive list of policy recommendations ever made since independence. While the recommendation of income and wealth taxes is a bold decision, no less appreciable are its recommendations regarding the development of social and physical rural infrastructure, creation of machinery pools, reform of the land tenure system and title deeds, expansion of research, and institutional credit, development of agro-based industry, livestock, forestry and horticulture sectors and institution building. In its problem solving approach, the report seems to be motivated by three main considerations. Self-sufficiency in agriculture must be attained, government supremacy must prevail and rapid industrial development must continue. Although these objectives may be quite noble, overcommitment to them may be fraught with excessive costs to society and may entail deviations from generally accepted norms of development strategy in general and agricultural development strategy in particular. It is these considerations which have been depicted in the following discussion.

Firstly, the imposition of income and wealth taxes is a step in the right direction for promotion of equitable taxation in agriculture but is unlikely to yield significant amounts of revenue for the government exchequer. The best available estimates of receipts from current income tax do not exceed Rs 48 million and those from wealth tax equal only a meagre sum of Rs 15 million against the current receipts of land revenue varying between Rs 675–750 over the last three years. Although the graduated rate structure of income tax proposed by the task force may result in higher yield but the estimated revenue is unlikely to exceed Rs 70 million. It may, however, be noted that the above figures point to potential yields of the two taxes and actual receipts would be considerably lower in view of exemptions on *ushr* payments, separate assessment of holdings in different revenue estates, tax evasion and subdivision of large holdings induced by inheritance laws and tax avoidance efforts. Although the above two taxes may be progressive, yet it is the progressiveness of the total tax system that should matter. Given the totality of fiscal recommendations, *ushr* seems to remain a major direct tax which by definition is regressive. Except for reduction in export duties on cotton, most of the indirect taxes will remain in vogue. The same would be true of implicit taxes. As the task force did not feel the necessity of defining procurement prices for cotton and rice and nearly 80 percent of implicit taxes result from them, regressivity of implicit taxes would continue. While taxes on commercial crops may be regressive, the marketed surplus of staple foods like wheat varies directly with farm size and taxes on food crops may be quite progressive. Since the task force recommended quite a steep increase in wheat prices, it is an open question if the implicit tax system has not become more regressive. This would certainly be true if some of the very small farmers also enter into wheat purchases to supplement own production for effectively meeting their wheat consumption requirements.

Secondly, the price policy for agriculture seems to be motivated by two major considerations, food self-sufficiency and continued protection to the powerful industrial sector. As both these considerations, because of likely price distortions, involve heightened inefficiencies, their pursuit, would lead us nowhere. Apart from being an inward-looking policy, self-sufficiency and more specifically price policy induced by it, may lead to retardation rather than acceleration in agricultural and general economic development. From the growth point of view assured and relatively higher increases in the prices of cotton and *Basmati* rice (commercial crops) seem to be more appropriate than food price increases recommended by the task force. There is a convincing evidence in the literature that cotton and *Basmati* rice have a greater response to a given price change than basic food crops and that relatively greater acceleration in agricultural growth could be induced by redirecting price increases towards these crops. Not only that there is also a greater provision for price increases in the case of cotton and *Basmati* rice as reflected in their low nominal protection

coefficients. Furthermore, as cotton and *Basmati* rice have the greatest comparative advantage, their prices could be raised to world levels for exploitation of comparative advantage, greater resource efficiency and rapid growth without substantial adverse repercussions for export competitiveness. It is in the light of such considerations that the President of Pakistan in one of his speeches (The News, March 21, 1994) categorically rejected the past policy of sugarcane price increases at the cost of cotton. As the output of the industrial sector in Pakistan is heavily dependent on agriculture, the rapid growth of the agricultural sector should induce rapid growth of the industrial sector.

The same could be repeated for the effects of recommended price policy on trends in income distribution, employment and welfare of the masses.

While most poor consumers must pay higher prices for food, the large farmers because of their higher marketed surplus remain the main beneficiary of food price increases. The unspecified and low prices of cotton and *Basmati* rice places most farmers, especially the small ones, at the mercy of powerful industrialists and ensure continuing flow of resources into the most prosperous industrial sector. The low and uncertain cotton and *Basmati* prices relative to food crops should bid away resources from these crops. Being more labour intensive (except sugarcane) than food crops, employment, especially that of women, should fall with adverse implications for wages and incomes of the poorest of the rural poor. As odds are against the low income rural poor, the welfare of the rural masses remains at stake.

Finally, some of the recommendations of the report have little analytical content, others may be highly uneconomical to undertake and certain issues that may be highly relevant have totally been ignored. In a country where even life insurance is in its infancy the futility of the recommendation of crop and livestock insurance should be obvious. As laws on the adulteration of inputs already exist, a restatement of them is unlikely to accomplish anything without fundamental changes in the legal system and grant of rights to farmers against adulterated, substandard and fictitious inputs. These problems could perhaps be best addressed by open market sales and anti-trust laws to breakup the monopoly positions of registered dealers and government concerns. Although the government, remains committed to privatisation, liberalisation and free trade, the task force continued to insist on greater controls in the form of revival of the Rice Export Corporation of Pakistan (RECP) continued procurement of surplus agricultural commodities, imposition of heavy import duties on soybean meal along with licensing, reduction but not elimination of export duties on cotton and continued government presence in major input markets. The report lays too much emphasis on the creation of all kinds of commissions, committees, boards and institutes. Given the overstaffing and multiplicity of departments of the existing government set up, it is not clear if the creation of such institutions will be economically feasible. The issues dealing with irrigation water

pricing and those regarding privatisation, liberalisation and free trade have been totally ignored. Apart from inequitable distribution, erratic supplies and bureaucratic manipulation of irrigation water, the intensity-borne water charges fall heavily on small farmers and promote inefficient water use. How to make the system more equitable and efficient remains an unanswered question.

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