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Suggested Approach to Agricultural Taxation Policy in West Pakistan

by

JAVED HAMID*

INTRODUCTION

The general tendency in most developing countries is to throw a disproportionate share of the burden of taxation on the 'monetised' or market sector and an insufficient amount on agriculture. The reasons for this are partly administrative and partly political. Taxes levied on the agricultural community are far more difficult to assess and collect and are socially and politically unpopular because they appear unjust — the people in the agriculture sector are, individually, always so much poorer than the people in the market sector.

In Pakistan, from time to time, expert committees have been set up by the government to consider the question of raising more resources from the agriculture sector through additional taxation. However, most recommendations of these committees have not been implemented. The system of taxation has remained essentially the same as it was in the nineteenth century and the rates, in real terms, have, if anything, gone down.

The classical objections to reforming the system and collecting more revenues from the agriculture sector are:

- i) the burden of taxation of the agriculture sector is equal, if not greater than, on the nonagriculture sector;
- ii) any increase in the taxation of the agriculture sector, which comprises around 80 per cent of the population, would not be politically acceptable;
- iii) any increase in taxation would discourage both growth in agricultural productivity and further investment in this sector;

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- iv) the administrative difficulties involved in effectively implementing a different system of taxation from the one which has been prevalent for the last so many years make most recommendations impractical.

In Part II of this article, the question of the burden of taxation on the agriculture sector is discussed. In Part III, some alternatives to the existing system of agricultural taxation are suggested.

II

The agriculture sector in Pakistan has experienced an unprecedented increase in production and income during the last decade. The index of agricultural production, which stood at 89 in 1948/49, rose to 93 in 1957/58 showing an increase of only 4.5 per cent. However, it increased to 146 by 1968/69 showing a growth of 57.0 per cent. The income generated in this sector has risen, in current prices, from 16,753 million rupees in 1959/60 to 33,395 million rupees in 1969/70 — an increase of almost 100 per cent. This increase in incomes has been accompanied by a shift in the domestic terms of trade in favour of the agriculture sector. Until about the late 1950's, the terms of trade were moving against this sector, but since then not only have output and productivity increased but also the prices of agricultural products have risen faster than those of non-agricultural products. This trend can be seen from Table I.

TABLE I
INDEX NUMBER OF WHOLESALE PRICES BY GROUPS
(1959/60 = 100)

| Year | General | Food | Raw materials | Fuel, lighting and lubricants | Manufactures |
|---------|---------|--------|---------------|-------------------------------|--------------|
| 1959/60 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| 1960/61 | 102.99 | 100.50 | 119.15 | 99.21 | 101.24 |
| 1961/62 | 105.88 | 106.63 | 107.30 | 98.70 | 102.12 |
| 1962/63 | 104.80 | 104.92 | 105.06 | 98.96 | 104.92 |
| 1963/64 | 104.62 | 104.26 | 105.32 | 104.49 | 105.82 |
| 1964/65 | 112.43 | 112.12 | 121.36 | 104.78 | 107.13 |
| 1965/66 | 117.54 | 117.27 | 125.24 | 108.45 | 113.39 |
| 1966/67 | 133.88 | 139.59 | 124.77 | 118.04 | 116.68 |
| 1967/68 | 128.58 | 134.66 | 106.39 | 120.04 | 120.22 |
| 1968/69 | 136.07 | 141.75 | 116.66 | 123.18 | 127.84 |

Source: [16, various issues].

The terms of trade were unfavourable towards agriculture in the early and mid-1950's as a result of a range of government policies designed to stimulate industrial growth, but this situation underwent substantial change starting in the early 1960's. More favourable price policies towards agriculture (for both exported and domestically consumed commodities) and a rapid growth in supplies of manufactured goods from the expanding Pakistan industrial sector combined to improve the situation of agriculture.

The shift in the terms of trade is further substantiated by the movement in the terms-of-trade indices shown in the following table taken from a World Bank study [5].

TABLE II

SUMMARY OF DOMESTIC TERMS OF TRADE FOR THE MANUFACTURING AND AGRICULTURAL SECTOR*

| Year | Manufacturing sector | Agricultural sector |
|---------|----------------------|---------------------|
| 1951-54 | 108.6 | 97.4 |
| 1954-57 | 112.0 | 91.4 |
| 1957-60 | 102.6 | 99.4 |
| 1958-61 | 98.1 | 103.1 |
| 1959-62 | 95.3 | 106.4 |
| 1960-63 | 94.8 | 108.3 |
| 1961-64 | 96.1 | 107.8 |

*Based on three-year moving averages. The indices measure the wholesale prices of goods that a sector sells relative to the wholesale prices of goods it buys. The weights for manufacturing are the values added in each industry in 1959/60 and the weights for agriculture are the estimated purchases of agricultural sector in 1959/60.

It is seen from Table II that upto 1960 the domestic terms of trade were in favour of the manufacturing sector. However, after 1960, the trend has been reversed and the terms of trade have positively shifted in favour of the agriculture sector.

Thus, it is clear that the terms of trade have been moving in favour of the agriculture sector fairly substantially since 1959/60. This indicates that the agriculture sector is no longer being discriminated against as far as prices are concerned. In fact, positive incentive in the form of rising prices and incomes has been operative for almost a decade and the argument that the agriculture sector should not be taxed further because it is too poor or has to pay a concealed tax in the form of depressed prices is no longer viable.

In Pakistan, the agriculture sector contributes to the tax revenues through direct, indirect and disguised taxes. Therefore, the question of burden of existing taxes can be divided into three parts:

- a) burden of direct taxes;
- b) burden of indirect taxes; and
- c) burden of disguised taxes.

a) Direct Taxes

In Appendix Tables A-I to A-VI, the incidence of direct taxation on the agricultural and nonagricultural sectors has been worked out for a number of years. It is seen from Appendix Table A-II that the percentage of agricultural taxes to agricultural income has been declining on an all-Pakistan basis. In East Pakistan, this ratio is fairly stable but in West Pakistan there is a marked fall. The reason for this decline in West Pakistan is that the amount of tax collected has not increased in proportion to the increase in agricultural income. This means the tax structure is not income-elastic and increases in income do not lead to an automatic proportional increase in tax collections. In addition to this, it indicates that the potential for additional taxation in West Pakistan has been created during the last few years. Appendix Table A-IV shows that the incidence of direct taxes on nonagricultural income has been increasing over the years, though the increase has been small. It is seen from these tables that whereas in 1959/60, on an all-Pakistan basis, the incidence of direct taxes on agricultural incomes was marginally lower than that on nonagricultural incomes, it has been reduced to less than half in 1969/70. This clearly indicates that as far as direct taxes are concerned, the burden of taxation has become far lighter on the agricultural sector compared to the nonagricultural sector.

It is also seen from these tables that whereas agricultural income, on an all-Pakistan basis, has increased by over 16,600 million rupees in current prices since 1959/60, agricultural taxes have increased by only 107 million rupees. This compares most unfavourably with the nonagricultural sector where, during this period, income has increased by about 24,300 million rupees and direct taxes by 717 million rupees. What is even more striking is that in West Pakistan agricultural income doubled during this period while agricultural taxes increased by only 11 million rupees, from 172 million rupees in 1959/60 to 183 million rupees in 1969/70, the ratio of taxes to income being reduced from 2.2 per cent to 1.2 per cent.

Finally, it is worth noting that land taxes as a percentage of total provincial taxes have fallen substantially since 1960/61. As is seen from Appendix Table A-VI, this is particularly true and alarming in the case of West Pakistan where land taxes as a percentage of total provincial taxes have declined from 60.8 per

cent in 1960/61 to 40.6 per cent in 1969/70. During this period, receipts from other provincial taxes almost doubled while land revenue showed an increase of only 19 million rupees inspite of the agricultural revolution which has brought about almost a 100-per-cent increase in agricultural incomes in the last decade.

Thus, it is obvious that as far as direct taxes are concerned, the incidence is substantially lower on the agricultural incomes compared to nonagricultural incomes.

b) Indirect Taxes

Income generated in the agriculture sector is slightly less than 50 per cent of the total GNP. However, per capita income in this sector is much lower compared to the nonagricultural sector because over 80 per cent of the population is in this sector. This means that if the consumption patterns are similar in the two sectors, the total burden of indirect taxation should be roughly equal implying that the urban inhabitants pay higher per capita indirect taxes. But the consumption patterns are not similar in the two sectors. We know that the expenditure on food as a proportion of income is higher the lower the level of per capita income and the proportion of income spent on necessities like food *etc.*, declines as income rises. Therefore, it can be inferred that the agricultural population with the lower per capita income is likely to consume more food *etc.*, relative to manufactured goods compared to the nonagricultural population. Thus, the incidence of indirect taxes should be lower on the agricultural population. The paucity of statistics makes it difficult to quantify this differential in incidence of indirect taxes which can be estimated by a detailed analysis of the consumer budgets. However, this hypothesis is substantiated by the findings of the *Quarterly Survey of Current Economic Conditions in Pakistan: Household Income and Expenditure, July 1963-June 1964* [10]. It is seen from this survey that the expenditure on 'food and drinks' is higher in rural compared to urban areas by over 10 per cent. Within 'food and drinks' the expenditure on excisable commodities like fats and oils, sugar and sugarcane products and tobacco, *etc.*, is substantially higher in the urban relative to the rural sector. This means that the expenditure on excisable commodities is a lower proportion of the total expenditure in the rural compared to the urban sector. Thus, it would be correct to say that the total and certainly per capita incidence of indirect taxes is lower in the rural sector inspite of the fact that income generated in this sector is almost equal to that of the urban sector. In fact, according to one estimate, indirect taxes on agriculture constitute 27 per cent of total indirect taxes [6, p. 6].

It is also seen from the *Quarterly Survey* [10] that food expenditure as a percentage of total expenditure decreases substantially as the level of income rises. Some idea of the variation in elasticities for different levels of income is obtained

from Table III which is taken from a study on consumption patterns in East Pakistan [7].

TABLE III

INCOME ELASTICITIES FOR VARIOUS COMMODITY GROUPS IN LOWER AND HIGHER INCOME RANGES IN EAST PAKISTAN

| Commodity group | Lower income range | Higher income range |
|----------------------------------------|--------------------|---------------------|
| Total expenditure | 0.90 | 0.86 |
| Food expenditure | 0.76 | 0.62 |
| Total nonfood expenditure | 1.37 | 1.46 |
| Cereals, baked products and pulses | 0.48 | 0.28 |
| Milk, <i>ghee</i> , fats and oils | 2.79 | 1.76 |
| Meat, fish, eggs and poultry | 1.78 | 0.81 |
| Vegetables and fruits | 0.93 | 1.30 |
| Sugar and <i>gur</i> | 2.71 | 2.52 |
| Miscellaneous food, drinks and tobacco | 1.03 | 1.18 |
| Clothing and footwear | 1.19 | 0.94 |
| Other nonfood items | 1.43 | 1.59 |

“Elasticities for total food and individual food-groups (except vegetables and miscellaneous food-groups) decrease as the level of income goes up. Elasticity for clothing and footwear behaves in the same way as that for most food items; while opposite is the case for other nonfood items. Also, the elasticities for clothing and footwear are lower than those for other nonfood items. The elasticities for milk, *ghee*, fats and oils are higher than those for meat, fish, eggs and poultry in both income ranges” [8, p. 407]. This suggests that the proportion of income spent on food is likely to decrease faster in the sector in which incomes rise more rapidly. Therefore, the burden of indirect taxation is likely to become progressively heavier on the faster growing sector.

Thus, it can be concluded that the burden of indirect taxation is lower on the agricultural population and the differential will go on increasing because the agricultural sector is likely to grow at a slower rate than the nonagricultural sector.

c) Disguised Taxes

Disguised taxes can mean obligatory selling of agricultural products to the government at a price below the market price; it can also mean the difference in the official and scarcity value of foreign exchange earned by the agriculture sector.

In a study on agricultural price policy in West Pakistan [8], Jack Lewis has estimated the levels of protection for major agricultural commodities in 1968/69 based on alternative shadow prices for foreign exchange. These estimates are reproduced in Tables IV and V.

TABLE IV

ESTIMATED LEVELS OF PROTECTION FOR SELECTED AGRICULTURAL COMMODITIES, WEST PAKISTAN, 1968/69

| Commodity | Domestic price | Domestic price <i>f.o.b.</i> equivalent | Export price <i>f.o.b.</i> | Rate of protection Col.(2)—Col.(3) Col. (3) |
|----------------|---------------------------|-----------------------------------------|----------------------------|---------------------------------------------------|
| | (1) | (2) | (3) | (4) |
| | (.....Rs. per maund.....) | | | (Per cent) |
| Wheat | 15.00 | 18.00 | 9.10 | 98 |
| Rice | | | | |
| <i>Basmati</i> | 38.00 | 40.00 | 53.20 | —25 |
| Irri | 19.00 | 21.00 ^d | 20.95 | 0 |
| Maize | 14.50 | 16.50 | 8.20 | 101 |
| Cotton | | | | 0 ^e |
| Sugarcane | 2.75 ^b | | 0.77 ^a | 250 |

^aEquivalent of import price for sugar calculated by W.C.F. Bussink [1]. (Rate of protection in this case based on comparable import rather than export price.)

^bEstimated net price for former Sind.

^cIgnoring export tax of 25 rupees per bale.

^dAssuming *f.o.b.* export return of 120 dollars per ton.

put, etc. Any land-owner feeling that value of his land is actually below the assessed value should be allowed to be taxed only on the value he states to be appropriate. However, such values should be published and should constitute an offer to sell at the stated (or 20 per cent above the stated) price. This would prevent people from understating the value of land for purposes of tax rebates². In the period between assessments, it should be possible to adjust land values for any area by an administrative decision based on information gathered through sample surveys. These revisions in land values could then be consolidated at the time of the decennial assessment.

The rates of taxation can be so fixed as to ensure horizontal equity. In case income is also derived from other sources besides agriculture, the person can be taxed independently on the agricultural income and the nonagricultural income. It is realised that in doing this the element of progressivity will be reduced but the consolation is that at least no income will go untaxed.

- b) The average potential income per acre in a particular area can be assessed and progressive tax imposed, the effective rates of which should vary with the total potential income of the family unit. The procedures would be the same as described above for a tax based on land value except the required modifications for using expected income as the base.

To make the administration of these taxes simple and more effective, it would be necessary to issue to the holders of land "pass-books" clearly indicating the area and location of land in their names. The maintenance of such records on an up-to-date basis would greatly facilitate the process of assessment and collection of taxes from the agriculture sector.

²A more radical approach to assessment would be to make the land-owner responsible for assessing the value of his land for tax purposes. However, to ensure honest evaluation, the law should provide that the stated value constitutes an offer to sell the property either at the stated value or perhaps at 20 per cent above the stated value. The advantages of this system are clear: owners would be forced to state the true market price of their holdings or face the chance of being forced to sell at below market prices; secondly, it is administratively simple as it eliminates the need for field personnel to assess the value of land; furthermore, it would be easy to supervise and would allow annual reevaluation of property values.

To elaborate on the administration of the scheme, at some date, say three months before the end of each fiscal year, land owners would be asked to declare the value of their holdings, and pay the land tax according to some prescribed schedule. The self-assessed property values would be published within a month, and for two months following the publication anyone would be able to claim the land for the stated (or 20 per cent above the stated) price. The claiming period has to be short to reduce uncertainty. Anyone claiming a piece of land would be required to pay the owner in cash and would take title to the land and all movable real property (appropriately defined) on the land. A person who refuses to sell his land in response to a bonafide offer (say, one certified by a bank) would be liable for severe penalties.

Any land on which no declaration is filed and no taxes paid could be acquired by the government and sold at an auction. Any disputed claims to ownership would be settled in court, but two years after the inception of the scheme anyone paying taxes on undisputed property would be presumed to be its owner.

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In a hypothetical case in which the value of land is determined exclusively by economic factors operating in a competitive land market, the capital value of land is nothing more than the capitalised net annual rental value. The two measures of value, if appropriately defined, are reciprocally related, as principal is to interest. From the viewpoint of a purchaser of land, rent is nothing more than the return on his capital investment.

Despite this fundamental interdependence between the basis of the two types of taxes we have suggested, it is important to classify them separately since there are substantial differences between them in operation. A striking disparity between the results of the two methods of assessment can be found in the case of idle land especially when land borders upon an expanding urban area or is in an agricultural area which is expected to experience rapid economic development. In either of these situations, the market value of the land can be expected to exceed the present potential income from this land. In addition to this, the tax on value of land is easier to assess and administer effectively.

These differences aside, the economic implications of these two types of taxes are very similar. In view of this, in the following discussion the points made in the case of one tax system are applicable to the other unless stated to the contrary.

By introducing a tax based on the average land values or the potential yield of any particular piece of land not in terms of the actual value of output but in relation to the yield of the average land in any particular region; and by making the tax a progressive one, the effective rates of which should vary with the total value of land-holdings of the family unit, it would be technically feasible to revive the ancient land tax in a way that would make it both more effective and more in keeping with present-day conceptions of equity. Such a tax would have the merit of being a tax on the 'potential output' rather than on the actual output of any piece of land, meaning by 'potential output' the output which the land would yield if it were managed with average efficiency. Thus, the inefficient farmer whose production is less than the average for the region and for the type of land concerned would be penalised, whereas the efficient farmer would be correspondingly encouraged. Such a tax on potential output is far superior in its economic consequences to any tax based on actual income or profit; and it is technically feasible to impose it in the case of agriculture (where the nature and quality of land provide a measurable yardstick) in a way which is not feasible for other types of economic activity. It would, thus, give the maximum incentive for efficient farmers to improve their land and expand their output, it should also greatly encourage the transfer of land ownership from inefficient to efficient hands, and thereby raise the average productivity of land nearer to that obtained by the best-managed farms.

Another important advantage of a tax on these lines is that it would stimulate the farmers to farm their land or sell it, and its efficiency in this respect could be enhanced to any desired extent by increasing the rate of progression of the tax. It could be made to operate so as to induce the owners of large estates to sell part of their holdings in order to bring themselves into a lower tax bracket, thereby making the distribution of land ownership more equal and at the same time creating a free market in land. In many countries, agricultural stagnation is largely the result of absentee ownership, and of the unwillingness of existing owners to part with any of their possessions, even if they are incapable of putting their land to good use. By making the land market more fluid, a progressive land tax would enhance the chances of able and energetic cultivators to get hold of the land and increase the area under cultivation.

Such a tax structure will also take away the function of assessment of taxes from the *patwaris*. This will enable the *patwaris* to devote themselves on a full-time basis to the onerous task of preparing and maintaining up-to-date land records. Finally, it will considerably reduce the opportunity for corruption and other malpractices which cost the government a very substantial amount in terms of revenue lost. ??

In the preceding paragraphs, a theoretical framework for a progressive tax on land values has been developed. The paucity of information on land values and incomes by size of holdings makes it difficult to illustrate empirically the suggested system of land taxation. However, to make our policy proposals a little less abstract, an illustrative system is developed below. Needless to say, all estimates in this model are approximate and will need to be worked out more carefully and in greater detail before this proposal can be implemented.

As has been mentioned earlier, the small farmers should be exempted from paying taxes in the interest of social justice, horizontal equity and making the taxation system truly progressive. Nonagricultural income upto 6,000 rupees per annum is exempted from income tax. Consequently, agricultural income to a roughly similar extent should be exempted from land revenue. In West Pakistan, it is estimated that the annual income from small holdings (8 to 25 acres) varies from around 410 rupees per acre on canal-irrigated land to 130 rupees per acre on *barani* land. Details of this can be seen from Table VI.

In view of these income levels and the fact that 12.5 acres have already been designated as a "subsistence holding", it is felt that holdings below 12.5 acres of irrigated and 25 acres of *barani* land should be completely exempted from the payment of land revenue. As is seen from Appendix Table A-VII, this would provide relief to a vast majority of farmers. These farms would account for 81 per cent of the total number of farms in West Pakistan covering 17.4 million acres out of the total farm area of about 49 million acres.

TABLE VI

**AVERAGE GROSS INCOME, EXPENDITURE AND NET INCOME PER ACRE
FOR SMALL HOLDINGS**

| Region | 1965/66 | | | 1966/67 | | | 1967/68 | | |
|--------------------|--------------|-------------|------------|--------------|-------------|------------|--------------|-------------|------------|
| | Gross income | Expenditure | Net income | Gross income | Expenditure | Net income | Gross income | Expenditure | Net income |
| (.....rupees.....) | | | | | | | | | |
| Canal colonies | 420.50 | 139.05 | 281.45 | 472.78 | 144.98 | 327.80 | 548.58 | 138.83 | 409.75 |
| Rain-fed area | 92.15 | 37.25 | 54.90 | 200.20 | 64.08 | 136.12 | 191.93 | 64.01 | 127.92 |
| Well-irrigated | — | — | — | 428.36 | 96.87 | 331.49 | 396.44 | 102.64 | 293.80 |

Source: [13].

The most popular and possibly the only valid argument against increase in agricultural taxation is that a large majority of farmers are too poor to bear any additional burden of taxation. The above proposal which suggests a tax exemption for over 80 per cent of the farms in West Pakistan provides a solution to this problem; placing the burden of taxes on those who are most able to bear them as opposed to the present system which makes no distinction between a small and a big farmer. Thus, besides providing relief to small farmers, an important effect of such a move would be that the resentment against any increase in agriculture taxation would be offset by the wide-spread relief due to exemptions at lower levels, making it easier for the government to increase tax revenues by increasing the burden of taxation on the larger farms.

In addition to this, the exemption of a very large number of assesseees will considerably reduce the work-load on the land-revenue administration. This may not result in commensurate economies in administrative costs, but it will enable the administration to deal more effectively with such important matters as the preparation of the record of land rights which is in a very unsatisfactory state because of the inadequacies of the revenue machinery. The suggested exemption will, thus, lead to greater efficiency. The exemption should also make the land-revenue administration more effective in recovering revenue from bigger land-holders who at present are the ones from whom most of the arrears are said to be due.

The total value added in agriculture in West Pakistan is 15,478 million rupees from a total farm area of 48.9 million acres. This means the value added per acre is around 320 rupees. After making adjustments for the cost of hired labour and depreciation, income per acre comes to roughly 200 rupees. The

intensity of cultivation is inversely related to the size of holdings. It is for this reason that the average income per acre from smaller farms is higher. Applying the effective rates of urban income tax to agricultural income, we get the results shown in Table VII.

TABLE VII
PROPOSED PROGRESSIVE LAND-REVENUE SCHEDULE
FOR WEST PAKISTAN

| Farm size | Farm area | No. of holdings | Average holding | Annual average income at Rs. 200 per acre | Effective rate of taxation | Tax payable | Tax collection |
|---------------|-----------------|-----------------|-----------------|-------------------------------------------|----------------------------|-------------|----------------|
| (acres) | (million acres) | ('000') | (acres) | (rupees) | (%) | (Rs.) | (Rs. million) |
| 0-12½ | 15.49 | 3,744 | 4.1 | 820 | — | — | — |
| 12½-25* | 12.53 | 729 | 17.2 | 3,440 | 0.5 | 17.2 | 12.5 |
| 25-50 | 9.47 | 286 | 33.1 | 6,620 | 1.0** | 66.2 | 18.9 |
| 50-150 | 6.54 | 87 | 75.2 | 15,040 | 4.8** | 721.9 | 62.8 |
| 150-and-above | 4.90 | 14 | 350.0 | 70,000 | 21.9** | 15,330 | 214.6 |
| Total: | 48.93 | 4,860 | | | | | 308.8 |

Note: In this illustration, holdings below 12½ acres of irrigated and 25 acres of *barani* land are exempted from paying taxes.

*This row is an average for irrigated and unirrigated areas in order to afford comparison with subsequent rows. It will be born in mind that only the irrigated farms in this category will be taxed. The annual average income of irrigated farms of 12½ to 25 acres is around 6,000 rupees and, therefore, the effective rate of taxation is actually less than 0.4 per cent.

**This is the effective rate of income tax for a similar income level in the nonagricultural sector. These rates are approximate and are based on the information obtained from the Central Board of Revenue for income-tax collections from different income groups.

This calculation has been done according to the average size of holdings in 4 major categories. This understates the tax potential somewhat because the element of progressiveness in the tax is not fully reflected. In any case, the tax collections come to 308.8 million rupees which means a 74-per-cent improvement over the present yield from land revenue. The ratio of tax collections to value added in agriculture increases from 1.2 per cent to about 2 per cent and compares somewhat more favourably with the ratio of income tax to nonagricultural GNP which is 2.6 on an all-Pakistan basis.

This illustration pertains primarily to the second of our two proposals, taxes being levied on average potential incomes rather than on average land

Source: [9].

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values. Since data on land values are not readily available, it is difficult to illustrate realistically a system of agricultural taxation based on land values. However, as has been pointed out earlier, the two proposals are interrelated, the capital value of land being nothing more than the capitalised net annual rental value. Therefore, the financial implications of the two proposals would be roughly similar.

CONCLUSION

The agriculture sector plays a crucial role in the process of capital accumulation. Historically, whether it be the industrial revolution in Britain or a socialist revolution in Russia, the agriculture sector has always borne the brunt of the initial economic development effort through a transfer of resources to the industrial sector by means of

- a) agriculture taxation — direct, indirect and disguised, and
- b) a movement in the terms of trade against the agriculture sector.

In the first part of this article, we have tried to see the extent to which this has happened in Pakistan during the last decade. The conclusion which emerges is that the contribution of the agriculture sector has remained stagnant while incomes in this sector have almost doubled. This indicates that the agriculture sector is not bearing its share of the burden of economic development. To remedy this situation, we have, in the third part of the article, suggested a reform of the age-old agriculture taxation system. This has been done keeping in view the following basic principles:

- a) the tax should promote social justice;
- b) it should be both price and income elastic;
- c) it should not act as a disincentive to increasing production; and
- d) it should be administratively easy to implement.

In any reform of the agriculture taxation system, it should be necessary that while agriculture as a whole bears its burden of taxation, exemption should be provided to small subsistence farmers who have hardly any surplus of income over and above their basic requirements for paying taxes. At the same time, there is need for progressivity and elasticity in the tax system. More prosperous land-owners should pay more than their counterparts with lower earnings. The tax collections should grow with increasing incomes. Finally, the tax should be easy to collect and should allow minimum opportunity for corruption and other malpractices which cost the government a very substantial amount in terms of revenue lost. These objectives, it has been suggested, can be realized by a system of a graduated tax on land values or potential incomes.

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Statistical Appendix A

TABLE A-I

DIRECT TAXES ON AGRICULTURAL AND NONAGRICULTURAL INCOMES

| | 1959/60 | 1960/61 | 1961/62 | 1962/63 | 1963/64 | 1964/65 | 1965/66 | 1966/67 | 1967/68 | 1968/69 R.E. | 1969/70 B.E. |
|-----------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|-----------------|-----------------|
| (.....million rupees.....) | | | | | | | | | | | |
| Nonagricultural taxes | | | | | | | | | | | |
| <i>Income tax:</i> | | | | | | | | | | | |
| Personal income tax | — | 292 | 358 | 388 | 426 | 503 | 566 | 618 | 613 | 655 | 812 |
| Corporation tax | — | 89 | 101 | 115 | 154 | 157 | 157 | 176 | 197 | 195 | 210 |
| Total income and corporation tax | 305 | 381 | 459 | 503 | 580 | 660 | 723 | 794 | 810 | 850 | 1,022 |
| Agricultural taxes | | | | | | | | | | | |
| <i>Agricultural income tax:</i> | | | | | | | | | | | |
| East Pakistan | 13 | 12 | 9 | 10 | 18 | 15 | 16 | 18 | 18 | 18 | 18 |
| West Pakistan | 4 | 3 | 3 | 3 | 3 | 3 | 4 | 3 | 5 | 5 | 5 |
| Total: | 17 | 15 | 12 | 13 | 21 | 18 | 20 | 21 | 23 | 23 | 23 |
| <i>Land revenue:</i> | | | | | | | | | | | |
| East Pakistan | 94 | 108 | 145 | 77 | 128 | 122 | 134 | 147 | 149 | 150 | 185 |
| West Pakistan* | 168 | 161 | 144 | 146 | 153 | 151 | 161 | 151 | 163 | 177 | 178 |
| Total: | 262 | 269 | 289 | 223 | 281 | 273 | 295 | 298 | 312 | 327 | 363 |
| Total agricultural taxes: | 279 | 284 | 301 | 236 | 302 | 291 | 315 | 319 | 335 | 350 | 386 |
| <i>Water rates:</i> | | | | | | | | | | | |
| West Pak. (net)** | 56 | 78 | 67 | 50 | 37 | 34 | 66 | 58 | 69 | 145 | 175 |
| Total: | 335 | 362 | 368 | 286 | 339 | 325 | 381 | 377 | 404 | 495 | 561 |

*Includes land revenue due to irrigation.

Source: [11, various years].

** Working expenses and land revenue due to irrigation are excluded.

TABLE A-II

RATIO OF AGRICULTURAL TAXES TO AGRICULTURAL INCOME

| Year | Agricultural income (at current prices) (1) | | | Agricultural taxes (2) | | | Agricultural taxes as % of agricultural income (3) | | |
|----------------------------------|---------------------------------------------------|--------|----------|---------------------------|--------|----------|-------------------------------------------------------------|--------|----------|
| | E.Pak. | W.Pak. | All Pak. | E.Pak. | W.Pak. | All Pak. | E.Pak. | W.Pak. | All Pak. |
| | (..... million rupees.....) | | | | | | | | |
| 1959/60 | 9042 | 7711 | 16753 | 107 | 172 | 279 | 1.2 | 2.2 | 1.7 |
| 1960/61 | 10281 | 8184 | 18465 | 120 | 164 | 284 | 1.2 | 2.0 | 1.5 |
| 1961/62 | 10663 | 8216 | 18879 | 154 | 147 | 301 | 1.4 | 1.8 | 1.6 |
| 1962/63 | 11187 | 8565 | 19752 | 87 | 149 | 236 | 0.8 | 1.7 | 1.2 |
| 1963/64 | 10576 | 9499 | 20075 | 146 | 156 | 302 | 1.4 | 1.6 | 1.5 |
| 1964/65 | 11481 | 10438 | 21919 | 137 | 154 | 291 | 1.2 | 1.5 | 1.3 |
| 1965/66 | 12765 | 10572 | 23337 | 150 | 165 | 315 | 1.2 | 1.6 | 1.3 |
| 1966/67 | 14909 | 12460 | 27369 | 165 | 154 | 319 | 1.1 | 1.2 | 1.2 |
| 1967/68 (revised estimate) | 14750 | 13994 | 28744 | 167 | 168 | 335 | 1.1 | 1.2 | 1.2 |
| 1968/69* | 16544 | 14797 | 31341 | 168 | 182 | 350 | 1.0 | 1.2 | 1.1 |
| 1969/70* | 17917 | 15478 | 33395 | 203 | 183 | 386 | 1.1 | 1.2 | 1.2 |

*Provisional estimates

Source: Col.(1) from Central Statistical Office.
Col.(2) from [3 and 14 for various years].

TABLE A-III

RATIO OF AGRICULTURAL TAXES (INCLUDING WATER RATES) TO AGRICULTURAL INCOME

| Year | Agricultural income (at current prices) (1) | | | Agricultural taxes including water rates (2) | | | Agricultural taxes including water rates as % of agril. income (3) | | |
|----------------------------------|---------------------------------------------------|--------|----------|-------------------------------------------------------|--------|----------|-----------------------------------------------------------------------------|--------|----------|
| | E.Pak. | W.Pak. | All Pak. | E.Pak. | W.Pak. | All Pak. | E.Pak. | W.Pak. | All Pak. |
| | (.....million rupees.....) | | | | | | | | |
| 1959/60 | 9042 | 7711 | 16753 | 107 | 228 | 335 | 1.2 | 3.0 | 2.0 |
| 1960/61 | 10281 | 8184 | 18465 | 120 | 242 | 362 | 1.2 | 3.0 | 2.0 |
| 1961/62 | 10663 | 8216 | 18879 | 154 | 214 | 368 | 1.4 | 2.6 | 2.0 |
| 1962/63 | 11187 | 8565 | 19752 | 87 | 199 | 286 | 0.8 | 2.3 | 1.4 |
| 1963/64 | 10576 | 9499 | 20075 | 146 | 193 | 339 | 1.4 | 2.0 | 1.7 |
| 1964/65 | 11481 | 10438 | 21919 | 137 | 188 | 325 | 1.2 | 1.8 | 1.5 |
| 1965/66 | 12765 | 10572 | 23337 | 150 | 231 | 381 | 1.2 | 2.2 | 1.6 |
| 1966/67 | 14909 | 12460 | 27369 | 165 | 212 | 377 | 1.1 | 1.7 | 1.4 |
| 1967/68 (revised estimate) | 14750 | 13994 | 28744 | 167 | 237 | 404 | 1.1 | 1.7 | 1.4 |
| 1968/69* | 16544 | 14797 | 31341 | 168 | 327 | 495 | 1.0 | 2.2 | 1.6 |
| 1969/70* | 17917 | 15478 | 33395 | 203 | 358 | 561 | 1.1 | 2.3 | 1.7 |

*Provisional estimates.

Sources: Col. (1) from Central Statistical Office.
Col. (2) from [3 and 14 for various years].

TABLE A-IV

RATIO OF INCOME TAX TO NONAGRICULTUARL INCOME

| Year | Nonagricultural income—all Pakistan (at current prices) | Income and corporation tax | Income and corporation tax as percentage of nonagricultural income |
|----------------------------------|---------------------------------------------------------------|----------------------------------|--------------------------------------------------------------------------|
| | (1) | (2) | (3) |
| | (.....million rupees | | |
| 1959/60 | 14686 | 305 | 2.1 |
| 1960/61 | 16321 | 381 | 2.3 |
| 1961/62 | 17606 | 459 | 2.6 |
| 1962/63 | 18890 | 503 | 2.7 |
| 1963/64 | 21190 | 580 | 2.7 |
| 1964/65 | 23616 | 660 | 2.8 |
| 1965/66 | 26353 | 723 | 2.7 |
| 1966/67 | 30834 | 794 | 2.6 |
| 1967/68 (revised estimate) | 32864 | 810 | 2.5 |
| 1968/69* | 36294 | 850 | 2.3 |
| 1969/70* | 38974 | 1022 | 2.6 |

*Provisional estimates

Sources: Col. (1) from Central Statistical Office.
Col. (2) from [11, various years].

TABLE A-V

CONTRIBUTION OF LAND TAXES TO TOTAL REVENUES IN EAST PAKISTAN

| | 1960/61 | 1961/62 | 1962/63 | 1963/64 | 1964/65 | 1965/66 | 1966/67 | 1967/68 | 1968/69 R.E. | 1969/70 B.E. |
|-----------------------------------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|-----------------|-----------------|
| (.....million rupees.....) | | | | | | | | | | |
| Land taxes* | 120 | 154 | 87 | 146 | 137 | 150 | 165 | 167 | 168 | 203 |
| Total provincial taxes | 214 | 260 | 189 | 250 | 235 | 289 | 320 | 339 | 353 | 394 |
| Total provincial revenue receipts | 305 | 366 | 271 | 403 | 444 | 532 | 578 | 754 | 804 | 913 |
| Land taxes as a percentage of total provincial taxes | 56.1 | 59.2 | 46.0 | 58.4 | 58.3 | 51.9 | 51.6 | 49.3 | 47.6 | 51.5 |
| Land taxes as a percentage of total provincial revenue receipts | 39.3 | 42.1 | 32.1 | 36.2 | 30.9 | 28.2 | 28.5 | 22.1 | 20.9 | 22.2 |

*Land revenue plus agricultural income tax.

Source: [3, various years].

TABLE A-VI

CONTRIBUTION OF LAND TAXES TO TOTAL REVENUE IN WEST PAKISTAN

| | 1960/61 | 1961/62 | 1962/63 | 1963/64 | 1964/65 | 1965/66 | 1966/67 | 1967/68 | 1968/69 R.E. | 1969/70 B.E. |
|-----------------------------------------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|-----------------|-----------------|
| (.....million rupees.....) | | | | | | | | | | |
| Land taxes* | 164 | 147 | 149 | 156 | 154 | 165 | 154 | 168 | 182 | 183 |
| Water rates | 78 | 67 | 50 | 37 | 34 | 66 | 58 | 69 | 145 | 175 |
| Total: | 242 | 214 | 199 | 193 | 188 | 231 | 212 | 237 | 327 | 358 |
| Total provincial taxes (excluding water rates) | 270 | 291 | 319 | 352 | 376 | 415 | 426 | 450 | 392 | 451 |
| Total provincial revenue receipts | 514 | 534 | 725 | 869 | 1102 | 997 | 883 | 1165 | 1290 | 1436 |
| Land taxes as a percentage of total provincial taxes | 60.8 | 50.5 | 46.7 | 44.3 | 41.0 | 39.8 | 36.2 | 37.3 | 46.4 | 40.6 |
| Land taxes plus water rates as a percentage of total revenue receipts | 47.1 | 40.1 | 27.4 | 22.2 | 17.1 | 23.2 | 24.0 | 20.3 | 25.3 | 24.9 |

*Land revenue plus agricultural income tax.

Source: [14 various years].

TABLE A-VII

NUMBER AND AREA OF FARMS IN WEST PAKISTAN CLASSIFIED BY SIZE

| Farms size | Farms number | Per cent | Farms area | | Cultivated area | |
|---------------------------|--------------------|------------------|---------------|----------|-----------------|------------------|
| | | | Total | Per cent | Total | Per cent |
| (acres) | ('000') | | ('000' acres) | | ('000' acres) | |
| Under 1.0 acres | 742 | 15 | 334 | 1 | 267 | 1 |
| 1.0 to under 2.5 acres | 856 | 18 | 1345 | 3 | 1154 | 3 |
| 2.5 to under 5.0 acres | 806 | 16 | 2911 | 6 | 2535 | 7 |
| 5.0 to under 7.5 acres | 581 | 12 | 3546 | 7 | 3127 | 8 |
| 7.5 to under 12.5 acres | 3744 <u>759</u> | 16 | 7357 | 15 | 6489 | 17 |
| 12.5 to under 25.0 acres | 729* | 15 ⁷⁷ | 12533 | 26 | 10710 | 29 ³⁶ |
| 25.0 to under 50.0 acres | 286 | 6 | 9468 | 19 | 7387 | 20 |
| 50.0 to under 150.0 acres | 87 | 2 | 6539 | 13 | 3886 | 10 |
| 150.0 acres and over | 14 | less than 0.5 | 4896 | 10 | 1694 | 5 |
| Total: | 4860 | 100 | 48292 | 100 | 37249 | 100 |

*191,000 holdings (3.9 per cent) in this range of farm sizes are *barani*.

Source: [9].

TABLE A-VIII

CROPPED AREA AND LAND REVENUE IN WEST PAKISTAN

| Year | Land revenue receipts (1) | Cropped area (2) | Land revenue per acre (3) |
|---------|------------------------------|---------------------|------------------------------|
| | (million Rs.) | (million acres) | (rupees) |
| 1960/61 | 161.40 | 34.53 | 4.67 |
| 1961/62 | 144.20 | 36.47 | 3.95 |
| 1962/63 | 145.60 | 36.94 | 3.94 |
| 1963/64 | 153.00 | 36.69 | 4.17 |
| 1964/65 | 151.40 | 40.14 | 3.77 |
| 1965/66 | 160.50 | 38.66 | 4.15 |
| 1966/67 | 150.80 | 39.30 | 3.84 |
| 1967/68 | 163.20 | 38.83 | 4.20 |
| 1968/69 | 176.70 | | |
| 1969/70 | (R.E.) | | |

Sources: Col. (1) from [15].
Col. (2) from Department of Marketing and Agricultural Statistics, Food and Agricultural Division. Ministry of Food, Agriculture and Works, Government of Pakistan.